JOSAS
ISSN: 2682-6224
Volume 3 No 1, 2019
www.wdujournals.org

THE EFFICACY OF FOREIGN DIRECT INVESTMENT AND FINANCE IN NIGERIA

ABU OMOGHOSA JAMES
Department of Banking and Finance
Edo State Polytechnic, Usen
abu.oj@esitmusen.edu.ng
abuomoghosajames@gmail.com

ABSTRACT:*This paper carefully examines the efficacy of foreign direct investment and finance in Nigeria, finance is the engine that moves every economy, over the years there has been a number of foreign investment in Nigeria, due to the fact that Nigeria is the most populous black nation with the largest market in Africa, it is surprising that despite the foreign investment in Nigeria, yet the nation is still swimming in abject poverty and squalor making the impact of this investment not to be seen. The study covers 1990 to 2016. Ordinary least square methods was used to estimate the data.It is recommended that the government should use this foreign investment to fix the economy, so that the impact of this investment can be seen in the entire economy and the government should make the environment conducive for FDI, this include security of investment so that more foreign direct investment will come in, there should be financial openness and trade liberalization as to encourage foreign investment.*

Keywords: Foreign Direct Investment, GDP

INTRODUCTION

General Background of the Study

Finance is one of the most powerful tools that can direct an economy towards growth if it is properly utilized, hence, every government should be able to use their finance to uplift their economy. Foreign direct investment refers to investment from multinational in the country they are doing business with, which is called the recipient country (Akinlo, 2004). Nigeria has witness a number of FDI, but poor and unconducive environment for this FDI has been a huge challenge in Nigeria.

FDI encourage economic growth directly and indirectly because it can lead to transfer of technological know-how (De Mello, 1999). Ayanwale & Bamire (2001) Believes that there can be technology spills over from advanced country to the recipient country. According to Bengoa and Sanchez-Robles (2003) for a recipient country to fully benefit from capital flows that are associated with FDI, the recipient country requires financial openness, adequate human capital, trade openness, sufficient infrastructure, political and economic stability, conducive atmosphere for trade and organized markets.

Thirwall (1994) believes that foreign direct investment refers to investment by multinational corporations (MNCs) in a developing countries with headquarters in developed countries. This investment involves not only a flow of funds from developed countries to developing countries but also the transfer of technology from developed countries to under developed or developing countries (Altenburg, 2000). FDI have direct impact on economic growth because it enhance capital accumulation and infrastructural development because the recipient nation will benefit from the multinational corporation (Wilkins, 1998). The impact of FDI on the economic growth of the receiving country differ from country to country (Obinna, 1983).

However, FDI may also have negative impact on the growth level of the recipient country because it may lead to over dependence on the multinational, the recipient country can become a dumping ground, there can also be a huge reverse inflow of remittances of profit and the multinational corporations (MNCs) tends to exploit and marginalize the host country (Findlay, 1978). Barrow & Sala-i-Martin (1995) believes that FDI promote economic growth through the transfer technology that comes with FDI. FDI also depends on the degree of financial openness, complementary and substitution, peace, stability and trade openness between domestic investment and FDI as well as the recipient country area of specialization (Buckley et. al, 2002).

It is an obvious fact that FDI is a necessity for economic growth and development (Lall, 1974). Nigeria is a country that has the potential of attracting urge FDI but has not been able to attract it due to lack of financial openness, lack of trade openness, huge debt and economic crises, insecurity faced by Nigeria and for a country to be able to have urge foreign direct investment to gross domestic product, it must be able to increase its savings level and its balance of trade equilibrium (Odozi 1995). For a country like Nigeria with low savings, balance of payment disequilibrium and absence of financial openness, it may be difficult for such a country to fully benefit from FDI (Loungani & Razin, 2001). Hence, the government has to do more in the areas of financial openness, insecurity, trade openness and creating a conducive environment for FDI (Romer, 1990). FDI can be in a form of Joint venture in which the foreign corporation goes into a partnership with the recipient country, a government agency or another foreign corporation. Egbo. (2010).

Statement of the Problem

The following was some of the problems encountered in this research work.

I. It was observed that FDI can lead to negative effect like exploitation of the recipient country.

II. It was also observed that this multinationals can make Nigeria a dumping ground.

III. The presence of some of these multinational can even make the recipient countries poorer than how they were before the FDI.

IV. The Need for the government to put policies in place that will ensure that the recipient country gain from the FDI.

V. No full encouragement for foreign investors to come and invest in Nigeria.

Objectives of the Study

The objectives of the study are to:

I Assess the impact of Foreign Direct Investment(FDI) on the Nigerian economy.

II Examine whether interest rate has significant relationship with the Nigerian economy.

III Examine whether exchange rate has significant relationship with the Nigerian economy.

IV Whether inflation rate has significant relationship with the Nigerian economy.

V Whether FDI reduces unemployment.

Relevant Research Questions

The following research questions were asked

I Does FDI has any impact on the Nigerian economy?

II Does interest rate has significant relationship with the Nigerian economy?

III Does exchange rate has significant relationship with the Nigerian economy?

IV Does inflation rate has significant relationship with the Nigerian economy?

V Does FDI reduce unemployment.

Statement of Hypothesis

H_{O1}: FDI is not positively related with the Nigerian economy.

H_{O2}: interest rate has no significant relationship with the Nigerian economy.

H_{O3}: exchange rate has no significant relationship with the Nigerian economy.

H_{O4}: inflation rate has no significant relationship with the Nigerian economy.

H_{O5}: FDI does not reduce unemployment.

Significance of Study

This research work is aimed at examining the efficacy of foreign direct investment and finance in Nigeria

Scope and Limitation of Study

This study covers the period of year 1990 to 2016. It involves the use of secondary data from Nigeria stock exchange, central bank of Nigeria and National Bureau of Statistics.

The study is limited to the efficacy of foreign direct investment and finance in Nigeria.

Definition of Key Terms

GDP: is the total monetary value of all the goods and services produced in a country at a particular period of time but excluding net income from abroad.

FDI: is an investment from multinational corporations who invest in a recipient country.

LITERATURE REVIEW

Theoretical Literature

It is a known fact that no economy can do well economically without the maximum utilization of its finance. Borensztein et al., (1998) said that FDI enhance the transfer of technology. FDI will always result to industrial revolution in the sense that these multinational corporations create companies in the recipient country that will use the outputs of this multinationals as their inputs, so there is an economy of scale. Obadan (1982) opined that FDI is of huge benefit to recipient countries because it allows for the inflow of foreign exchange and new technologies, it also provide employment and increase the revenue of the recipient nations through taxation and payment of royalties by the MNCs. The size of the recipient market, financial openness, political instability, trade openness, capital flow, prices stability, insecurity and balance of payments Constraint are some of the challenges that affect FDI (Lipsey, 2000).

Review of Empirical Studies

Aseidu (2003) in his study shows that there is a positive relationship between foreign direct investment and economic growth in Nigeria. FDI is expected to be highly beneficial to the host country through transfer of resources, infrastructural development, increase in the level of employment, improving the balance of payments and the transfers of technology

(Krugman, 1998). Lee & Mansfield, (1996) in their study was able to prove that there is a significant relationship between foreign direct investment and economic growth.

Obinna (1983) on his part was also able to show from his study that there is a positive and a significant relationship between foreign direct investment and economic growth in Nigeria. Capital inflow, new industries, technology, managerial and marketing skills and infrastructural development. Moosa, (2002) in his study was able to show that there is a positive and a significant relationship between foreign direct investment and economic growth.

Bakare (2010) using an empirical analysis discovered that there is a positive relationship between foreign direct investment and economic growth in Nigeria.

Overview of Conceptual Issues

Foreign Direct Investment

Foreign Direct Investment (FDI) is the process by which people in one country obtain ownership of the assets for the purpose of gaining control over the production, distribution and other related activities of a firm in a foreign country (Salz, 1992).

FDI provides more jobs to the economy directly and indirectly by creating new jobs and the provision of infrastructure (Guisinger, 1992).

There are two forms of FDI they are the horizontal FDI and the vertical FDI (Egbo, 2010).

Horizontal FDI occurs when the MNCS wants to expand its activities horizontally by producing the same type of goods in the host country just as you will see the same type of goods in the home country, horizontal FDI helps to reduce cost and to maximize revenue.

Vertical FDI occurs when the MNCS utilize the raw material in the host country to produce their goods (Buckley, 2002).

Feenstra & Markusen, (1994) believes that FDI can stimulate economic growth through capital formation.

Economic Growth

Economic growth refers to increases over a given period of time causing an increment in the national income and FDI can boost economic growth. When there is economic growth it shows in the increase in income level, if there is an increment in the income level it is a sign of economic growth, hence, economic growth is an increase in income (Guisinger, 1992).

Economic growth can be seen as the increase in the total capital stock of a country, when there is an increment in the total capital stock of a country it is a sign of economic growth and FDI can redirect the economy to the path of growth (Buckley, 2002).

METHODOLOGY

This study critically analyzes the efficacy of foreign direct investment and finance in Nigeria. The study adopts ex post facto research design. The data used for this study are secondary data sourced from the Central Bank of Nigeria Statistical Bulletin (various issues) that covers the period of study 1990-2016. Twenty-four (26) years. The data was sourced from Nigerian stock exchange (NSE), Central Bank of Nigeria (CBN) And National bureau of statistics (NBS). Ordinary least square method was used.

Model Specification

Gross domestic product (GDP) is expressed as a function of Interest rate (INTR), Inflation rate (INFR), Foreign direct investment(FDI), Exchange rate (EXRT), for the period between 1990-2016 where:

GDP =Gross Domestic Product.
INTR = Interest rate.
INFR= Inflation rate.
FDI =Foreign direct investment.
EXRT=Exchange rate.

GDP =F (INTR, INFR, FDI, EXRT) -------------------------------------- (3.1)

This can be put in linear estimation form as

$GDPt= \beta o+\beta 1INTRt+\beta 2\ INFRt +\beta 3FDIt + \beta 4EXRTt+ Ut$---------------- (3.2)

DATA PRESENTATION AND ANALYSIS OF RESULT

Table 1: Gross domestic product, Interest rate, Inflation rate, foreign direct investment and Exchange rate

VARIABLES	COEFFICIENT	STD. ERROR	T-STATISTIC	PROB
C	1020633.	8169963.	0.124925	0.9020
EXRT	48319.73	87245.77	0.553835	0.5865
FDI	314.5649	105.5309	2.980786	0.0080
INFR	94455.40	240242.1	0.393168	0.6988
INTR	122785.1	229486.2	0.535043	0.5992
R-squared	0.851472	Adjusted R-squared	0.801962	
F-statistic	17.19815	Prob(F-statistic)	0.000000	
Durbin-Watson stat	2.573450			

Source: E-views 9

From the regression result it shows the Rsquared which is 85% and the adjusted Rsquare is 80% showing goodness of fit, the DW shows the absence of autocorrelation. F statistics shows that the result is significant at 1% level of significance.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Summary of Findings

Based on the findings of this study, we concluded that Foreign direct investment has a great implication on the Nigerian economy because FDI provides capital flow, technology, employment and infrastructural development. Hence, for any serious development of the Nigeria economy the government should put in place policies that will lead to a huge gain from FDI.

CONCLUSION

The foregoing analysis tends to confirm that FDI has a huge impact on the Nigeria economy, due to the fact that FDI leads to capital accumulation, infrastructural development, employment opportunity and technology.

RECOMMENDATIONS

1. The government should make good use of the capital flow from FDI.
2. The government should formulate good fiscal and monetary policies that will attract more MNCs .
3. The government should ensure trade openness.
4. The government should ensure that these MNCs employ its citizens.
5. The government should use the capital inflow to develop infrastructure.

REFERENCES

Akinlo. A. (2004), "What Africa needs to do to benefit from globalization".

Altenburg, T. (2000) linkages and Spillovers between Transnational Corporations and Small and Medium-Sized Enterprises in Developing Countries – Opportunities and Policies In UNCTAD (ed.) MNC-SME Linkages for Development Issues – experiences – best practices. Proceedings of the Special Round on MNCs, SMEs and Development, UNCTAD, 15 February, 3-61, Bangkok, United Nations, Geneva.

Asiedu, E. (2003) Capital controls and foreign direct investment. World Dev., 32: 490-497.

Ayanwale, A.B., & Bamire, A. S. (2001) The influence of FDI on firm level productivity of Nigeria Agro/Agro-allied sector. Final Report Presented to the African Economic Research Consortium, Nairobi. 56-59.

Bakare, A.S. (2010) Multinational Direct Investment and Economic Growth in Nigeria: An Empirical Study. International Business Management 4 (3): 171-176.

Barrow, R. and X. Sala-I-Martin (1995), Economic Growth, New York: McGraw-Hill

Bengoa, M. and Blanca Sanchez-Robles (2003), "Foreign Direct Investment.

Borensztein, E., De Gregorio, J., & Lee, J.W. (1998) How does foreign direct investment affect economic growth? Journal of International Economics, 45, 115-135.

Buckley P., Clegg J., Wang C. and Cross A. (2002), "FDI, Regional Differences and Centre for Research on Globalisation and Economic Policy, Nottingham.

De Mello, L.R., Jr. (1999) Foreign Direct Investment in Developing Countries and Growth: a Selective Survey. Journal of Development Studies, 34, 1-34.

Egbo. O.P (2010)An analysis of foreign direct investment inflow and economic growth in Nigeria

Findlay, R. (1978), "Relative Backwardness, Direct Foreign Investment.

Freenstra . A.& Markussen, J. (1994), "Multinational firms and the new trade.

Guisinger, S., (1992), "Rhetoric and Reality in International Business: A note on Internationale Di Scienz Economiche e Commerciale , 19(7), 617-633.

Krugman, P. (1998), "Fire Sale FDI", Working paper , Massachusetts Institute of tech.

Lall, S. (1974), "Less Developed Countries and Private Foreign Investment.

Lee .R.& Mansfield. U. (1996), "On the mechanics of economic development". Journal of linkages". Policy Research Working Paper No. 29. The World Bank,

Lipsey R.E. (2000), FDI in Restructuring.

Loungani, P. and A. Razin (2001), "How Beneficial is Foreign Direct Investment.

Moosa, I. A., (2002), Foreign Direct Investment – Theory, Evidence and Practice .

Obadan, M.I. (1982) Direct foreign investment in Nigeria: An empirical analysis. Afr. Stud. Rev., 25: 67-81.

Obinna, O.E. (1983) Diversification of Nigeria external finances through strategic fdi.

Odozi, V.A. (1995) An overview of foreign direct investment in Nigeria, 1960-1995. Central Bank of Nigeria, Research Department Occasional Paper, No. 11.

Romer, P. (1990), “The origins of endogenous growth.” Journal of Economics

Salz, I. S. (1992), “The Negative Correlation between Foreign Direct Investment.

Thirlwall, A.P. (1994) Growth and Development. 5th Edition, Macmillan, London. UNCTAD (1999) World Investment Report 1999: Foreign Direct Investment and the Challenge of Development. New York and Geneva: United Nations Conference on Trade and Development.

Wilkin, B.(1998), Foreign Direct Investment.