Effect of Foreign Direct Investment (FDI) Inflows on Economic Development in Nigeria:

1984-2016

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DECLARATION

This is to declare that this research work was carried out by Obi-Nwosu, Victoria Ogochukwu; Reg. No.2013417003F. To the best of my knowledge, this work is original and has not been previously submitted to this University or other institution.

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APPROVAL

We hereby certify that this dissertation titled Effect of Foreign Direct Investment (FDI) Inflows and Economic Development in Nigeria (1984-2016) by Obi-Nwosu, Victoria Ogochukwu with Registration No. 2013417003F, satisfied the standard in partial fulfillment of the requirements for the award of Doctor of Philosophy (PhD) in Banking and Finance.

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DEDICATION

TO GOD ALMIGHTY

THE FOUNTAIN OF LIFE AND KNOWLEDGE

AND

TO MY DEAR HUSBAND: HARRY
AND
MY LATE PARENTS MR. GEOFFREY & MRS. JOY UDOKWU WHO DIED IN THE
COURSE OF THIS PROGRAMME

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Abstract

This study evaluates the effect of Foreign Direct Investment (FDI) inflows on economic development of Nigeria. Foreign Direct Investment is an important factor for Nigerian economic development. This is predicated on the fact that FDI inflows have facilitated increase in income, employment and savings of developing and emerging countries. The main objective of the study is to evaluate the effect of FDI on economic development of Nigeria. The specific objectives of this study is to examine the effect of FDI inflows on Nigerian economic development variables: Gross Domestic Product (GDP), Manufacturing Capacity/Utilization (MU), Gross National Savings (GNS), Gross Domestic Fixed Capital Formation (GDFCF), Market Capitalization (MC) and Agricultural Production (AP). The study anchored on endogenous growth model theory and eclectic theory used secondary data obtained from Central Bank of Nigeria Statistical Bulletin of various years and subjected them to ADF stationarity test and Granger causality analysis to analyse the study over the period of 1984 to 2016. The findings of the study showed that the economic growth variables used were positively and significantly affected by FDI inflows. The study therefore concludes that FDI inflows affect the economic activities in Nigeria as shown in the economic growth variables considered in the study. Hence, the study recommends among others image building via building political stability, improving investment policies, protection of life and property and advertisement of investment opportunities to attract further FDI inflows into the key areas of the Nigerian economy.

CHAPTER ONE

INTRODUCTION

1.1   Back ground of the Study

Nigeria is West Africa's most populous country with 182million population size and one of the most developed in the region in Gross Domestic Product (GDP) with $486.8Billion as at 2015 (World Bank Statistical Atlas Data 2017). It is one of the economies with great demand for goods and services, and has attracted some foreign direct investment (FDI) over the years in Africa. In spite of this advantage Nigeria's economy is still dependent on its oil sector which provides almost 97.5 per cent of foreign exchange earnings and approximately 80 percent of budgetary revenues (Anyaehie & Areji, 2015). Regardless of the advantage of population, good environment and land mass; the Nigerian economy still encounter some economic problems in power supply, infrastructural facilities and socio-economic organization problem(Ogbonna, 2012).

How these economic problems are tackled depend largely on the economic system in operation. There are different types of economic systems in the world. Nigeria as an economy operates a mixed economic system, which consist of public ownership and private ownership of the means of production. Practically, a mixed economy is heavily slanted towards one extreme either it is dominated by the public sector or it is characterized by the dominance of private ownership (Ramsaran, 2012). Before 1986, the Nigerian economy was mainly public sector dominated economy. The Nigerian economic sector changed from public sector economy to a mixed economy and highly slanted to private ownership of the economic sector due to change of policy. Those successes encouraged the deregulation of the economy in Nigeria. Forces of

demand and supply began to regulate prices in all the market of the economy e.g Labour market, Money market, Foreign Exchange Market, Commodity Market and the Capital Market.

According to World Bank statistical atlas data, the Nigerian economy is ranked 21st in the world in terms of GDP as at 2017, although it's underperforming manufacturing sector is the second largest on the continent. The Nigerian economy produces a large proportion of goods and services for the West African region. Moghalu(2009) concluded from his findings that the Nigerian economy has a weak manufacturing sector. He attributed this fundamental weakness to inadequate power supply, high unemployment, food insecurity, weak infrastructure, export base and fallen standard in education and health system. The Nigerian agricultural sector has not fared better than the manufacturing sector. Balogun(2003) was of the opinion that there was very little foreign investment capital in Nigerian agricultural and agro-allied industries for domestic and international market. The ratio of FDI into Nigeria grew by 19.4% from N360Million to N430Million in 1984 to 1985 while the agricultural sector produce grew by 19.0 from N2, 303Billion to N2, 731Billion in the same period however the growth by 1994 to 1995 leaped up for FDI by 241.9% from N22.2Billion to N75.9Billion while the agricultural produce grew by merely 3.6% within the same period. In 2014 to 2015, the growth rate of FDI and agricultural produce move in diverse directions. While the FDI rate fell by 18.4% from 2014 to 2015, agricultural produce maintain a moderate growth of 3.7% within the same period (CBN, 2016).

The economic growth of any nation depends on the quantity and quality of production factors. Investment otherwise termed capital is major production factor. In-order for an economy to grow, it must develop the habit of saving and investment in order to promote capital formation. The importance of savings and investment are crucial elements of macro-economic growth. However not many countries are rich enough to mobilize adequate internal savings for

investment purposes. In the developing countries in particular there is a wide gap between domestic saving and domestic investments, such economy can only develop or move from a lower orbit of economic growth to a higher one if the gap between savings and investment is bridged. The bridging can only be done from outside the gap economy, if the economy is friendly enough to attract foreign direct investment (Moghalu, 2009).

Adeolu and Simon (2004) assert that investment determines the rate of accumulation of physical capital and hence an important factor in the growth of productive capacity and contributes to the growth of the economy. Hence, increasing foreign private investment is an important channel for increasing aggregate investment. FDI inflow is highly supported by the activities of multinational corporations. They play vital roles in linking national economy and defining the nature of the emerging global economy. Their provision of support and resources (tangible and intangible) deployed across national boundaries help to pursue profit and bolster their competitive position by augmenting domestic savings and provide foreign exchange required for massive investment in infrastructures. Foreign Direct Investment into Nigeria appreciated overtime for most of the period of 1984 to 2016. However, the FDI inflow into Nigeria fell drastically and continuously in the last quarter of the study period from N1,360.3 Billion in 2011 to N602.1 Billion in 2015 before the improvement to N1,124.1 Billion in 2016.

The inflow of Foreign Direct Investment have been hampered by economic conditions like junk credit ratings (which result from high borrowing cost associated with Nigeria), poor diversification (resulting from overdependence on oil which is the main stay of foreign investment and the economy), inadequate roads, highways and railroads for basic functions of commerce (trade), poor Infrastructures and access to raw materials, power supply, poor labour

skills and high wage cost and inconsistent government policies have contributed to the nation's poor reputation as a FDI destination. Most importantly is the level of insecurity, ethnicity, disunity and threats of secession of regions of the country also hampered the chance of increased FDI in Nigeria (Ogbonna, 2012).

According to Aremu (1991) in his study of the performance of Nigeria Industrial Development Coordinating Committee (IDCC), he concluded that IDCC performed below expectation when compared with similar institutions in the South East Asian Countries.Policy changes with the change in government also affect foreign investment, because foreign investors are mainly long term investors (real investors) who at times budget 15 to 20 years to recoup their investment and make profit. In their projection the main assumption is normally that government policy will be unchanged over that period of 15 to 20 years when they expect to recoup their investment and make profit. Any policy that switches from regulated to deregulated and so forth at short interval of time will definitely deter foreign direct investors (Echandi, Krajcovicova&Qiang, 2015).

On the financial front of the Nigerian economy, the money and the capital market are not fully accessible to raise funds making it difficult for the foreign investors to source a good portion of its short term and long term funds to support the investment (Echandi, Krajcovicova&Qiang, 2015). The foreign investor may have to depend on its' own country for both short and long term funds. Other factors that tend to deter or discourage foreign capital inflow are the high cost of raising funds in Nigeria. For example, lending rate in the European Union, America and UK is between the ranges of 1% to 3%. But in Nigeria, the prime lending rate is between 20% and more. The situation is not helped by the high rate of inflation which

tend to wipe out the budgeted profit of foreign investors and even go further to eat up part of the investment capital. The tax regime is on the aggressive side with multiple taxations here and there which go to increase the cost of production and reducing further the budget profit of the foreign investor.

The incompetence of skilled manpower also impedes foreign capital inflow. Foreign investors are compelled to bring in skilled labour or to work their industry at great cost.To crown it all, the socio-economic climate is very unstable, with religious and ethnic crises occurring daily from different part of the country destroying products and eventually stopping production services. The lives of foreign workers is not save as some of them have been kidnapped in the past and heavy ransom has been paid to reclaim them, some even die in the course of the kidnapping saga.These problems confronting foreign investors who are willing to invest in Nigeria are therefore stated thus;poor infrastructural facilities, policy change with change in government, inadequate financial market, high cost of raising funds locally and high inflation rate, unstable socio-economic situation and insecurity.

These problems affect economic growth variables in GDP, Manufacturing capacity/utilization, national savings, capital formations, capital market development and agricultural output. They affect the extent to which foreign direct investment or foreign direct capital inflows will be available for investment in Nigeria and its possible impact on the Nigerian economic growth.

This study analyzed the impact of foreign investment inflowson the economic growth of Nigeria, viewing the economic growth from Market Capitalization, Gross National Savings, Gross Domestic Product, Gross Domestic Fixed Capital Formation, Manufacturing capacity/utilization and Agricultural Output.

1.2 Statement of the Problem

Nigeria as a developing country has an innateobjective to attract foreign direct investment from developed economies of the world. It is a common knowledge that foreign direct investments have facilitated increase in income, employment, technology, skills and savings of many developing and emerging countries such as Malaysia, Singapore, South Korea, Brazil, India and China. The objective of Nigeria economic development programme like every other developing economy is targeted at creating an enabling environment conducive enough to attract foreign direct investment to boost economic growth.

Nigeria as a nation is endowed with great potentials to attract FDI inflow based on population size, abundant natural resources, labour force, entrepreneurial spirit etc. but the effect of political instability, corruptions, economic crisis, inflation rate, exchange rate fluctuation and insecurity have been a major hindrance to FDI inflows into Nigeria.

Various studies have been done on how foreign direct investment has affected economic development of Nigeria. Their studies have viewed economic development from different perspective and mixed resultsfound. For instance Onu (2012) investigated the impact of FDI on Nigerian economic growth(GDP) and discovered positive but insignificant impact of FDI on economic growth. Adigwe, Ezeagba and Francis (2015) investigated the effect of FDI on Nigerian economic growth and their result showed significant relationship between FDI and GDP (economic growth) in Nigeria. In the study of Onyekwena (2012) on FDI and Nigerian economic growth in manufacturing firms discovered that FDI generates spillovers in Nigerian manufacturing firms and productivity. The same findings were also discovered in Samal and Raju (2016) but in Adamu and Bende (2013), FDI did not accelerate manufacturing sector

growth in domestic firms. These conflicting results incited this study in order to determine the actual effect of foreign direct investment on economic development in Nigeria.

More so, most of the studies reviewed showed that limited consideration were given to foreign direct investment and economic development variables like gross domestic fixed capital formation, gross national savings and agricultural output.

Thus, this study examined the trend of FDI inflow and how it has affected economic development in Nigeria, particularly the gross domestic product (GDP), manufacturing capacity/utilization (MU), gross national savings (GNS), gross domestic fixed capital formation (GDFCF), market capitalization (MC) and agriculture output (AGRIC) so as to establish how FDI inflows into various key macroeconomic sectors of the economy have affected the development of the various sectors in the economy.

1.3   Objectives of the Study

The broad objective of the study was to determine the effect of FDI on Nigerian economic development; the specificobjectivesof the study include;

i.   To examine the effect of Foreign Direct Investments on Gross Domestic Product in Nigeria.

ii.   To determine the effect of Foreign Direct Investments on Manufacturing Capacity/Utilization in Nigeria.

iii.   To explore the effect of Foreign Direct Investments on Gross National Savings in Nigeria.

iv.   To find out the effect of Foreign Direct Investments on Gross Domestic Fixed Capital Formations in Nigeria.

v.   To ascertain the effect of Foreign Direct Investments on Market Capitalization in Nigeria.

vi.   To assess the effect of Foreign Direct Investment on Agricultural Production in Nigeria.

1.4   Research Questions

In line with the specific objectives, the following research questions guided the study.

i.   How has Foreign Direct Investments influenced Gross Domestic Product in Nigeria?

ii.   To what degree has Foreign Direct Investments contributed to changes in Manufacturing Capacity/Utilization in Nigeria?

iii.   To what extent has Foreign Direct Investments affected Gross National Savings in Nigeria?

iv.   What is the extent to which Foreign Direct Investments impact onGross Domestic Fixed Capital Formation in Nigeria?

v.   To what extent has Foreign Direct Investments explained changes in Market Capitalization in Nigeria?

vi.   How has Foreign Direct Investment impacted on Agricultural Production in Nigeria?

1.5   Research Hypotheses

The following hypotheses were generated for this study.

Ho$_1$:   Foreign Direct Investments have no significanteffect on Gross Domestic Product in Nigeria.

Ho$_2$:   Foreign Direct Investments does not significant affect Manufacturing Capacity/Utilizationin Nigeria.

Ho$_3$:   Foreign Direct Investments exert no significant effect on Gross National Savings in Nigeria.

Ho$_4$:   Foreign Direct Investments have no significant effect on Gross Domestic Fixed Capital Formations in Nigeria.

Ho$_5$:   Foreign Direct Investments have no significant effect on Market Capitalization in Nigeria.

Ho$_6$:   Foreign Direct Investments have no significant effect on Agricultural Production in Nigeria.

1.6   Scope of the Study

This study is an assessment of the effect of foreign direct investment (FDI) inflow on the economic development of Nigeria. The study generalizes on the economy by considering the selected economic development variables for the period (1984 – 2016). The data used for the study are restricted to Foreign Direct Investment inflow and economic growth proxied by Gross Domestic Product, Manufacturing capacity/utilization, Gross National Savings, Gross Domestic Capital Formation, Market Capitalization and Agricultural Output. The study is based on secondary data sourced from the Central Bank of Nigeria (CBN) bulletin. The study period commenced from 1984 to allow for the overall effect of policies post 1984 economic recession periods like SAP of 1986.

1.7   Limitations of the Study

In the cause of this study, the following limitations were encountered;

1. No availability of Central Bank of Nigeria statistical bulletin for the period of 2017 which is the intended end period of study.

2. The researcher faced the problem relating to credibility and measurement of data viewed by financial bodies like CBN and IMF/World Bank. Finally, the study data collection is restricted to Central Bank of Nigeria statistical Bulletin because of the scope of study.

3. The biasness of the standard of the data gathered determined the final result and findings of the study.

1.8   Significance of Study

This research is anticipated to enlarge the knowledge on the subject matter of foreign direct investment. If the different categories enlisted below come in contact with this study, the study will be of relevance to them in the following ways;

1. Policy Makers: This study will enable policy makers, government and its agencies to know the extent of the impact of already embarked decision and make a more informed decisions on how best to attract Foreign Investment to boost consumption, increase quality of lives, improve employment, productivity in manufacturing, agriculture, activities in the stock exchange and economic growth at large.

2. The Academia: The study will be a point of reference material on the effect of Foreign Direct Investment on economic growth indicators in Nigeria and for prospective researchers and students of the banking and finance discipline; the study will showcase the reaction of savings, investment, agriculture, stock market and manufacturing utilization to FDI.

3. General Public: This study will provide requisite insight to the general public and intending investors on the effect of Foreign Direct Investment on the various economic growth indicators used for the study. It will also showcase the role of Foreign Direct Investment on economic growth indicators in an emerging Nigerian economy. It will also help to reveal how FDI has increase employment, quality of life and improve production output, economic growth and real income.

4. The corporate Nigeria: the result of the work will enlighten corporate decision makers of Nigeria on the benefits of FDI inflows into Nigeria. This is because FDI contributes to much to GDP, MC, GNS, GDFCF, MC and AGRIC which are variable for economic growth.

5. The regulatory bodies like the Manufacturing Association of Nigeria (MAN), Central Bank of Nigeria (CBN), Security and Exchange Commission (SEC). They can use this study to improve on the framework for regulation of FDI.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1   Conceptual Issues

Nigeria as a nation has been facing economic crisis situation characterized by inadequate resources for long-term development, high poverty level, low capacity utilization, high level of unemployment, and other Millennium Development Goals (MDGs) that are increasingly becoming difficult to achieve. Promoting and facilitating technology transfer through foreign direct investment (FDI) has assumed a prominent place in the strategies of economic revival and growth being advocated by policy makers at the national, regional and international levels because it is considered to be key to bridging the technology and resource gap of underdeveloped countries and avoiding further buildup of debt (UNCTAD, 2005).The highly relative advantages of foreign direct investment (FDI) as a productivity enhancing package is now widely acknowledged and evidenced in the new attention given to private sector economy to drive for foreign direct investment (FDI) especially in developing economies.

For a developing country like Nigeria, the inflow of foreign capital may be significant in not only raising the productivity of a given amount of labour, but also allowing a large labour force to be employed (Sjoholm, 1999).

Domestic consumers may also benefit from Foreign Direct Investment (FDI) inflow in that when the investment is cost reducing in a particular industry, consumers of the product may gain through lower product prices, hence another industry that uses this product benefit from the lower prices. This creates profits, savings and in the case of plough back stimulates expansion in

the industry. Additionally, if the investment is product improving or product motivating, consumers benefit in the form of better quality products or new products.

2.1.1   Foreign Direct Investments

FDI eludes definition owing to the presence of many authorities such as Organization for Economic Co-operation and Development (OCED), International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD) and United Nations Conference on Trade and Development (UNCTAD). All these bodies attempt to illustrate the nature of FDI with certain measuring methodologies.

Generally speaking FDI refers to capital inflows from abroad that invest in the production capacity of the economy and are "usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their returns depend on the performance of the projects financed by the investors. FDI also facilitates international trade and transfer of knowledge, skills and technology" (Singh, 2005).

It is furthermore described as a source of economic development, modernization, and employment generation, whereby the overall benefits (dependent on the policies of the host government) of FDI triggers technology spillovers, assists human capital formation, contributes to international trade integration and particularly exports, helps create a more competitive business environment, enhances enterprise development, increases total factor productivity and, more generally, improves the efficiency of resource use (OECD, 2002). Mwilima (2003) describes FDI as investment made to acquire a lasting management interest and acquiring at least 10% of equity share in an enterprise operating in a country other than the home country of the investor.

FDI has further been explained as the long-term investment reflecting a lasting interest and control by a foreign direct investor or parent enterprise of an enterprise entity resident in an economy other than that of the foreign investor (IMF, 1999). Mallampally and Sauvant (1999) describe FDI as investment by multinational corporations in foreign countries in order to control assets and manage production activities in those countries. An expanded explanation on the meaning of FDI was given by Ayanwale (2007) as ownership of at least 10% of the ordinary shares or voting stock which is the criterion for the existence of a direct investment relationship. Investments may take the form of either "Greenfield" investment (also called "mortar and brick" investment) or merger and acquisition (M&A), which entails the acquisition of existing interest rather than new investment. Foreign Direct Investment (FDI) is a major component of international capital flows. Ownership of less than 10% is recorded as portfolio investment. FDI comprises not only merger, acquisition and new investment, but also reinvested earnings, loans and similar capital transfer between parent companies and their affiliates. Countries could be both host to FDI projects in their own country and a participant in investment projects in other countries. A country's inward FDI position is made up of the hosted FDI projects, while outward FDI comprises those investment projects owned abroad.

Farrell (2008) defined FDI as a package of capital, technology, management, and entrepreneurship, which allows a firm to operate and provide goods and services in a foreign market. From a theoretical viewpoint, FDI can be divided into two categories: Horizontal and Vertical. Horizontal FDI (HFDI) is a type of investment which is in the same industry operating abroad as a firm operate, or offers the same services as it does at home, and tends to produce for local or original markets only without exporting much output to host country (Maskus, 2002; Haile & Assefa, 2006). It seeks to take advantages of a new large market, which is considered as

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traditional motive for FDI. It is widely used by Japanese MNE's in their international expansion because they believe that this model will help to reduce the risk and enable them to share experience, resources, and acknowledgment that already have developed at home (Botrić &Škuflić, 2006). In addition, FDI inflows to advanced countries are usually horizontal investments driven by market seeking strategies. And according to Botrić and Škuflić(2006), Horizontal FDI replicates the whole production process of the home country in a foreign country. While Vertical FDI is as a result of comparative advantage across countries; this is the motive for the foreign location of some stages of production (Ramondo, Rappoport & Ruhl, 2012).

It is common in the literature to observe that Foreign Direct Investment (FDI) and Foreign Private Investment (FPI) are used interchangeably. This perhaps explains why the International Monetary Fund's (IMF) Balance of Payments Manual defines Foreign Direct Investment as 'investment made to acquire a lasting interest in a foreign enterprise with the purpose of having an effective voice in its management'.

The conceptualizations given in respect of FDI or FPI are the same. They all suggest that the management dimension is what distinguishes FDI from portfolio investment in foreign stocks, bonds and other financial instruments. According to Oyeranti (2003) FPI should be seen as the sum of the following components.

1. New equity from the foreign company in the home country to the company in the host country.

2. Reinvested profits earned from the company

3. Long and short-term loans from the foreign investors to the host company.

FPI is a two-way flow. The rationale for FPI must equally be two-dimensional recognizing the fact that two sets of interest are involved in FPI: interests of the foreign investors, and that of the

host countries. Hence, it was observed that both domestic and international structural forces were driving private investment to developing countries (World Bank, 1997).

2.1.2   Foreign Direct Investment in an Economy

Over the years, successive Nigerian governments have viewed FDI as a vehicle for political and economic development of Nigeria. Hence, the thrust of government policy (indigenization policy) through the Nigeria Enterprise Promotion Decree (NEPD) which has the primary objective of regulating investment such that there is maximum foreign ownership participation of 40%. Economic growth result from accumulation of factors of production or from improvements in technology or both (Zamann & Goschin, 2010).

The observed lopsided, unfair and unequal distribution of advantages and disadvantages, gains and losses from the flows of globalization process are traced to the challenges facing regions of the world economy (Ojo, 1997). Restrictive trade and FDI policies, unavailability and improper maintenance of adequate economic infrastructure, telecommunications and transportation facilities in particular are the factors identified as limiting the developing nations like Nigeria (Ojo, 2012). These nations according to Brahmbhatt and Dadush (1996) are referred to as weak and slow integrators. In addition, there is the need to relax the protectionist and discriminating policies of the developed nations. For example, the developed countries persist with agricultural subsidies and tariffs against the exports of the developing countries, while the developing countries over the years were encouraged to eliminate subsidies as a basic step towards revamping their fiscal policies, which in turn could stimulate necessary growth. The Nigerian economy therefore needs to be integrated to the world economy in order to exploit the attendant opportunities in the face of the challenges of globalization.

However, for Nigeria to be more integrated to the world economy; there is the need for cautious approach to global demands and developing domestic institutional frameworks to enhance economic growth (Ojo, 2012).

Economic theory provides two approaches to studying the link between FPI and economic growth of the host countries (Oyeranti 2003). The first approach is rooted in the standard theory of international trade and dates back to MacDougall (1960). It involves a partial equilibrium comparative–static approach put in place to examine how marginal increments in investment from abroad are distributed. From this approach, it is believed that inflows of foreign capital-whether in the form of FPI or Portfolio Capital-will raise the marginal product of labour and reduce the marginal product of capital in the host country.

The second approach departs from trade theory to the theory of industrial organization, and was pioneered by Hymer (1976). This approach begins with an examination of why firms undertake investment abroad to produce the same goods as they produce at home. Kindleberger (1966) argued that for direct investment to thrive, there must be some imperfections in markets for goods and factors, including technology, or some interference in competition by government or by firms, which separates markets. Firms investing abroad therefore represent something more than a simple import of capital into a host country to include diffusion of technology and knowledge, as well as impacting on market structure and competition in host economies. This sums up the indirect effects of FDI inflows.

In general, a two-way association between FDI and economic performance is expected. FDI is expected to increase real economic output because it increases the domestic stock of real capital. In addition, FDI typically provides a unique package of other resources, including technology know-how, management, training, and facilities for marketing the product or service.

It can also play the role of "tutor" by teaching skills to the local people, or increase economic performance either because foreign subsidiaries may have higher labor (and capital) productivity than their domestic counterparts or because FDI involves export-oriented activities which provide access to new international markets. But FDI could have a negative impact on economic performance. In reality, it is rarely undertaken in a perfectly competitive market. The firms that undertake such investments have market power and can therefore restrict competition and economic performance. FDI may also involve inefficient allocation due to extensive government intervention in the form of price controls.

Therefore, the impact of FDI on economic performance is not clear-cut. It has also been suggested and shown that higher economic performance can influence positively on FDI. The argument is that an increase in the size and growth of the host market will attract FDI. This view emphasizes the domestic market-seeking strategy of FDI ventures.

The empirical results from a two-way causality test of association between economic performance and FDI indicate that the results depend crucially on the strategy of the FDI.From the foregoing, it is obvious that FDI is not only a source of finance and employment. It is certainly a medium for acquiring skills, technology, organizational and managerial practices and access to markets. Thus, it is expected to exert a positive impact on growth in the host country through the sum of direct and indirect effects of capital inflows along with technology transfer. Noorbakhsh, Paloni and Youssef(2001) observed that, the less developed a country is, the greater are usually the expectations it places on FDI to alleviate its resource and skills constraints. Incidentally, Saggi (2002) observes that there are several important caveats to the expectation of positive impact of FDI on host countries. First, a positive correlation between the extent of FPI and economic growth in cross-country regressions may simply reflect this fact: those countries

that are expected to grow faster attract FDI because it yields higher returns there. This implies that the causation could run from growth to FDI inflow suggesting the need to estimate a simultaneous equation system to resolve the issue of which one causes the other.Secondly, multinational corporations are in the habit of raising the required capital in the host country. An optimistic view of FDI would then be restricted to technology transfer and/or spillover as the likely mechanism through which FDI may affect growth. Along this line, Romer (1993) argues that FDI can have a positive effect on growth in developing countries by helping them bridge the idea gap with respect to industrial countries.

Based on cross-section data obtained from 46 developing economies, Balasubramanyam, Salisu and Sapsfocd(1996) report two main findings on FDI-economic growth nexus. First, the growth-enhancing effects of FDI are stronger in countries that pursue a policy of export promotion rather than import substitution. This finding suggests that, trade policy regime is an important determinant of the effects of FDI. Second, they also find that, in countries with export-promoting trade regime, FDI has a stronger effect on growth than domestic investment. This finding appears to be a confirmation of the popularly acclaimed hypothesis that FDI results in technology transfer. However, Keller (1996) cautions that mere-access to foreign technologies may not increase the growth rates of developing economies. The point stressed by this study is that a country's stock of human capital effectively constraints its ability to take advantage of foreign technologies. Taking a more micro-level view of the constraints on technology transfer, Glass and Saggi (1998) emphasize the fact that a country may have a fair amount of human capital in the aggregate but still lack the technological sophistication required to host high-quality FDI in any particular industry. Xu (2000) confirms that in the absence of adequate human capital, technology transfer from FDI may fail to increase productivity growth in the host

country. Xu finds that technology transfer from FDI contributes to productivity growth in more developed countries but not in less developed ones because the latter lack adequate human capital.

Although economic theory and empirical evidence suggest that FDI has a beneficial impact on developing host countries, a number of studies have equally observed some potential risks associated with FDI. For example, Hausmann and Femandez-Arias (2000) connect a high share of FDI in total capital inflows to a sign of a host country's weakness rather than strength. They observe that the share of FDI flows in total inflows is higher in riskier countries, with risk measured by countries' credit rations for government debt or by other indicators of country risk. According to Maji and Odoba (2011), Nigeria has not been able to maximize enough benefits to its advantages in terms of economic growth. This is due to capital profit flight and low re-investment of profits.

2.1.3   Determinants of Foreign Direct Investment in Nigeria

The Nigerian market is defined by four main characteristics- a large population, which translates to "market", skilled manpower, abundant natural resources and a surfeit of entrepreneurial spirit. These four things differentiate Nigeria from many other markets in Africa (Moghalu, 2009). It is on this ground that the determinants of foreign direct investment can be discussed. In the literature on FDI, several frameworks have been employed to analyze the determinants of FDI. The most comprehensive framework is the one known as 'eclectic theory' of Dunning (1981) because of its flexibility and increasing popularity. The theory holds that FDI is determined by three sets of advantages namely:

a)   Firm specific (or ownership) advantages (Hymer, 1976): This set of advantages gives a firm competitive advantage in global markets, including technological assets, product differentiation, management skills, production efficiencies, size and concentration.

b)   Internalization advantages (Buckley & Casson, 1976): These advantages exist when the internalization of cross-border transactions within a firm becomes a more efficient form of servicing markets than arm's length transactions. Put differently, it is the sum of commercial benefits accruing from an FDI or intra-firm activity rather than an arm's length or licensing relationship.

c)   Locational advantages (Vernon, 1966): These occur when the local conditions of potential host countries make them a more attractive site for FDI operations than the home country. These advantages include large markets, lower costs of resources or superior infrastructure, free zone facility among others.

Akinkugbe (2003) argues that locational advantages constitute what earlier theoretical and empirical studies classified as 'pull-factor'. The 'pull-factor' examines the relationship between host-country specific conditions and the inflow of FDI. At the centre of locational advantages is the belief that, there is some specific advantage to the investor, which makes the return on investment sufficient to warrant the additional risk and uncertainty that accompanies investment outside the familiar home environment. This explains the belief that FDI is a product of rent-seeking on a global scale. Under this 'pull-factor', FDI is either classified as import-substituting and export-increasing (Moosa, 2002).

As to the 'pull-factor', Akhter (1993) posits that host-country specific conditions might embrace a number of socioeconomic and political factors within a country where FDI is made. These factors tend to determine available business opportunities and pending political threats within the

host countries. Among others the socioeconomic and political factors commonly cited in this strand of the FDI literature include:

i. Availability of natural resources

ii. Infrastructure

iii. Market size

iv. Level of human capital development

v. Distance from major markets

vi. Labour cost

vii. Openness of the economy to international trade

viii. Exchange rate

ix. Fiscal and other non-tax incentives

x. Political stability

xi. Monetary policies and the extent of liberalization or otherwise of the financial sector

xii. Availability of modern information and communication technology.

It is important to note here that locational advantages as a set of FDI determinants depend largely on host country policies institutions, and economic conditions. The implication of this is that, once the policy environment and business facilitation institutions become enabling, it's economic factors therefore divide FDI into two broad categories: market-seeking FDI, which is tariff-jumping investment and investment driven by larger markets or regional trading areas and efficiency-seeking FDI, which can take the form of export platform (in components and intermediate goods).

The combination of ownership-specific competitive advantages and the internationalization advantages constitute what Akinkugbe (2003) refers to as 'push-factor'. The

'push-factor' examines the key factors that could influence or motivate multinational corporations (MNCs) to want to expand their operations overseas. Under this second approach, FDI is either classified as horizontal or market seeking, vertical or conglomerate (Caves, 1971, 1974; Moosa, 2002).

As observed by Pigato (2001), in a globalizing environment, many of the traditional determinants of FDI such as political and macroeconomic stability, availability of natural resources and a large and growing market remain important. However, there are new FDI determinants and they include;

a) **A favourable FDI environment:** This essentially means a transparent and non-discriminatory regulatory environment, effective competition policies and an efficient judicial system. Low and stable tax rates are also important. Fiscal incentives may increase the attractiveness of a country but cannot substitute for lack of a healthy FDI environment. Promotion activities may also help attract FDI but only when the basic framework is in place, including equal treatment of foreign and local investors and fast dispute settlement mechanisms.

b) **Low transactions and business costs:** These cover investment, labour and trade regulations, entry and exit rules, location and environment regulations, and tax and legal systems. They depend not so much on the rules but on the way rules are implemented in practice and on the skills of the bureaucracy in dealing with the investors, as well as on the legal and judicial system.

c) **Supplier networks and clusters:** Countries with dynamic local firms have an advantage in that they can attract better 'quality' FDI that subcontracts services and components of their production process to local firms.

d) **Human capital:** Low-cost, unskilled labour is becoming less important. There is a greater demand for qualified human capital with diverse modern skills that can cope with emerging technologies. Equally important are labour market flexibility including the use of expatriate personnel.

e) **Low cost infrastructure:** An efficient communications system as well as transportation links within and outsides the countries are essential to make a country attractive.

In the study of Asiedu (2002) on the determinants of FDI in developing economies, he proffer two distinct behavior of FDI determinants into market-seeking and non-market seeking. The main objective of market-seeking FDI is to serve domestic markets. Thus, goods are produced in the host country and sold in the local market. In effect, this type of FDI would be driven by domestic demand such as large markets and high income in the host country. This implies that, FDI in small and poor countries is less likely to be market-seeking.

2.1.4 Facilities put in place to Broker and Boost FDI inflow into Nigeria

Investment in a foreign country is facilitated by incentives and myriads of other provision. The Nigerian Government adopts several policies at different period to attract FDI inflow over time. Particularly, the government adopted and implemented IMF policies which were strictly monitored. The liberalization of Nigerian economy welcomes foreign investors in the manufacturing sector, offers incentives for ownership of equity in all industries except key industries like military equipment. The incentives like tax relief are made available to investors and concessions for local raw material development. In line with its economic reforms, starting from the 1980s, Nigeria undertook a far reaching privatization programme.

This change starts by the deregulation of the Nigerian economy in 1986 and onwards to several policies (like introduction of Structural Adjustment Programme in 1986, Export

Processing Zones Decree in 1991, Investment Promotion Commission in 1995) adopted by the Nigerian government.

FDI inflows were low before the 1990's but post 1990's shows remarkably changes and into the 21st century.

Attempts at attracting FDI into Nigeria have been based on the need to maximize the potential benefits derived from them; and to minimize the negative effects their operations could impose on the country's economy. The desire of the government to intervene in the FDI operations in the country was motivated by two primary types of market failure;

(i)   Information or coordination failures in the investment process; and

(ii)   The divergence of private interest of investors (foreign and/or domestic) from the economic and social interest of the country.

To optimize the impact of FDI inflow, UNCTAD (1999) suggested that government of developing countries like Nigeria need to address the following issues:

(a)   Information and coordination failures in the international investment process.

(b)   Infant industry considerations in the development of local enterprises, which can be jeopardized if inward FDI crowds out those enterprises.

(c)   The static nature of advantages transferred by MNCs in situations where domestic capabilities are low and do not improve over time, or where MNCs fail to invest sufficiently in improving the relevant capabilities (an issue that is particularly relevant in the context of linkages between foreign affiliates and local firms).

(d)   Weak bargaining and regulatory capabilities on the part of host country governments, which can result in an unfavourable distribution of benefits from perspectives of the society (e.g negative effects on competition or the environment).

In formulating policy objective towards FDI, three basic issues are of paramount importance, particularly to developing countries, like Nigeria. First, it must be understood that developing countries is different from developed countries with regard to the possible role and impact of FDI in their economies. While the former are typically net importers of FDI, the developed countries in most cases present a more balanced pattern of inward and outward flows of FDI. Secondly, the technological distance between domestic and foreign enterprises is generally more accentuated in developing countries than in developed countries. This, on the one hand, suggests that developing countries should be interested in FDI inflow so as to attract the much-needed capital, technology and skill. However, on the other hand, the weak domestic capabilities will hinder the ability of developing countries to fully enjoy the expected benefits of FDI inflow. While it may be argued that the possible positive spillover effects of FDI could upgrade the national productivities of recipient economies, it may equally lead to a crowding out effect on domestic firms, or anti-competitive behaviour that could result in welfare losses. Thirdly, International Investment Agreements (IIAs) usually involve binding commitments that may lead to convergence of national policies that would eventually limit the policy autonomy of the contracting parties of an agreement. It is thus important that developing countries deepen their understanding of what FDI policies as well as policy instruments they want to implement; and what commitments can be sought from home countries of the foreign investors to support their development objective. In formulating FDI policy objective and strategies, the overall question with regards to IIAs is how it would assist developing countries to attract appropriate FDI inflow, while simultaneously allowing sufficient policy space for these countries to regulate them in the interest of benefiting as much as possible from such FDI inflow.

In this context, this part of the research will consider the policies set to broker increased FDI inflow and economic activities (GDP).

2.1.4.1   Nigerian Enterprises Promotion (Issues of Non-Voting Shares) Act 1987

The Nigerian Enterprises Promotion Act of 1987 was promulgated due to the earlier failures of NEP Acts. The NEP Decree 1987 allowed public companies quoted in Nigerian Capital Market to issue non-voting paid-up capital as long as such issuance does not exceed 20% of the existing nominal share capital. This was to ensure that foreign investors were given opportunity to increase their percentage holding in any investment of their choice without violating the provisions of the NEP Acts (i.e. without a corresponding increase in their voting power in excess of what the 1977 law provided). The remaining 80% of the shares must be channeled towards improving the technological capability of such companies. Unfortunately, the NEP act led to overlapping of regulatory jurisdiction due to separate body established to monitor the compliance. This further compounded the rigours that foreign investors had to go through rather than streamlining such procedures. Also, in the long run, the effectiveness of the Decree became doubtful and in fact naive as foreign investors rarely wish to invest their capital in any economy (like Nigeria), because of inability to have effective voice and control in the management of investment situations in its investment in Nigerian economy. This did not finalize the objective of its establishment.

2.1.4.2   Nigerian Investment Promotion Commission (NIPC)

This is a federal government agency in Nigeria established by the NIPC Act No 16 of 1995 with the primary objective of promoting, encouraging and coordinating all investment in Nigeria.

Investment requires profitable opportunities and a regulatory framework that facilitates investment transactions. Policies that will ensure general macroeconomic stability, integrate markets and open sectors to private enterprise can help to expand the range of profitable investments. For instance, policies that specifically reduce regulatory barriers facing investors and ensure the repatriation of capital and income are in turn necessary to translate the potential for profit into viable investment projects.

Since independence, Nigeria has been associated with pictures of civil disturbances, starvation, deadly diseases as well as macroeconomic mismanagement, distortions and performance. However, realizing the negative image of Nigeria to prospective investors, it may not be sufficient to improve the investment climate alone, but have appropriate promotional strategy to catch investors' attention. Hence, NIPC was established to change the negative image and thus facilitate investments into the economy. With the demise of Nigeria Industrial Development Coordinating Committee (IDCC) and in its place NIPC Act 16 of 1995, promotional strategy at marketing Nigeria investment environment to alien entrepreneurs changed slightly. The Commission was however not inaugurated until September 30th 1997 while its commencement of full activities started in May 1999 (starting eight years behind Aremu's report indicting IDCC and four years after its (NIPC) Act was promulgated). Section 4 of NIPC Act expresses the basic functions of the Commission are to encourage, promote and co-ordinate investment in the country. It appears more radical a legislation than IDCC. Finally, the NIPC objective of promoting investment facilitated the establishment of OSIC (the one-stop investment centre) in an attempt (effort) to streamline the business entry procedure in Nigeria. It is an investment facilitation mechanism where relevant agencies of government are brought to

one location, coordinated and streamlined, to provide efficient and transparent services to investors (NIPC, 1995).

2.1.4.3 Foreign Exchange (Monitoring and Miscellaneous Provisions) Acts, 1995

Alongside the NIPC Act was the Foreign Exchange (Monitoring and Miscellaneous Provisions) Act in 1995. It was enacted to liberalize transactions involving foreign exchange and thereby commands a freer flow of FDI. With its establishment, the following enactments became corollarily repealed; the Exchange Control Act (1982) as amended by the Exchange Control (Anti Sabotage) Act, 1984; the Foreign Currency (Domiciliary Account) Act, 1985, and the Second-Tier Foreign Exchange Market Act, 1986. The Act provided an Autonomous Foreign Exchange Market where transactions in foreign exchange shall be conducted in accordance with the provision of this Act. It also accommodates convertible foreign currency transactions in the market. The Act provide for transactions in the market to be carried out in money market instruments, that is;

(a) Foreign bank notes;

(b) Foreign coins;

(c) Travellers' cheques;

(d) Bank drafts;

(e) Mail or telegraphic transfers; and

(f) Such other money market instruments as the Central Bank may, from time to time, with the approval of the Minister, determine. E.t.c.

The Act also provide that transactions in the Market shall be as in the inter-bank system, that is, between—

(a) The public and Authorised Dealers appointed under this Act;

(b) The Authorised Dealers appointed under this Act; and

(c) The Authorised Dealers and Authorised Buyers appointed under this Act. E.t.c (Decree No. 1995)

2.1.4.4   Investment and Securities Act 1999 and 2007

The Investments and Securities Act (No. 45 of 1999) was put in place on the eve of military administration (i.e. 26th May, 1999) to further deregulate and enhance the development of the Nigerian Capital Market for greater inflow of FDI.

The coming into implementation of this Act demands the streamlining of previous enactments. Consequently, the following Act; the Securities and Exchange Act, 1988; the Lagos Stock Exchange Act; the Nigerian Enterprises Promotion (Issue of Non-Voting Equity Shares) Act, 1990 and the Part XVII of the Companies and Allied Matters Acts, 1990 were repealed with the coming into effect of Investments and Securities Act, 1999.

The Investments and Securities Act (1999) also led to the amendment of some previous Acts in-order to remove possible conflicts and overlapping of jurisdiction. This further justifies relevance of understanding other enactments that have conformity with it. Such enactments as: the Trust Investment Act, the Borrowing by Public Bodies Act; the Companies and Allied Matters Act, 1990; the Insurance Act, 1997; the CBN Act, 1991; the Nigerian Social Insurance Trust Fund Act 1993; the Bank and Other Financial Institutions Act. 1991 (as amended in 1999); NIPC Act, 1995; the FEMAMP Act, 1995; and the Chartered Institute of Stock Brokers Act, 1992.The strength in the Investment and Securities Act, 1999 is available in the proviso that if provisions in any other law, including the enactments specified in subsection (1) of this Section 8 of the Act found inconsistent with the provisions of this Act, the provisions of this Act shall

remain valid while those other provisions in the other enactments, to the extent of their inconsistency would become null and void.

On 25th June 2007, the Investment and Security Act No 29 of 2007 was enacted and took effect from that day following its passage at the National assembly and approval of the president. The Act facilitate merger and acquisition of three kinds small, intermediate and large merger to accommodate foreign investors who wish to enhance their holdings in Nigeria (sect. 122 (6) ISA 2007). The Act also removes Capital Market matters from the Companies and Allied Matters Act. The Act empowers the Securities and Exchange Commission to enforce compliance with the Act. The Act also empowers the Commission to enter and seal the premises of persons illegally carrying on Capital market operations and impose penalties on such. The Act frowned at corruption and solve insolvency problem (Investment and Security Act, 2007).

2.1.5 Reason for Investment Setbacks in a Developing Economy like Nigeria

Most developing countries have bulk of their assets in human and material resources within the national boundaries. So the concepts of Gross Domestic Product have become a preferred measure of output and employment. Output and employment are generated by investment. Gross investment is the sum of net investment and replacement investment ($I^g = I^n + I^r$).

The evident reasons for the setbacks in investment can be tagged to inability for replacement investment in many Nigerian economic sectors like service sector (i.e roads, power plants and transports), manufacturing sectors (i.e low capacity utilization, closed plants, and warehouse turned to worship centers'), agriculture (decline in export of agricultural produce) and mining (reduced output of coal, columbite, tin, bitumen and crude oil).

The reasons for investments setback according to Egbo (2010) include;

1.   Poor and Decaying Infrastructure

Nigeria's infrastructural base has remained inadequate to meet the needs of the economy. The transportation system comprising road, rail, air and water remains largely under-developed and decaying. The intermodal system has also not been developed, making the movement of goods and persons within the country costly and difficult. Although management and policy have improved in the system of telecommunications, further measures are still needed to place them in good stead for meeting the Nigeria's Vision 20:2020 targets.

2.   Epileptic Power Supply

The power supply situation is characterized by inadequate generation, and inefficient transmission and distribution. Nigeria's installed power generation capacity of 6,000 mega watts is grossly inadequate to cater for the needs of a country with over 150 million people, talk more of investment companies.

3.   Weak Fiscal and Monetary Policy Coordination

The practice of fiscal federalism and the periodic recourse to Ways and Means financing act to inhibit fiscal and monetary policy co-ordination in Nigeria.

4.   Fiscal Dominance

Fiscal dominance represents a major driver of base money and inflation in Nigeria. Public sector borrowing crowds out the private sector and constitutes a hindrance to the financing of the private sector. Furthermore, it fosters adverse selection and encourages banks to become more risk averse.

5.   Pervasive Rent Seeking Behaviour by Private and Public Agents, Including Corruption

This distorts the price signal and induces preference for short-term and speculative investments which do not augur well for the development of the real sector. Economic growth and poverty reduction cannot be achieved in an environment of corruption and pervasive rent seeking.

6.   Weak Institutions and Regulatory Deficit

The achievement of the Vision 20:2020 requires the existence of effective and pro-active institutions with capacity to create the enabling environment for growth, especially, respect for the rule of law. The present financial sector travails and stock market crisis point to serious regulatory and supervisory deficits that need to be reversed.

7.   Policy reversals and lack of follow through

Policy inconsistency constitutes a veritable hindrance to investment growth in Nigeria. Measures to ensure policy sustainability and effective implementation are desired to achieve the Vision goals and objectives of investment in Nigeria.

8.   Inordinate dependence on the oil sector for government revenue/expenditure.

The Nigerian Government has continued to depend precariously on crude oil revenue (over 80 per cent) while non-oil revenue accounts for less than 20% of total revenue. Measures to diversify the economic and revenue are bleak.

9.   Disconnection between the financial sector and the real sector

Nigeria's financial sector, over the years, has been very active in trading in government debt instruments and foreign exchange and the financing of the wholesale and retail trade sectors where the risk is minimal. On the contrary, the sector has not been able to finance the real sector optimally. In particular, the focus on collateral security rather than cash flow has denied the SME sector access to bank credit. Furthermore, the prevalence of very high interest rates has restricted

access to credit in no small measure. This situation thus acts as a serious constraint to the investment growth of the real sector.

10.   Exchange rate instability

The economy depends heavily on imports for production and consumption. Exchange rate instability constitutes a serious hindrance to business planning and growth of the economy. It compounds uncertainty in the system and contributes to price volatility and inflation.

11.   Insecurity of lives and property

This arises from many sources like ethnic/religious disturbances, kidnapping, armed robbery, Avengers blowing up pipelines and Boko Haram bombing. Sustainable economic growth driven by the private sector requires a conducive environment characterized by security of lives and property, prevalence of the rule of law, sanctity of contracts and respect for property rights. It is recognized that no meaningful investment and economic development can thrive in an environment of chaos. Other reasons for domestic investments setback also include;

i.   Inadequate savings in the domestic economy because it is out of savings that investment is made (Gill, 1965). Foreign Direct Investment is a way of introducing external savings into the domestic economy (Ukeje, 2003). As Obadan and Odusola (2001) have argued "domestic savings in many developing countries were barely sufficient to maintain existing capital stock, and hence, could not permit enough investment to sustain economic growth".

ii.   Another factor is the rate of interest, prevailing in the Nigerian economy, as an open economy. Borrowing the argument of Markiw (2003) he states that "the higher the interest rate, the fewer investment projects are profitable" which represent the scenario of

Nigeria's rate of lending setbacks. Mckinnon in 1973 conclude that availability of investment funds and not interest rate was the constraint on investment.

iii. Macroeconomic instability is yet another reason that has cause domestic investment decline. Schumpeter (1934) emphasized the role of entrepreneurship in investment and economic growth. Innovation and technological progress take place when there is stability or optimistic outlook. When creative entrepreneur develop new product services, and technologies, other less creative follow in imitation. But both the creative entrepreneur and his imitative colleague must invest capital which is savings

Finally, besides the internal factors are a number of critical external impediments to investment growth and development which have remained prominent. Among these are volatility in commodity prices, oil market boom/bust cycles and intermittent droughts.

Overall, the majority of the constraints which are internal and institutional can be quickly eliminated with renewed political commitment and determination.

2.1.6   Benefit of Foreign Direct Investment on Nigerian Economic Growth

Development economists have identified a strong association between investment and economic growth. It has been observed that the expansion of private investment should be the main impetus for economic growth in developing countries. Reflecting on the views of Barro (1991), Barro and Sala-I-Martin (1992) who predict that output can only grow through increased factor accumulation and/or through technical progress. However, most growth models have come to ascribe the rate of growth of an economy as being determined by the accumulation of physical and human capital, the efficiency of resource use and the ability to acquire and apply modern technology. Since investment determines the rate of accumulation of physical capital, it thus becomes an important factor in the growth of productive capacity and contributes to growth

of the economy. Hence, increasing foreign (direct) private investment is an important channel for increasing aggregate investment.

The benefits of FDI have been viewed differently in the literature to show how FDI have contributed to economic growth.

According to Obwona (2001), the benefits of FDI include;

i) The provision of managerial knowledge and skills including organizational competence and access to foreign markets;

ii) It enables the transfer of technology to occur from developed economies; and

iii) It provides an array of goods and services to residents in the recipient country.

Furthermore, private FDI may also serve as a stimulus to additional investment in the recipient country through the creation of external pecuniary features such as infrastructures.

Empirical studies of the impact of FDI on development are concerned with either the overall effect (on growth or net welfare) of FDI impact on employment, technology, trade and so on.

Hence, the Foreign Direct Investment often leads to the following benefits on the recipient economy;

1. **Employment and Training:** The effects on employment associated with FDI are both direct and indirect. In countries where capital is relatively scarce but labour is abundant, the creation of employment opportunities – either directly or indirectly – has been one of the most prominent impacts of FDI. Direct employment generation by Multinational Corporations depends on several factors like the nature of the investment e.g joint ventures, or mergers and acquisitions (M & As); trade and industrial policies and the labour market institutions of the host country. Employment generation of FDI is normally higher in green field FDI, while M & As often leads to labour shedding. It is also higher within export-

oriented regimes with abundant cheap labour. The direct effect arises when a foreign MNE employs a number of host country citizens. Whereas, the indirect effect arises when jobs are created in local suppliers as a result of the investment and when jobs are created because of increased local spending by employees of the MNE. In countries with import-substituting regimes FDI can also stimulate employment, but overtime growth tends to be slower as protection leads to inefficiencies and technological lags. By contrast, export oriented and competitive domestic policies tend to generate more sustainable growth by placing the highest positive effect on FDI drives in a situation where labour can move easily to new jobs or enter new types of employment, and where information on job opportunities is transparent and accessible. The domestic private sector can benefit by entering into business relationships supplying inputs to these new market entrants (backward linkages) or processing a foreign investor's products (forward linkages). The forward and backward production connection with domestic industries and other sectors via subcontracting systems between a foreign firm and local subcontractors who supply spare parts, components or semi-finished goods to the foreign firm create extra that encourage and improve economic activities. According to World Investment Report, (2006) in Kurtishi-Kastrati (2013), the quantitative effects of FDI on employment globally have been found to be modest, but somewhat larger in host developing than host developed countries, and especially so in the manufacturing sector. Aaron (1999) further states that FDI was directly responsible for over 26 million jobs in developing countries worldwide. In addition, for every single direct job created by FDI it was estimated that approximately 1.6 additional jobs were indirectly created through production linkages between FDI and local sectors.

2. **Capital:** Multinational Enterprises (MNEs) invest in long-term projects, taking risks and repatriating profits only when the projects yield returns. The free flow of capital across nations is likely to be favoured by many economists since it allows capital to seek out the highest rate of return. Jenkins and Thomas (2002) further state that FDI contribute to economic growth beyond providing foreign capital by crowding in additional domestic investment which increases the total growth effect of FDI. Bosworth and Collins (1999) in their study of the effect of capital inflows on domestic investment for 58 developing countries between 1978-1995 discovered that about half of each dollar of capital inflow translates into an increase in domestic investment. They further reveal that an increase of a dollar in capital inflows is associated with an increase in domestic investment of about 50 cents.In line with capital inflow effect of FDI on economic growth, Feldstein (2000) emphasized a number of advantages that are related to unrestricted capital flows, such us:

   i.   International flows of capital reduce the risk faced by owners of capital by allowing them to diversify their lending and investment.

   ii. The global integration of capital markets can contribute to the spread of best practices of corporate governance, accounting rules, and legal traditions.

   iii. The global mobility of capital limits the ability of governments to pursue bad policies.

3. **Technology:** Technology transfer is one of the most important benefits of FDI. However, the underlying assumptions have often been that technology is completely adaptable and factor markets are efficient. FDI can help the improvement of environment and social condition in the host country by relocating 'cleaner' technology and guiding to more socially responsible corporate policies (Kurtishi-Kastrati, 2013). Muchlinski (1997) describes technology transfer as the process by which commercial technology is disseminated. He further stressed that

technology transfer is the arrival or the transfer of a certain technology to a country, where it has not been used before. Technologies that are transferred to developing countries in connection with foreign direct investment tend to be more modern, and environmentally 'cleaner', than what is locally available. Moreover, positive externalities have been observed where local imitation, employment turnover and supply-chain requirements led to more general environmental improvements in the host economy (Kurtishi-Kastrati, 2013).

Dantas (2006) in explaining the technology transfer mechanism reveal that technological knowledge moves within or between organizations. He further explains that the technological knowledge is transferred in various forms. It can be embodied in goods (including physical goods, plant and animal organisms), services and people and organizational arrangements, or codified in blueprints, designs, technical documents and the content of innumerable types of training. It can equally be communicated through flows of tacit knowledge that has not been fully codified, and remains embodied in the skills of people. Ikiara (2003) further explains that technology transfer occur directly to local firms involved in joint venture with the MNC or indirectly, as a spillover benefit to unaffiliated local firms. He identified four interrelated channels through which spillovers occur: vertical linkages between affiliates and their suppliers and customers in the host country, horizontal linkages between the affiliates and domestic firms in the same industry, labour turnover from the affiliates to domestic firms, and internationalization of Research & Development (R&D). Developing countries may not be on the frontiers of innovation and some are not even able to utilize very modern technologies. In order to grow efficiently they need to develop new skills, knowledge, institutions and organizational structures to master the technologies they import.

4. **Management:** Knowledge transfer of FDI will increase the existing stock of knowledge in the host country through labour training, transfer of skills and the transfer of new managerial and organizational practice. Foreign management skills acquired through FDI may also produce important benefits for the host countries. Beneficial spin-off effect arise when local personnel who are trained to occupy managerial, financial and technical posts in the subsidiary of a foreign Multinational Enterprises (MNE) leave the firm and help to establish local firms. Similar benefits may arise if the superior management skills of a foreign MNE stimulate local suppliers, distributors and competitors to improve their own management skills. Workers gain new skills through explicit and implicit training. In particular, training in foreign firms may be of a higher quality given that only the most productive firms trade. Workers also take these skills with them when they re-enter the domestic labour market. Training received by foreign companies sometimes may be considered under the general heading of 'organization and management', meaning that the host country will benefit from the 'managerial superiority' of MNEs. Lall and Streeten (1977) emphasize three kinds of managerial benefits:

   i. Managerial efficiency in operations arising from better training and higher standards;

   ii. Entrepreneurial capability in seeking out investment opportunities;

   iii. Externalities arising from training received by employees (such as technical, executive, accounting and so on) (Dunning, 1993).

5. **Balance of Payments Effects:** The FDI's effect on a country's balance of payment accounts is a vital objective of most host governments. FDI have three major consequences on the balance of payments. First, the one-time effect of the capital inflow into the Balance of Payment's capital account benefits the host country. Second, FDI as a substitute for imports

of goods or services improves the current account of the host country's balance of payment. For instance, FDI by Japanese automobile companies in the US and UK, can be seen as substitute for imports from Japan. A third potential benefit to the host country's balance of payment arises when the MNE uses a foreign subsidiary to export goods and services to other countries. The evidence based on empirical research on the balance of payments effect of FDI, indicates that there is a difference between developed and developing countries, especially with respect to investment in the manufacturing industries.

6. **International Trade:** The promotion of exports is an important contribution made by MNCs (FDI). Exports by MNC affiliates have been one of the fastest growing components of world trade in recent years (Blomstrom, 1990). FDI promote host country efficiency in international trade. Output resulting from efficiency-seeking FDI is typically intended for export, and therefore the impact of such FDI is likely to be an increase in exports from the host country (Kurtishi-Kastrati, 2013). MNCs increase host countries' competitiveness in many ways: by giving affiliates privileged access to the flows of goods, services and information within the corporate system; by raising skills and capabilities in the host economy; and by creating backward and forward linkages to local firms and restructure existing industries. This makes FDI to have a great contribution to economic growth in developing countries by supporting export growth of the countries.

7. **Linkages:** MNCs can foster many types of linkages with local firms. Particular important are backward linkages with local suppliers of parts, components and services. The main problem with local sourcing in developing countries lies in supplier capabilities and information gaps. For example, MNCs have large-scale requirements, often beyond the capabilities of local suppliers. Countries that have adopted policies to increase local linkages of MNCs have

succeeded most when domestic capabilities were deliberately improved by targeted government action.

8. **Competition:** According to an OECD report (OECD 2002, p.16) the presence of foreign enterprises may greatly assist economic development by spurring domestic competition and thereby leading eventually to higher productivity, lower prices and more efficient resource allocation. Increased competition tends to stimulate capital investments by firms in plant, equipment and R&D as they struggle to gain an edge over their rivals. FDI's impact on competition in domestic markets are particularly important in the case of services, such as telecommunication, retailing and many financial services, where exporting is often not an option because the service has to be produced where it is delivered. They stimulate growth through more efficient production and they lower prices through greater competition". And according to an OECD study, "Like trade, foreign direct investment acts as a powerful spur to competition and innovation, encouraging domestic firms to reduce costs and enhance their competitiveness" (OECD, 1998).

In summary, apart from the creation of enabling environment as a tool for increasing the benefits of FDI in both industrial and developing countries, Feldstein (2000) argues that a number of advantages accrue to developing countries though FDI inflows. They include:

a) FDI allows the transfer of technology, particularly in the form of new varieties of capital inputs, which cannot be achieved through financial investments or trade in goods and services. Consequent upon technology transfer, it is possible also that FDI can promote competition in the domestic input market.

b) The recipients of Foreign Direct Investment often gain employee training in the course of operating the new businesses, which directly contributes to human capital development in the host country.

c) Profits generated by FDI contribute to corporate tax revenues in the host country.

Perceived from either the meaning or rationale for FDI as seen from the foregoing, there is little or no doubt that, FDI will augment real resources directly. Indeed, opinions converged in the literature that, FDI is "a good cholesterol" because it can confer the benefits identified earlier. More importantly, FDI is thought to be "bolted down and cannot leave so easily at the first sign of trouble". Sadik and Bolbol (2001) captured this benefit thus "FDI inflows are the least volatile of capital flows, and more important, can have direct and indirect effects on economic growth. The stability of FDI stems from the fact that direct investors have a longer-term view of the market thus making them more resistant to herd behaviour", and from the sheer difficulty of liquidating assets at short notice. The direct effect on growth arises from human capital formation, and the effect is more significant if FDI is complemented with human capital".

2.1.7   Threats of FDI on Host country

As much as FDI contribute to building a better economy in the frontiers of its multiplier effect, it also proves to be huge threats to many host economic sectors in the following ways;

1.   Many MNEs (via FDI establishment), by virtue of their large size and financial strength, have access to financial resources not available to host country firms. These funds may be available from internal company sources, or, because of their reputation, large MNEs may find it easier to borrow money from capital markets than host-county firms would (Hill, 2000).

2.   In small economies, large foreign companies can and often abuse their dominant market positions. It is evidenced in the literature that FDI is not always in the host county's best interest

and therefore it should be controlled. Countries facing increased inflows of FDI have often experienced unease (Kurtishi-Kastrati, 2013).

3.   It is also necessary to note that not all FDI created "New Jobs" signify additions to employment e.g. the FDI by Japanese auto companies in the US created jobs and as well as offset jobs in the US owned auto companies and also loosing market shares to their Japanese competitors.

4.   Most host governments worry that the subsidiaries of foreign MNEs may have greater economic power than local competitors. When MNEs is part of large international organization, the foreign MNEs may be able to draw on funds generated elsewhere to subsidize its costs in the host market, which could drive local companies out of business and allow the firm to monopolize the market. This concern tends to be greater in countries that have few large firm of their own (i.e. less developed countries) or minor concern in most advanced industrialized nations.

5.   The adverse effect of FDI on a host country's balance of payments is evidence in the initial capital inflow that comes with FDI in the subsequent outflow of earnings from the foreign subsidiary to its parent company. Such outflows show up as a debit on the capital account.

6.   Other factors like level of general education and health, the technological level of host-country enterprises, insufficient openness to trade, weak competition and inadequate regulatory frameworks hold back the full benefits of FDI in some developing countries.

Foreign investors are very reluctant to come fully into any economy until some basic conditions have been met. The most important condition is the presence of market forces competition, conducive investment climate and macroeconomic stability. Economic stability is a situation in an economy in which the prices of factors of production are relatively stable over time and an economy free from double taxation, bureaucratic bottlenecks, political instability and corruption.

Until 1986, the Nigeria economy was enshrined with those impediments which constitute obstacles to foreign investors. With the adoption of the free market economy by the Nigerian authorities, the impediments were dismantled one after the other and are still being dismantled. Foreign direct and portfolio investors also responded when they step-in with the dismantling of the obstacles in 1986. Regardless of the setbacks experienced in Foreign Direct Investment, the FDI has however increased over time since 1984 till the end period of the study.

2.1.8   FDI and Performance of the Nigerian Economy

Nigerian economy is heavily described to be dependent on oil earnings, regardless of its foundational tradition of agricultural activities and its traits as a trading economy. At independence in 1960 agriculture accounted for well over half of GDP, and was the main source of export earnings and public revenue. The oil sector, which emerged in the late 1960's, was firmly established during the 1970's, is now of overwhelming importance to the point of overdependence. It provides over 20% of GDP, 95% of foreign exchange earnings, and about 65% of budgetary revenues. The agricultural sector has not been up with rapid population growth in Nigeria. Once a large net exporter of food, now import food. Based on GNP per capita, Nigeria is among the world's 20 poorest countries (World Bank, 2016).

Economic growth since the early 1970's has been erratic, driven primarily by the fluctuations of the global oil market. During the 1980's and 1990's Nigeria faced growing economic decline and falling living standards. This is as a result of political instability, corruption, and poor macroeconomic management exhibit by failure to diversify the economy. Thomas and Canagarajah (2002) further explain that the formal, capital intensive sector has a few multinational firms, a multitude of small local industries, and a myriad of government parastatals operating in most areas of economic activity.

The formal urban and capital-intensive sector jobs are better paying and more secure, but scarce. The quality of the economy arose in large measure from domestic policies that steered most investment (physical, human, and technological) into a few already capital intensive sectors of the economy.

The study will view the Nigerian economy from five major perspectives namely, the manufacturing sector (utilization/output), gross national savings, gross domestic fixed capital formation, market capitalization and the gross domestic product.

2.1.8.1 FDI and Gross Domestic Product (GDP)

According to OECD (2014), Gross domestic product is an aggregate measure of production equal to the sum of the gross values added of all resident institutional units engaged in production (plus any taxes, and minus any subsidies, on products not included in the value of their outputs). The sum of the final uses of goods and services (all uses except intermediate consumption) measured in purchasers' prices, less the value of imports of goods and services, or the sum of primary incomes distributed by resident producer units. Unlike Gross National Product (GNP), GDP is earned domestically rather than abroad. Thus, when GNP exceeds GDP, residents of the country is said to be earning abroad than foreigners earning in the country. The gross domestic product (GDP) is one of the primary indicators used to measure the health of a country's economy. It also represents the total naira value of all goods and services produced over a specific time period; it can be seen as the size of the economy (Anyanwu, Offor, Adesope & Ibekwe, 2013). Usually, GDP is expressed as a comparison to the previous quarter or year. For example, if the year-to-year GDP is up by 5%, this implies that the economy has grown by 5% over the last year.

Measuring GDP is complicated, but at its most basic, the calculation can be done in one of two ways: either by adding up what everyone earned in a year (income approach), or by adding up what everyone spent (expenditure method). Logically, both measures should arrive at roughly the same total. The income approach which is sometimes referred to as GDP, is calculated by adding up total compensation of employees, gross profits for incorporated and non incorporated firms, and taxes less any subsidies. The expenditure method is the more common approach and is calculated by adding total consumption, investment, government spending and net exports. As one can imagine, economic production and growth, what GDP represents, has a large impact on nearly everyone within that economy. For example, when the economy is healthy, you will typically see low unemployment and wage increases as businesses demand labor to meet the growing economy. A significant change in GDP, whether up or down, usually has a significant effect on the stock market. It's not hard to understand why: a bad economy usually means lower profits for companies, which in turn means lower stock prices. Investors really worry about negative GDP growth, which is one of the factors economists use to determine whether an economy is in a recession, boom or any other economic cycle. Table 2.1 depicts the distribution of FDI and GDP in Nigeria (1984-2016).

Table 2.1: FDI and Gross Domestic Product (1984-2016)

Year	FDI (N'Billion)	GDP (N'Billion)
1984	0.36	170.38
1985	0.43	192.27
1986	0.74	202.44
1987	2.45	249.44
1988	1.72	320.33
1989	13.88	419.20
1990	4.69	499.68
1991	6.92	596.04
1992	14.46	909.80
1993	29.66	1,259.07
1994	22.2	1,762.81

1995	75.9	2,895.20
1996	111.3	3,779.13
1997	110.5	4,111.64
1998	80.7	4,588.99
1999	92.8	5,307.36
2000	116.0	6,897.48
2001	132.4	8,134.14
2002	225.2	11,332.25
2003	258.4	13,301.56
2004	248.2	17,321.30
2005	654.2	22,269.98
2006	624.5	28,662.47
2007	759.4	32,995.38
2008	971.5	39,157.88
2009	1,273.8	44,285.56
2010	905.7	54,612.26
2011	1,360.3	62,980.40
2012	1,113.5	71,713.94
2013	875.1	80,092.56
2014	738.2	89,043.62
2015	602.1	94,144.96
2016	1,124.1	101,489.49

Source: *Central Bank of Nigeria Statistical Bulletin, 2016*
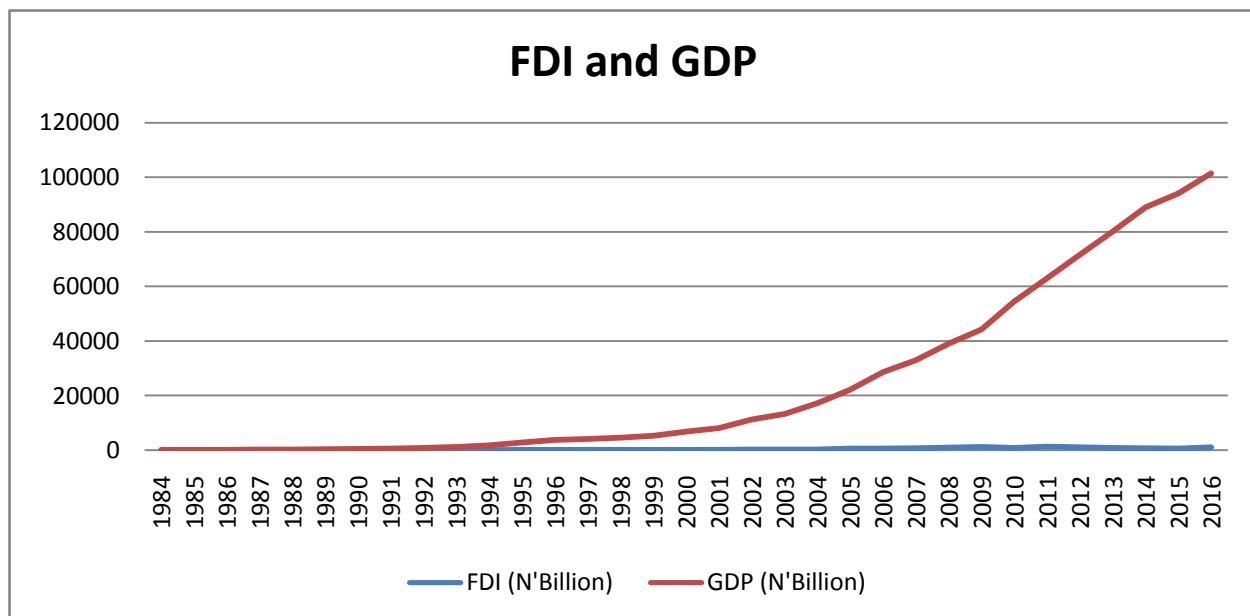
Source: *Researchers Computation from CBN Statistical Bulletin, 2016*

Figure 2.1: FDI and GDP Flow

The starting year of this study is 1984, two (2)years before the very critical economic transformation in Nigeria. It was in 1986 that the economy was deregulated. For the first time market forces were allowed to determine cost, prices, exchange rate and interest rates among others. Before 1986, the economy was regulated by the authorities. Costs of credits (interest rate) were fixed by fiat by the authorities as well as the exchange rates. The deregulations of the economy imply that the market forces were to determine prices, cost and exchange rate e.t.c. from 1986 onwards. The final impact of the deregulation will register on the GDP, hence the need to look critically at the trends of the GDP from 1986 to 2009 of the period covered by the study.

Between 1987 and 1989, the growth of GDP was on the slow path. This could be attributed to the slow response of the economy to the newly introduced market forces. Between 1986 and 1990 the GDP figures move erratically with swings, however from 1991 the economy stabilize and GDP began to move progressively with an upbeat direction up to 2016 the end year of the study.

The Gross Domestic Product used for the study is at current market prices and has to do with the purchasing of a commodity at the price which the output is valued. The price as well may include indirect taxes if so imposed by government on the product or products. The price may also include the value of subsidy granted by government to the producer of those commodities Onoh (2007). It is however worth mentioning that the depreciation as a result of the use of fixed capital during production had not been deducted, and if affected, the outcome will be Net National Product.

2.1.8.2   FDI and Manufacturing Output in Nigeria

The manufacturing sector in Nigeria has always being at the receiving end of the dependency on Oil sector which have hampered its potential growth and efficiencies. The industry has suffered from neglect since the country's economy has heavily depended on the petroleum sector since the 1970s. The economic recession occasioned by the collapse of the world oil market from the early 1980 and the attendant sharp fall in foreign exchange earnings adversely affected economic growth and development in Nigeria due to low or poor manufacturing sector. More recently the increased exchange rate of the Nigerian naira to the dollar in 2016 also emanated from the reduced oil market prices and overall import nature of the Nigerian economy. The government has tried to diversify the economy over time through the deregulation of the economy and to reinvigorate the manufacturing sector so as to increase its contribution to Nigeria's prosperity. The biggest problem facing manufacturers over the past decade has been inadequate infrastructure in general and lack of power supply in particular. Regardless of the setbacks Lagos, Ogun state and their surroundings are home to about 60% of Nigeria's industrial base. Other key industrial centers are Kano, Ibadan and Kaduna (Egbo, 2010).

Nigeria's most important manufacturing industries include beverages, cement, cigarettes, food processing, textiles and detergents. Ironically, the Nigerian natural resources have not been put to its full usage. This facilitated the participation of foreign investors which help to facilitate the usage of the facilities in Nigeria. The major problems associated with the Nigerian economy include excessive dependence on imports for consumption and capital goods, dysfunctional social and economic infrastructure, unprecedented fall in capacity utilization rate in industry and neglect of the agricultural sector, among others. However, to put the country back on the path of recovery and growth will require urgent rebuilding deteriorated infrastructure and making more

goods and services available to the citizenry at affordable prices (Anyanwu, 2001). Manufacturing as apath to economic recovery and growth may require increasing production inputs - land, labour, capital and technology and increasing productivity. The manufacturing sector thus, plays a catalytic role in a modern economy and has many dynamic benefits that are crucial for economic transformation. It is also the bedrock of every economy (Simon-Oke & Awoyemi, 2010). In an advanced economy, the manufacturing sector is a leading sector in many respects. It is also an avenue for increasing productivity in relation to import substitution and export expansion, creating foreign exchange earning capacity, raising employment and per capita income, which widen the scope of consumption in dynamic patterns. Furthermore, it promotes the growth of investment at a faster rate than any other sector as well as wider and more efficient linkage among different sectors (Ogwuma, 1995 in Simon-Oke & Awoyemi, 2010).

A rapid look at some concentrations of industrial development in Nigeria may lead to a misleading picture of a high state of industrialization in Nigeria. For a country of the size of potential in Nigeria, manufacturing is essential if the country is to achieve rapid economic and social development. This recognition of the importance of manufacturing industries in the growth process is linked with the choice of an appropriate strategy of industrial development. The table 2.2 shows the movement of FDI and Nigerian Manufacturing capacity/utilization within the period under review. It shows how Foreign Investment has contributed greatly to manufacturing in Nigeria. For instance Manufacturing contributed greatly to GDP, as their contributions have increased overtime as shown in table 2.2.

Table2.2:   FDI &Nigerian Manufacturing Utilization/Capacity (1984-2016)

Year	Foreign Direct Investment (N'Billion)	Manufacturing Utilization (N'Billion)
1984	0.36	1,018.91
1985	0.43	1,416.79
1986	0.74	1,373.66
1987	2.45	1,398.10

1988	1.72	1,618.25
1989	13.88	1,665.09
1990	4.69	1,670.73
1991	6.92	1,829.34
1992	14.46	1,758.61
1993	29.66	1,706.70
1994	22.2	1,670.72
1995	75.9	1,592.49
1996	111.3	1,599.94
1997	110.5	1,609.83
1998	80.7	1,412.44
1999	92.8	1,459.02
2000	116.0	1,505.66
2001	132.4	1,666.49
2002	225.2	1,813.81
2003	258.4	1,918.09
2004	248.2	2,143.45
2005	654.2	2,350.99
2006	624.5	2,574.29
2007	759.4	2,823.53
2008	971.5	3,079.04
2009	1,273.8	3,323.41
2010	905.7	3,578.64
2011	1,360.3	4,216.19
2012	1,113.5	4,783.66
2013	875.1	5,826.36
2014	738.2	6,684.22
2015	602.1	6,586.62
2016	1,124.1	6,302.23

Source*: Central Bank of Nigeria Statistical Bulletin, 2016*
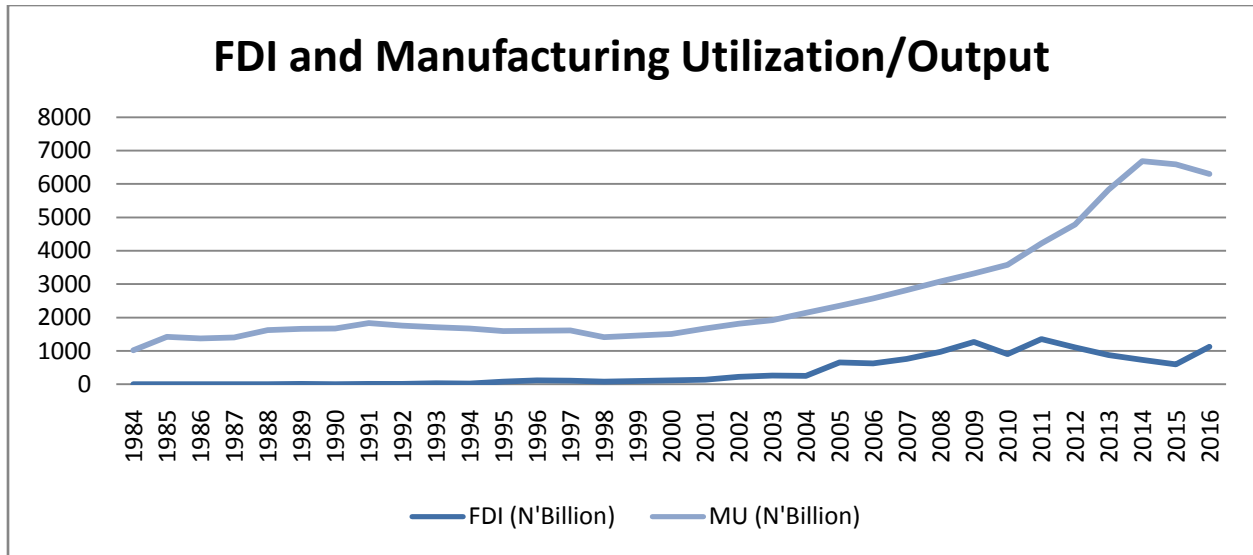
Source: Researchers Computation from CBN Statistical Bulletin, 2016

Figure 2.2: FDI and Manufacturing Utilization Flow

The Nigerian Manufacturing capacity/utilization (utilization) has being dwindling and rising at a relatively low rate over time. The Nigerian Enterprises Promotion decrees of 1972, 1977, and 1981's limitation of foreign ownership shares in various industries, shifted the manufacturing sector from foreign majority ownership in the 1960s to indigenous majority ownership in the mid-1970s and late 1970s.From table 2.2, it can be observed that FDI inflow measured in naira started on rising note until 1990 when it fell sharply from 13.88billion to 4.69billion before a rise followed suit in 1991 till 1993. In 1994, the FDI fell sharply again but rose again in 1995 continuously till 1997 to the tune of 110.5billion. However, the Manufacturing capacity/utilization (utilization)also measured in naira grew slowly and fell slowly from the beginning of study period. It was not until 1986 when the economy was deregulated that the Manufacturing capacity/utilization began to develop in a predictable manner in 1987 as a result of the deregulation of the economy which allow the forces of demand and supply to determine prices of items in the market.

The growth deepened over the years due to improved policy to allow free entry and exit of foreign investors in the economic development of Nigeria. The friendly investment policy of 1993 and 1994 took time to reflect on the performance of the manufacturing sector. But the development of FDI was however short as gradual fall was experienced from 1991 till 1998. In 1998 the military transition from Abacha regime to Abdulsalami Abubarka regime after the death of Abacha affected the FDI inflow in 1998 but the democratic setting of 1999 rekindle hope of FDI and it reflect in the FDI inflow in the tune of 92.8billion and it soared till 2003 but fell sharply in 2004 as a result of the fear of military takeover and banks recapitalization processes which affect most investment engagement within the economy. This however didn't tamper the continuous growth of the Manufacturing utilization. The period of 1999 to 2014 experience an upward surge of investment in manufacturing which is believed to have been boosted by the presence of foreign investment in Nigeria. In 2005 the FDI inflow soared again till 2009 to the tune of 1,273.8billion before the global recession toll had a major influence on the FDI inflow into Nigeria in 2010 that leads to a sharp fall in FDI inflow. In 2011, the FDI soared again to 1,360.3billion but fell continuously from 2012 till 2015 before rising in 2016 the end period of the study.

The manufacturing sector produced a range of goods that included milled grain, vegetable oil, meat products, dairy products, sugar refined, soft drinks and handful of others.

2.1.8.3   FDI and Gross National Savings in Nigeria

National income is the net value of a nation's income measured at factor cost. It equals net national product (NNP) plus subsidies, less business transfer payments and indirect business taxes (Wikipedia, 2017). In an economy, there are four key sectors: the household or personal

sector, the business sector, the government sector and the foreign sector. Since savings constitute amount of income per time period that is not consumed by economic unit. Hence, all the sectors income generated and not spent in a nation constitute gross national savings. The saving nature of a nation is always propelled by the propensity to save, which is first triggered by investment opportunity and good working environment system which encourage savings and willingness to turn such funds to investment in either in shares/stocks or in real investment. In Nigeria, Gross National Savings (GNS) has increased since the beginning of the period under study as a result of government policies and financial policies of financial authorities to facilitate a better atmosphere for investment, savings and re-investment. The upward surge in GNS has resulted mostly from deregulation of the economy plus other environment incentives provided to encourage investment which has prompted savings in the first place and investment afterwards. Keynes the father of modern micro economics postulated the relationship between income, consumptions and savings. Savings leads to investments. Economist agree with Keynes that investment is a function of savings (i.e I= f[S]) and income is a function of investment (i.e Y= f[I]). When investment takes place, employment grows and output (income) also grows. Thus, the presence of FDI increases employment, income and National savings in the long run. The above simple theoretical illustration is model after the Keynesian theory of income. Saving is critical for investment and finally for the growth of output and employment and it is therefore critical to the economy as a whole. The interplay of FDI and GNS under the period of review is stated intable 2.3.

Table2.3:   FDI and Gross National Savings (1984-2016)

Year	FDI (N'Billion)	National savings (N'Billion)	% NS to GDP
1984	0.36	10.99	9.45
1985	0.43	12.52	9.30
1986	0.74	13.93	10.35
1987	2.45	18.68	9.67

1988	1.72	23.25	8.83
1989	13.88	23.80	6.23
1990	4.69	29.65	6.27
1991	6.92	37.74	6.92
1992	14.46	55.12	6.30
1993	29.66	85.03	7.80
1994	22.2	110.97	7.93
1995	75.9	108.49	3.73
1996	111.3	134.50	3.34
1997	110.5	177.65	4.24
1998	80.7	200.07	5.01
1999	92.8	277.67	5.93
2000	116.0	385.19	5.74
2001	132.4	488.05	7.08
2002	225.2	592.09	7.60
2003	258.4	655.74	6.61
2004	248.2	797.52	6.99
2005	654.2	1,316.96	9.01
2006	624.5	1,739.64	9.37
2007	759.4	2,693.55	13.04
2008	971.5	4,118.17	16.95
2009	1,273.8	5,763.51	23.25
2010	905.7	5,954.26	10.90
2011	1,360.3	6,531.91	10.37
2012	1,113.5	8,062.90	11.24
2013	875.1	8,656.12	10.81
2014	738.2	12,008.24	13.49
2015	602.1	11,458.13	12.17
2016	1,124.1	12,320.23	12.13

Source*: Central Bank of Nigeria Statistical Bulletin, 2016*

FDI and Gross National Savings
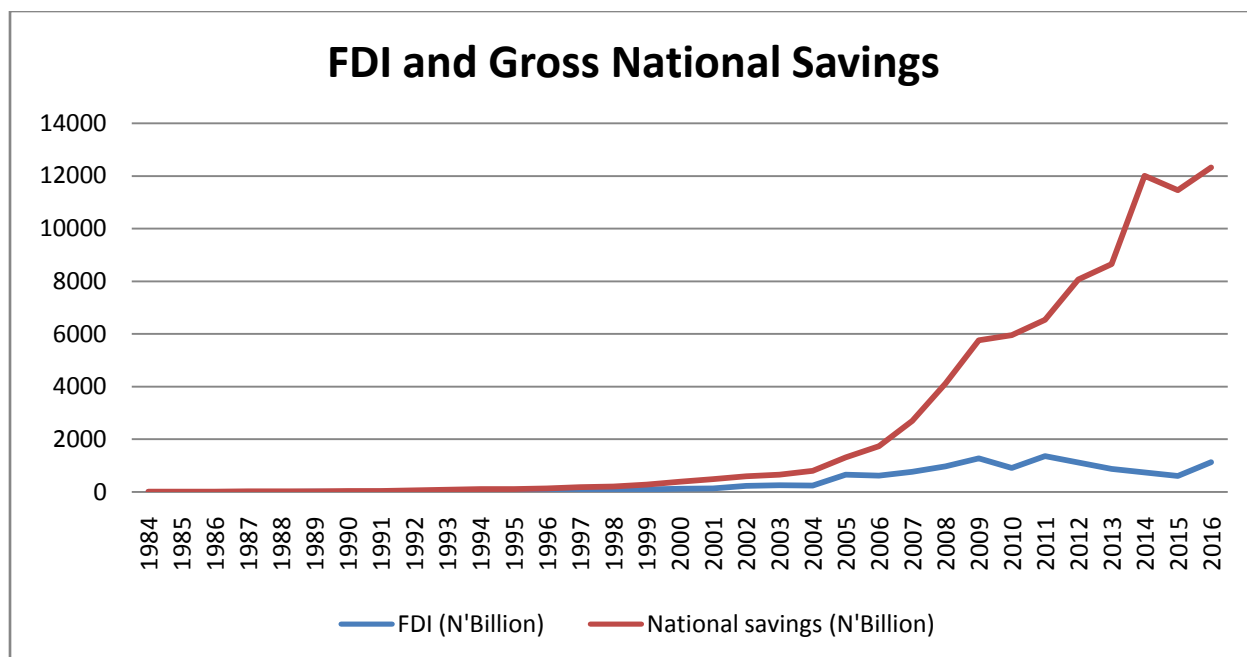
Source: Researchers Computation from CBN Statistical Bulletin, 2016

Figure 2.3: FDI and Gross National Savings Flow

Table 2.3 shows the distribution in gross national savings in the period under study. Following the theory of income, consumption and savings, savings are made only after consumption has being satisfied. After the satisfaction of consumption from a given income, whatever remains from that income is called savings. Savings depends on the level of the economy and the per capita income of the economy. In poor countries, savings on the average could be equal to zero because the income available barely satisfy consumption i.e Y=C and S=0. This again illustrate that in economics where the per capita income is high and over and above the per capita consumption such an economy will tend to have a higher level of savings. Nigeria is a developing country with low per capita income by deduction a low level of savings. This is also indicated where the growth in savings appear to be slow between 1984 and 1993. However, by 1994 the positive impact of the deregulation of the economy has stated to show along the length and breadth of the economy with GNS as no exception. Between 1994 and 2016 the end year of the study, GNS took a quantum leap. FDI is assumed to have contributed

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significantly to Nigerian national income and invariably to savings a component of income (Y). The graph 2 indicates an upward trend in the GNS from the beginning of the period to the end of the study; however, the fluctuation in FDI had no negative impact on the GNS within the period. The increase in FDI from 602.1 Billion in 2015 to N'1124 Billion in 2016 triggered the GNS in the period of 2016 to N'12,230 Billion from N'11.454 Billion in 2015.

2.1.8.4 FDI and Gross Fixed Capital Formation (GFCF) (formerly Gross Domestic Fixed Capital Formation (GDFCF))

Gross Domestic Fixed Capital Formation is a macroeconomic concept used in official national accounts. The concept dates back to the studies of Simon Kuznets of capital formation in the 1930s and standard measures for which it were adopted in the 1950s. Statistically it measures the value of acquisitions of new or existing fixed assets by the business sector, governments and "pure" households (excluding their unincorporated enterprises) *less* disposals of fixed assets. GFCF is a component of the expenditure on GDP, and thus shows something about how much of the new value added in the economy is invested rather than consumed. GFCF is called "gross" because the measure does not make any adjustments to deduct the consumption of fixed capital (depreciation of fixed assets) from the investment figures. For the analysis of the development of the productive capital stock, it is important to measure the value of the acquisitions less disposals of fixed assets beyond replacement for obsolescence of existing assets due to normal wear and tear. *"Net fixed investment"* excludes the depreciation of existing assets from the figures for new fixed investment, and is called *net fixed capital formation*.

The most important exclusion from GFCF is *land sales and purchases*. The original reason, leaving aside complex valuation problems involved in estimating the value of land in a standard way, was that if a piece of land is sold, the total amount of land already in existence, is not

regarded as being increased thereby; all that happens is that the *ownership* of the same land changes. Therefore, only the value of land improvement is included in the GFCF measure as a net addition to wealth. In special cases, such as land reclamation from the sea, a river or a lake (e.g. a polder), new land can indeed be created and sold where it did not exist before, adding to fixed assets (e.g the Burj Al Arab-7Star Hotel in Dubai, the Lekki estates in Lagos). The GFCF measure always applies to the resident enterprises of a national territory, and thus if oil exploration occurs in the open seas, the associated new fixed investment is allocated to the national territory in which the relevant enterprises are resident.

Data is usually provided by statistical agencies annually, but sometimes quarterly. In the case of this study, data will be secondarily sourced from the Nigerian CBN statistical bulletin. Fluctuations in this indicator are often considered to show something about future business activity, business confidence and the pattern of economic growth. In times of economic uncertainty or recession, typically business investment in fixed assets will be reduced, since it ties up additional capital for a longer interval of time with a risk that it will not pay itself off (and fixed assets may therefore also be scrapped faster). Conversely, in times of robust economic growth, fixed investment will increase across the board, because the observed market expansion makes it likely that such investment will be profitable in the future. Table 2.4 shows the distribution between FDI and GFCF (1984-2016).

Table2.4: FDI and Gross Fixed Capital Formation at current prices **(1984-2016)**

Year	FDI (N'Billion)	GDFCF (N'Billion)
1984	0.36	43.36
1985	0.43	40.93
1986	0.74	35.54
1987	2.45	27.16
1988	1.72	28.37
1989	13.88	28.94
1990	4.69	40.12
1991	6.92	39.97
1992	14.46	38.77
1993	29.66	44.97
1994	22.2	40.40
1995	75.9	29.82
1996	111.3	35.22
1997	110.5	38.33
1998	80.7	36.39
1999	92.8	35.33
2000	116.0	41.34
2001	132.4	6.33
2002	225.2	7.94
2003	258.4	12.99
2004	248.2	44.44
2005	654.2	39.80
2006	624.5	63.43
2007	759.4	89.90
2008	971.5	89.24
2009	1,273.8	120.27
2010	905.7	9,183.06
2011	1,360.3	8,425.76
2012	1,113.5	8,640.77
2013	875.1	9,320.35
2014	738.2	10,571.74
2015	602.1	10,636.22
2016	1,124.1	9,792.27

Source*: Central Bank of Nigeria Statistical Bulletin, 2016*
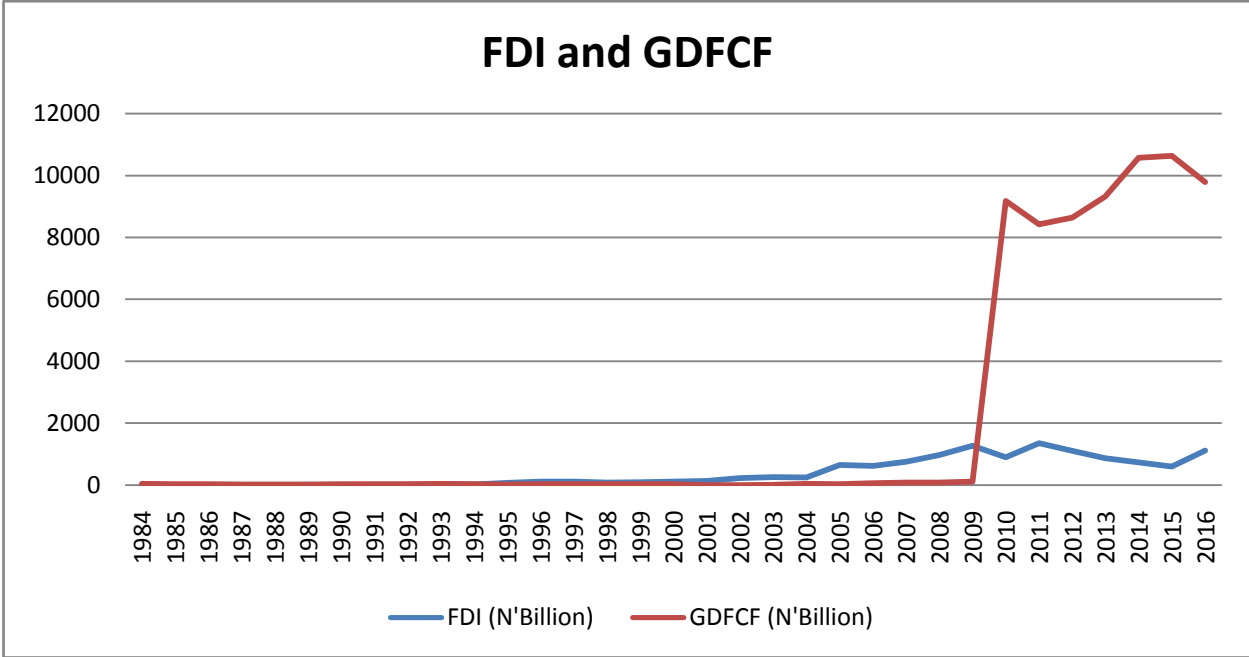
FDI and GDFCF

Source: Researchers Computation from CBN Statistical Bulletin, 2016

Figure 2.4: FDI and GFCF Flow

Under united nation concept of GDFCF, the following items are classified land, dwellings, Non Residential buildings, other construction on works, transport equipment, machinery and other equipment (Onoh, 1972). From table 2.4, the trends in the movement of Gross Domestic Fixed Capital Formation between 1984 and 1987 show a fall in trend before an increase in 1988 till 1990. In 1991, the GDFCF experience a sluggish fall in value till 1992 before a sharp rise in 1993 to N44.97 Billion. The value fell further in 1994 to N40.40 Billion and further in 1995. The value appreciated in 1996 and 1997 and fell again in 1998. The zigzag fluctuation continued till 2005 before a continuous appreciation was experienced from 2006 and subsequent years till the end of the period of study. The flow does not have the same trend with FDI; however it is likely that foreign investors contributed to a reasonable extent in the growth of GDFCF.

2.1.8.5   Nigerian Capital Market

Akingbohugo (1996) define capital market as the market where medium and long term finance can be raised. Capital market offers varieties of financial instrument that enable economic agents to pool, price and exchange risk. Through assets with attractive yields, liquidity and risk characteristics, it encourages saving in financial form. This is very essential for government and other institutions in need of long term funds (Nwankwo, 1999). According to Al-Faki, (2006), the stock market is a network of specialized financial institutions, series of mechanism, which to facilitate the bringing together of suppliers and users of medium to long term capital for investment in economic development projects.

The Nigerian capital market, which is one of the pillars of Nigerian financial system, is a market that provides an avenue for the mobilization of long term funds. The market serves the needs of industries, the commercial sector, government and local authorities, which are big borrowers of funds. The Nigerian capital market is made of two markets namely primary and secondary markets and some operational institutions. The regulatory body of the Capital Market is the Securities and Exchange Commission (SEC) and also doubled as the apex body; the Nigerian Stock Exchange (NSE), the issuing houses and the stock broking firms are members of the capital market. In general, the Nigerian capital market helps to stimulate industrialization and development in the Nigerian economy. It also improves the gearing of domestic corporate sector and helps to reduce dependence on borrowing. Access to finance for new and smaller companies and also the encouragement of institutional development are based on the framework provided by the Nigerian capital market.

2.1.8.5.1 FDI and Market Capitalization

Market capitalization (market cap) is the market value at a point in time of the shares outstanding of a publicly traded company, being equal to the share price at that point of time times the number of shares outstanding. It is used by the investment community in ranking the size of companies, as opposed to sales or total asset figures. It is also used in ranking the relative size of stock exchanges, being a measure of the sum of the market capitalizations of all companies listed on each stock exchange. In performing such rankings, the market capitalizations are calculated at some significant date, such as 30 June or 31 December (Wikipedia, 2017).

Viewing the capitalization of the stock exchange is vital to determine the possible progress and relationship with both determinant factors and determined factors in the economy. The Nigerian stock exchange was initiated for establishment by the federal government of Nigeria in 1958 under a committee led by R. H. Barback to examine the viability of a share market Nigeria. In their report, the committee (1959) recommended among other that:

a. Facilities for dealings in shares be created

b. Establishment of share transfer mechanism

c. To put in place measures that will encourage savings and issues of securities of government and private organizations. In the same year, the nearly established central Bank of Nigeria in an attempt to support the evolvement of a capital market floated the first FGN development loan of N4 million on behalf of the federal government and manage the stock since there was no capital market (Rabi'u, Awaisu, Usman, Fatima, Sabo &Tijjani, 2015). The recommendations of the Barback report coupled with the need to ensure sustainability and efficient management of the FGN development loan stock. Nigerian stock exchange through the promulgation of Lagos stock

exchange Act of 1961, it was the first stock exchange in West Africa and the sixth in Africa. The exchange open its doors for business on June 5, 1961, with an authorized share capital of N10,000 divided into 500 shares of N20 each with 19 securities listed for trading in line with this, the Lagos stock exchange was constituted into the Nigerian stock exchange in 1977 and was to have branches in major cities to meet the aspiration of the users of its service (Oluwatoyin & Gbadebo, 2009).

The main objective of creating a market environment was to attract both domestic and foreign real and portfolio investors. Thus, stock markets was established to intermediate funds towards investment projects to increase the share of FDI inflows, mostly to ease restrictions on foreign direct investment, strengthened macro stability, privatization of state-owned enterprises, domestic financial reforms, capital account liberalization, tax incentives and subsidies have been instituted (World Bank, 1997a). The capital market in any country is one of the major pillars of long term economic growth and development. The market serves a broad range of clientele including different levels of government, corporate bodies and individuals within and outside the country. For quite some time, the capital market has become one of the means through which foreign funds are being injected into most economics, and so the tendency towards a global economy is more feasible/ visible there than anywhere else (Oluwatoyin & Gbadebo, 2009).

The positive response of structural changes in attracting FDI and its consequence on their financial markets especially stock market is obvious. According to Anokye and George (2009) the market capitalization of emerging market countries almost tripled from FDI inflows due to foreign investors' participation in the stock market. These foreign investors have emerged as major participants in emerging stock markets through purchase of existing equity or recovery of their investment by selling equity in capital markets, but the extent of their impact on emerging

stock market development of developing countries has receive little attention. Yartey (2008) argues that foreign investment is associated with institutional and regulatory reform, adequate disclosure and listing requirements and fair trading practices which inspire greater confidence in domestic markets. This increases the investor's base and participation which leads to more capital flows.

The financial market plays an essential role in the growth of commerce and industry which ultimately affects the economy of the country to a large extent. Prior to the establishment of the Nigerian stock exchange then Lagos stock exchange, there was mass financial flight to the western world mostly in the London market and these affected the economy greatly in economic flaw as funds were not adequately allocated to the required sector of the economy. The agricultural sector was adversely affected as most of its receipt that should be channeled to reinvestment in agriculture and other viable sector were solely transferred to the London market in share or stock acquisition. The Lagos stock exchange according to Nwankwo (1980) helps to reduce the rate of capital flight and facilitate the gross development of the nation's economy via the repatriation of funds to the Lagos stock exchange (the Nigerian economy). This provide local opportunities for borrowing and lending for long term purpose, and provide a healthy and mutual environment for participation, ownership of shares and co-operation of indigenous and expatriate capital in the joint effort to economic development. The capitalization of the market includes all the instruments traded in the market to direct funds for economic development. The total market capitalization in the period of study has grown due to innovative changes that have facilitated the credibility, efficiency, transparency, and services of the exchange. Technological improvement has increased the number of trading, activities in the market and followership of trading in the market. But between 1986 and 1994, market capitalization of the Nigerian stock market climbed

from #6.8billion to #66.3billion which was very phenomenal but still inadequate for an economy with over 140million people by then. The market capitalization fell in 2008 due to global meltdown at the international market. The market picked up in 2013 to #19,077.4billion. However, fell in 2014 to #16,875.1billion before picking up in 2015 to #17,003.4billion the end period of the study. The market capitalization for the period under study is shown in table 2.5.

Table 2.5: FDI and Market Capitalization (1984-2016)

Year	FDI (N'Billion)	Market Capitalization (N'Billion)
1984	0.36	5.5
1985	0.43	6.6
1986	0.74	6.8
1987	2.45	8.2
1988	1.72	10.0
1989	13.88	12.8
1990	4.69	16.3
1991	6.92	23.1
1992	14.46	31.2
1993	29.66	47.5
1994	22.2	66.3
1995	75.9	180.4
1996	111.3	285.8
1997	110.5	281.9
1998	80.7	262.6
1999	92.8	300.0
2000	116.0	472.3
2001	132.4	662.5
2002	225.2	764.9
2003	258.4	1,359.3
2004	248.2	2,112.5
2005	654.2	2,900.1
2006	624.5	5,120.9
2007	759.4	13,181.7
2008	971.5	9,563.0
2009	1,273.8	7,030.8
2010	905.7	9,918.2
2011	1,360.3	10,275.3
2012	1,113.5	14,800.9
2013	875.1	19,077.4

2014	738.2	16,875.1
2015	602.1	17,003.4
2016	1,124.1	16,185.7
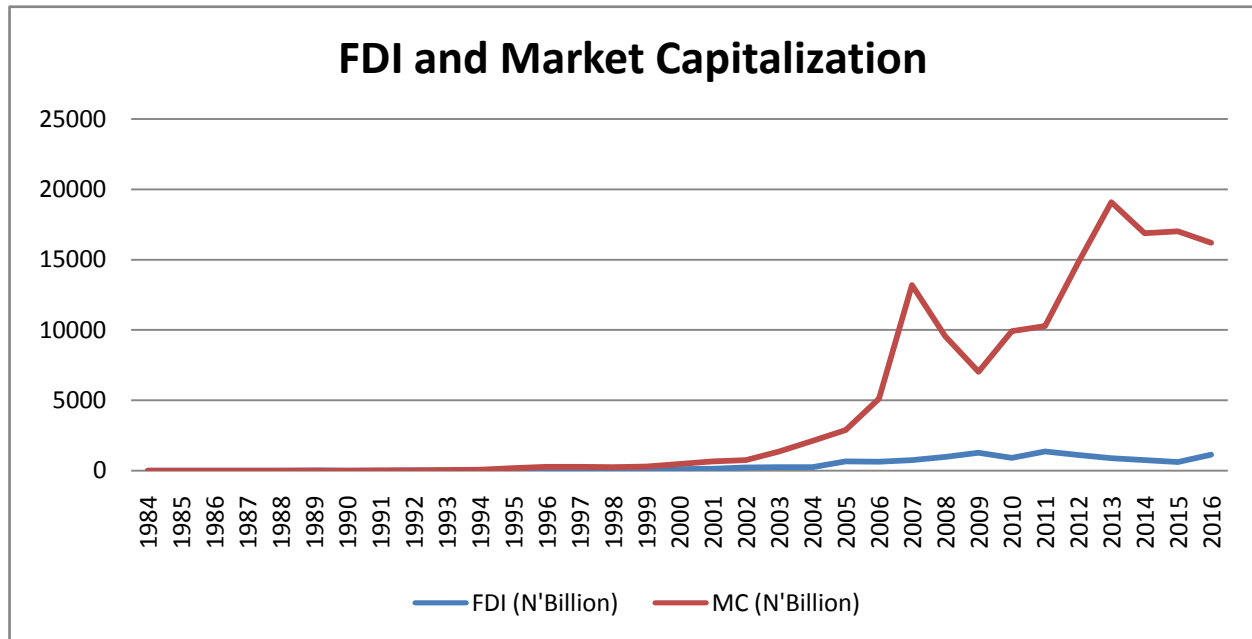
Source: Researchers Computation from CBN Statistical Bulletin, 2016

Figure 2.5: FDI and Market Capitalization Flow

As can be seen from table 2.5, the market capitalization was very shallow and slow until 1994, however the FDI has a zigzag flow as their inflow fluctuate up and down regularly till the end period of study. They were many reasons for this; one of the major reasons was that the capital market lacked depth because they were only few companies that qualify for listing and quantum of them were insignificant. The regulators of the capital market, Security and Exchange Commission (SEC) and the operators, the Nigerian Stock Exchange (NSE) and the stock brokers did very little to educate the public on the benefit of the stock exchange. The listing conditions were also rigid which made it difficult for new entrance to get into the market. The Nigerian Stock Exchange was like exclusive of few investors who also form the council of the exchange. The stock exchange was not structured in a manner to attract other investors. There was no

memorandum of understanding between the Nigerian stock exchange and other exchanges worldwide until recently in the 2000s which prompted the leap of growth in market capitalization. The stock market's capitalization fell in 2008 due to the global recession and fell further till 2009 before having a rise in 2010 till 2013. In 2014, the capitalization of the stock exchange fell till the end of study period. Because the Nigerian stock exchange didn't operate with "free entry and free exit", foreign investors barely invest in the Nigerian capital market. Their direct (equity investment) and portfolio investment could have deepened the market capitalization. Many draconian laws which were unfriendly to investment were put in place; a good example is the foreign exchange control act of 1962 which made the import and export of capital very difficult. There was also the question of excessive bureaucracy which the foreign investors were not used to, permission has to be sought from Federal Ministry of Finance, ministry of industry, Ministry of internal affairs and the ministry of external affairs among others either for bringing in capital into Nigeria or for bringing in expatriate workers or for repatriating personal income of foreign workers or the profit of foreign companies. This impediment among others discouraged FDI (foreign investors) from coming into the market. A cursory look into the column of market capitalization and that of FDI will show that there is an apparent close relationship between the slow growth in market capitalization between 1986 and 1994 and the slow growth in FDI in the same period. However from 1995, market capitalization tripled and FDI almost tripled as-well because of certain reforms which began to manifest itself on the second half of 1990s. Those reforms abolished the obnoxious laws and introduced laws which were friendly to foreign investors. For example,according to Onoh (2002), the friendly Act of 1995 abolished the following;

1. Exchange control 1992

2. The exchange control (anti sabotage) decree of 1977

3. The Foreign currency (domiciliary account) decree of 1985; and

4. The second tier Foreign exchange act decree of 1983

Market capitalization witnessed positive growth between 2006 and 2007 and dropped in 2008 and 2009. There was a slight increase in 2010 till 2013 the increase was due to the public confidence in the market while the decline was attributable to the drop in the value of shares because of the global financial crises before a fall in 2014 was experienced as a result of the sharp fall in oil prices which affected the robustness of activities in the market.

2.1.8.6   FDI and Agriculture Output

According to UNCTAD (2009), FDI and Transnational Corporations (TNCs) have been involved in agriculture in developing countries, in particular in the up and downstream segment of the global agric-food value chain, but also through non-equity participation such as contract Farming. Increased food prices have attracted "new investors" in agriculture, pursuing large scale Land acquisitions in developing countries. These developments have led to the discussions about the forms of FDI and alternative business models in developing countries' agriculture, the potentials and challenges, and the economic, social, institutional, and policy requirements to benefit from FDI.

In Nigeria, agricultural export has played an important role in economic development by providing the needed foreign exchange earnings for other capital development project. The Nigeria economy is rich in material and natural resources, which gives it the potential to become Africa's largest economy and a major player in the global economy.

The agricultural sector contributed over 60% of the GDP in the 1960s and despite the reliance of Nigerian peasant farmers on traditional tools and indigenous farming methods, these farmers produced 70% of Nigeria's exports and 95% of its food requirements (Lawal, 1997). Agriculture is the predominant activity in most of the zones in Nigeria, percentage of persons working in agricultureranges between 24.4and 85.1 percent across zones in Nigeria (Mathew and Adegboye, 2007).From the standpoint of occupational distribution and contribution to the GDP, agriculture was the leading sector. During this period Nigeria was the world's second largest producer of cocoa, largest exporter of palm kernel and largest producer and exporter of palm oil. Nigeria was also a leading exporter of other major commodities such as cotton, groundnut, rubber, hides and skins (Alkali, 1997).Increases in agricultural output in the 1960s and early 1970s brought aboutby increasing land and labour productivity made food cheaper; benefit both rural and urban poor peoplewho generate income from agricultural activities and spend much of their income on both food and non-food related items. According to Oloyede (2014) if the enormous resource base is well managed, the agricultural sector is capable of ensuring the supply of raw materials for industrial sector as well as providing gainful employment for the teeming population. The agricultural sector has the potential to be the industrial and economic springboard from which a country's development can take off (Ogen, 2007). The Nigerian economy, like that of Brazil, during the first decade of its independent (1960s) could reasonably be described as an agricultural economy because agriculture served as the engine of growth of the overall economy.

However, the over reliance in the oil sector affected the agricultural growth and productivity in the late 1970s. The continuous growth of foreign direct investment in the oil sector and its onward revenue generation without a corresponding growth in agriculture

hampered the prevalence of agricultural productivity and contribution to gross domestic product. The presence of FDI in the Nigerian economy is grossly in all the sectors of the economy and poorly in agriculture because of the direct exodus of these funds in oil sector and oil service related activities in Nigeria. The exodus of this economic direction plagued the Nigerian economy with extreme poverty and insufficiency of basic food items which facilitated the need to start importation of food items into Nigeria.

In order to address this digression in economic direction, the Nigerian government became directly involved in the commercial production of food crops in 1975. Several large scale agricultural projects specializing in the production of grains, livestock, dairies and animal feeds, to mention but a few were established (Fasipe, 1990). There was also establishment of Sugar factories at Numan, Lafiagi and Sunti (Lawal, 1997). The Nigerian Agricultural and Co-operative Bank (NACB) was established in 1973 as part of government's effort to inject oil wealth into the agricultural sector through the provision of credit facilities to support agriculture and agro-allied businesses. The Agricultural Credit Guarantee Scheme Fund (ACGSF) was also established as a policy instrument of the Federal Government of Nigeria on Agricultural Credit. The Scheme was established by Decree Number 20 of 1977 but started effectively in 1978. The Scheme provide guarantee on loans granted by banks tofarmers for agricultural production and agro-allied processing. However, between the period of 1995 and 1998 the government further embarked on the reformation of the lending policies of the Agricultural Credit Guarantee Scheme (ACGS) for easier access to agricultural credit schemes. The government also established the Calabar, Enugu, Kaduna, Jos, and Lagos Export Processing Zones (EPZ) with each specializing in specific food and export crops. The projection of 2000, that the National Rolling Plan for 1996-1998 would have been able to feed its population, develop the capacity to

process agricultural raw materials both for local industries and for export and significantly increase the contributions of the agricultural sector to the GDP (Lawal, 1997) failed woefully.This is a result of the lack ofsustainedfinancial commitment to agriculture mirrored at the sub-national level, where few of Nigeria's 36 states have prioritized the sector without a corresponding allocation of funds to boost the sector.The proportion of the federal budget allocated to agriculture was only 1.25 percent in 2016, which was far short of the 10 percent budget commitment made at the 2003 African Union summit in Maputo for the possible speedy growth of the agricultural sector in the region (Downie, 2017).During all these periods, FDI into the agricultural sector were very minor and insignificant. The direction of FDI and the agricultural output for the period under review is shown in table 2.6.

Table 2.6: FDI and Agricultural output (1984-2016)

Year	FDI (N'Billion)	Agricultural Output (N'Billion)
1984	0.36	2,303.51
1985	0.43	2,731.06
1986	0.74	2,986.84
1987	2.45	2,891.67
1988	1.72	3,174.57
1989	13.88	3,325.95
1990	4.69	3,464.72
1991	6.92	3,590.84
1992	14.46	3,674.79
1993	29.66	3,743.67
1994	22.2	3,839.68
1995	75.9	3,977.38
1996	111.3	4,133.55
1997	110.5	4,305.68
1998	80.7	4,475.24
1999	92.8	4,703.64
2000	116.0	4,840.97
2001	132.4	5,024.54
2002	225.2	7,817.08
2003	258.4	8,364.83
2004	248.2	8,888.57

2005	654.2	9,516.99
2006	624.5	10,222.47
2007	759.4	10,958.47
2008	971.5	11,645.37
2009	1,273.8	12,330.33
2010	905.7	13,048.89
2011	1,360.3	13,429.38
2012	1,113.5	14,329.71
2013	875.1	14,750.52
2014	738.2	15,380.39
2015	602.1	15,952.22
2016	1,124.1	16,607.34

Source*: Central Bank of Nigeria Statistical Bulletin, 2016*
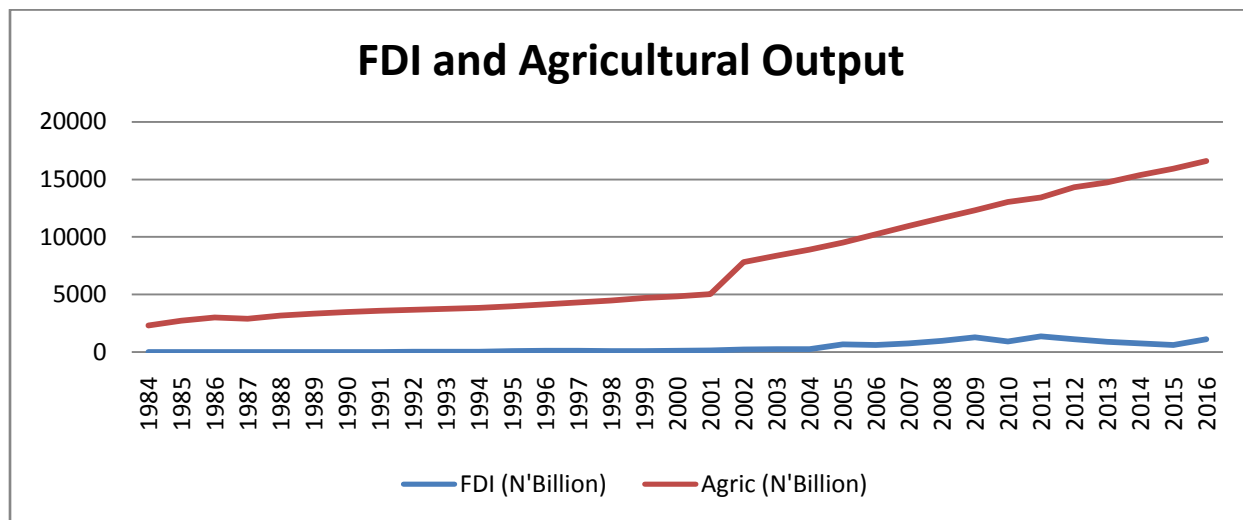
Source: Researchers Computation from CBN Statistical Bulletin, 2016

Figure 2.6: FDI and Agricultural Output Flow

From the Figure 6, the agricultural outputs have been on the continuous increase from the beginning of the study to the end period of the study however, the FDI have been on the up and down fluctuation position. In the period of 2010, the sharp fall in FDI was also followed by another sharp continuous fall in 2012 till 2015 after an increase in 2011. However, regardless of the inflow of FDI, the agricultural output maintains a continuous rapid growth in the Nigerian economy.

2.2 Theoretical Framework

Investment is the second component of the Keynesian model income determination. Investment can be viewed from several perspectives depending on the bias of the individual proffering the definition (Anyanwu & Oackhanan, 1974). To an economist, investment refers to net capital formation. Thus, it refers to capital expenditure on consumer durables, residential constructions (buildings) and plants and machinery. Hence, investment is viewed from the perspective that the purchase of real tangible assets (e.g. machineries, factories or stocks of inventories) is channeled to productive use in goods and services for outright satisfaction of future consumption as opposed to immediate consumptions. Investment can be said to represent sacrificing certain values of consumption for uncertain values of consumption. This ordinarily in money involves commitment of money with the primary aim of earning financial assets such as stocks or bonds at a pre-determined future date. Investment has a great feature of fluctuations. It fluctuates more than any other component of national income and in inter-country trading. Fluctuation in investment is anchored on investment expenditure. Fluctuations in investment via the multiplier effect exert a multiple effect on the aggregates level of income. Thus, investment can be said to be dynamic and erratic element of all macroeconomic aggregates.

Finally, it has actually been impossible to formulate model that can explain or predict the behavior of investment with reasonable degree of accuracy.

2.2.1 Theory of Investment

This theory seeks to explain the investment behavior of business firms like Multinational Companies. Like consumption, a number of theories seeking to explain the investment behavior of business firms exist in the literature.

Here, explanation will be done on existing investment theories and challenges encountered by the theory.

2.2.1.1 The Accelerator Theory of Investment

This theory of investment posits that current net investment theory of investment is a function of changes in income. It explains net investment as a function of growth in aggregate demand. The modern form of the acceleration hypothesis was put forward by Clark (1917); the original idea of the principle is traceable to the works of Aftalion (1911).

The theory tries to explain its stand via the fixed accelerator. The fixed accelerator is characterized by the assumption of the fixity ratio of current desired stock capital to current account which is expressed thus; $k = k^*_t/y_t$. Where k^* represent the desired capital stock and y_t is current level of output.   The equation $k = k^*_t/y_t$ by cross multiplication will give $k^*_t = ky_t$ This expresses that a firm's desired stock capital as a proportion of the output in the current period where k is the function of proportionality of the stock. The stability of the equation depends on the value of proportionality factor which is a function of time period within which analysis is/will be carried. The longer the period for the analysis, the more the values of proportionality factor approaches zero.

The theory encountered great number of criticism which include;

1. Assumption of fixed capital-output co-efficient; this assumption does not hold ground as firms do not necessarily operate under the conditions of constant returns to scale implied by it. It ignores technological advancement possibilities on capital-output ratio.

2. The theory assumes that capital additions are instantaneous; this assumption effectively ignores the possible existence of lags in the process of adding to capital stock.

3. The theory's assumption of full employment of firm's capital stock excludes the possible existence of idle capacity. And

4. It also ignores the role of expectations in investment decision making.

2.2.2   Theory of Foreign Direct Investment

Numerous theories have been developed in FDI literature. These theories have been classified as microeconomic theories and macroeconomic theories of FDI.   Microeconomic theories focus on the characteristics of a firm that influence its decision making processes. These include market imperfections, market power and investment location theories. Macroeconomic theories of FDI seek to investigate on a country's characteristics that explain FDI inflows within and across countries. Examples include internalization and product cycle theories. FDI literature has also reviewed theories that focus on FDI motives.

This section deals with two of the microeconomic theories of FDI on which we have anchored our research work: Endogenous growth theory and Dunning's eclectic theory.

2.2.2.1   The Endogenous Growth Theory

The neoclassical theory assumes the notion that long term investment is a great determinant of the economy growth of the country. Endogenous growth model theory explained that physical investment is not a measure of economy growth of a country but the effectiveness and efficiency in the use of these investments. The model was developed independently by Roy F. Harrod in 1939 and Evsey Domar in 1946; hence Harrod–Domar model was the precursor to the exogenous growth model. The pioneer of "endogenous growth theory" is Paul Romer, whose 1986 paper in the Journal of Political Economy is a seminal work in the modern revitalization of

growth theory. The principal engine behind endogenous growth is the elimination of the assumption of decreasing returns to "capital."

Economic models of endogenous growth have been applied to examine the effects of FDI on economic growth through the diffusion of technology (Barro, 1991). Romer (1990) argues that FDI propels economic growth through strengthening human capital, the most essential factor in R&D effort; while Grossman and Helpman (1991) emphasize that an increase in competition and innovation will result in technological progress and increase productivity and, thus, promote economic growth in the long run. From the analyses made under this theory, it has been discovered that the theory suggests a better relationship between the FDI and economy growth of the developing countries.

2.2.2.2   The Eclectic Theory

This theory as postulated by Dunning (1973) seeks to offer a general framework for determining patterns of both foreign owned production undertaken by a country's own enterprises and that of domestic production owned by foreign enterprises. According to Dunning (1973), there are two types of investments that a firm can chose to undertake. That is, Foreign Portfolio Investment (FPI) and Foreign Direct Investment (FDI). FPI is defined as the passive holdings of securities and other financial assets, which do not entail active management or control of securities issuer. FPI is positively influenced by high rates of return and reduction of risk through geographical diversification. The return of FPI is normally in the form of interest payments or non-voting dividends (Dunning, 1973).

The eclectic theory is launched in three pillars of Ownership, Location and Internalization (O+L+I). The three pillars are different questions that foreign investors seek to answer. The 'O' pillar comprises of the ownership advantages that addresses the question why

the foreign firms need to go abroad. According to Dunning (1985), this question hypothesizes that foreign firms have one or more firm specific advantages which allows them to overcome operating costs in a foreign country. The ownership advantages include core competency, brand name and economies of scale amongst others.

The 'L' pillar addresses the question of location. According to Dunning (1985), the decision of the firm to move offshore is based upon the firm specific advantage in conjunction with factors in a foreign country. Factors such as land and labour are important in determining the location of a Multinational Enterprise (MNE) in order for it to make profits. Dunning (1985) further asserts that the choice of investment location depends on several complex calculations that include economic, social and political factors to determine whether investing in that country is profitable or not.

The 'I' pillar represents the internalization advantages on how to go abroad. The MNE have several options to choose from in their entry mode in a foreign country. Choices range from the arm's length transactions (market) to the hierarchy (wholly owned subsidiary). The MNE can choose internalization if the market does exist or functions poorly, that is transaction costs of the external route are high. Under the firm specific advantage, an MNE operating a plant in a foreign country can be faced with a number of additional costs in relation to their local counterparts (local competitor). These costs according to Dunning (1985) comprises of; Cultural, legal, institutional and language differences; Lack of knowledge about local market conditions; and increased expense of communicating and operating at a distance.

The eclectic theory therefore points out that for a foreign firm to be competitive in a foreign country, it must have some kind of unique advantages that can help them overcome the cost associated with operating in the new country. These advantages are called ownership or firm

specific advantages (FSAs) or core competencies and they help the foreign firm in generating high revenues for the same cost, or lower costs for the same revenues compared to domestic firms. Dunning (1997) identified three main types of ownership advantages for multinational enterprises. These include; Knowledge/technology defined to include all forms of innovative ideas.; Economies of large size include economies of scale, scope, learning and broader access to financial capital and diversification of assets and risks.; and Monopolistic advantages occur in the form of privileged access to input and output markets through patent rights and ownership of scarce natural resources.

Dunning (1997) reiterated that ownership advantages can change over time and varies with age and experience of the multinational enterprise (MNE). The firm must use some foreign factors in connection with its domestic Firm Specific Advantages in order to earn full rent on the FSAs. The locational advantages of various countries are keys in determining which country will play host to the MNE. Dunning (1997) distinguished between three categories of country specific advantages (CSAs) as follows; Economic, Social and Political. The economic advantages include the quantities and qualities of the factors of production, size and scope of the market, transport, as well as telecommunications costs. Social advantages include psychological distance between the home and the host country, general attitude towards foreigners, language and cultural differences and the overall stance towards free enterprise. Finally the political advantages include the general and specific government policies that affect inward FDI inflows, international production and intra- firm trade. Thus, an attractive (CSAs) package for a multinational enterprise would include a large and growing high income market, low production costs, a large endowment of factors scarce in the home country, politically stable economy and a country that is culturally and geographically close to the home country.

The eclectic theory points out that the existences of a special knowhow or core skill is an asset that can generate economic profits to a foreign firm. These profits can be earned by licensing the Firms Specific Advantage (FSA) to another firm, exporting products using the FSA as an input or setting up subsidiaries abroad. Furthermore the theory provides that a hierarchy (vertically or horizontally integrated) is a better method of organizing transactions than the market (trade between unrelated firms) whenever external markets are non-existence or imperfect. Thus internalization advantages lead to preferentially wholly owned subsidiaries by MNEs over arm's length transactions. However in setting MNEs abroad Dunning (1997) identified the following difficulties;

i. Natural Market failure (natural imperfections).

ii. Lack or insufficient information on pricing, costs and benefits.

iii. Transaction costs under conditions of risk, uncertainty, moral hazard and adverse selection.

iv. Structural market failure due to imperfections created by MNEs.

v. Monopoly power exertion using oligopolistic methods, predatory pricing, cross subsidization, market cartelization and market segmentation.

vi. Arbitraging government regulations and exploiting regulations in terms of tariffs, taxes, price controls and non- tariff barriers.

Furthermore, Dunning (1994) highlighted that FDI in developing countries is shifting from market seeking and resource seeking FDI to more efficiency seeking FDI. This is due to socio-economic pressures induced on prices, thus MNEs are expected to relocate some of their production facilities to low cost developing countries. Despite of these developments, FDI in developing countries is still directed at assessing natural resources and national or regional markets. Like any other model, the eclectic theory has its weaknesses. It has been suggested in

the theory that the OLI variables (Ownership, Location and Internalization) are independent of each other. This notion has received much criticism by international trade scholars. The understanding is that it is very difficult to separate these variables as they work hand in hand. For example a firm's response to its exogenous locational variables might itself influence its ownership advantages and its ability and willingness to internalize markets. Therefore, over time, the separate identity of variables becomes difficult to justify.

Kojima (1982) claimed that the explanatory variables identified by the eclectic theory under each pillar are so numerous that its predictive value is almost zero. Furthermore, Kojima (1982) argued that the eclectic theory insufficiently allows for differences in the strategic response of firms to any given configuration of OLI variables. The theory has been viewed in static or comparatively static terms. In this regard, it offers less guidance to the dynamics of the international process of firms and countries.

The endogenous growth model theory and eclectic theory are relevant to the study as it identifies the determinants of MNEs to invest abroad as portrayed in the OLI variables and the effectiveness and efficiency resulted from FDI motivated investments. For instance, in the case of the location advantage, foreign investors have the advantage of choosing the location where the plants will be built. In most cases these locations are close to the ports and harbours for the ease of transportation. Furthermore foreign investors have the ownership advantage which includes brand names, benefits of economies of scale and technology as well as the transfusion of effectiveness and efficiency in domestic productivity.

2.3   Empirical Review

Vast literature has been done on Foreign Direct Investment and economic growth using various macroeconomic variables to x-ray economic growth within and outside Nigeria. Empirical literature on the effect of foreign direct investment on economic growth are enormous but since the study is looking at economic growth from different macroeconomic perspective the study reviewed empirical literature based on the different economic performance variables considered in the study.

2.3.1   Foreign Direct Investment and Gross Domestic Product

In the literature, the issue of FDI on economic growth proxied by GDP has been well researched and widespread impacts have been revealed. The ambiguous impacts of FDI in contributing to economic growth have been viewed differently by researchers. However, studies have recognized that the benefits from foreign direct investment (FDI) to recipient countries can only be realized when those countries have reached a certain level of financial development. The real GDP is found to be a major instigator of FDI inflows (Mori, Jaratin, Rozilee, Dullah & Nanthakumar, 2012). According to Nosheen (2013) FDI have a long run impact on GDP in Pakistan in his study of foreign direct investment and economic Growth (GDP) in Pakistan. Nuzhat (2009) also examining the impact of FDI on Economic Growth of Pakistan from 1980 to 2006 and using regression analysis concluded that FDI has negative statically insignificant relationship between GDP and FDI inflows in Pakistan.

Mori, Jaratin, Rozilee, Dullah and Nanthakumar (2012) investigate the crucial relationship between FDI and economic growth in Malaysia for the period of 1971 to 2009. The study using Johansen and VECM approach discovered the existence of a long-run co-integration relationship between the FDI and the RGDP. In addition, a causal effect exists running from the

FDI to the RGDP implying that FDI does influence economic growth. However, Duasa (2007) in his study of Foreign Direct Investment and Growth in Malaysia discover no causal relationship between FDI and economic growth (GDP) (using granger causality analysis). Other studies like Herzer, Klasen and Nowak-Lehmann (2008) in developing countries, Kogid, Mulok, Beatrice and Mansur (2010) in Malaysia and Karimi and Yusop (2009) also in Malaysia also discovered no causal effect of FDI on the GDP at different studies. Ang (2009) in his study of Foreign Direct Investment and Its Impact on the economic growth of Thai Economy discovered that FDI negatively affected economic growth.

Sridharan, Vijayakumar and Chandra (2009) examined the causal relationship between FDI and economic growth of the BRICS countries over the different periods generally from 1992 to 2007 using Industrial Production Index (IPI), Augmented Dickey Fuller (ADF) Test, Johannes co-integration test and Vector Error Correction Model (VECM). They found co-integration relationship among BRICS countries. Based on vector correction mechanism, there were bidirectional causality between FDI and GDP for Brazil, Russia and South Africa and one way Granger relationship for India and China, which means FDI caused economic growth for these two countries. Also Roy and Berg (2006) studied the impact of FDI inflows on United States applying time-series data from 1970 to 2001 to a simultaneous equation model (SEM) that explicitly captured the bi-directional relationship between FDI and U.S economic growth. FDI had found to have a significant, positive, and economically important impact on U.S. economic growth.

Sandalcilar and Altiner (2012) investigate the Foreign Direct Investment and Gross Domestic Product in ten Economic Cooperation Organization (ECO) member countries from 1995 to 2011. Their study used Granger Causality Test based on error correction model and

Holtz-Eakin, Newey and Rosen Panel Causality Test and discovered that a strong positive causality from FDI to GDP and a slightly less positive causality from GDP to FDI in ECO region. Anowar and Mohammad (2012) also examined co-integration and the causal relationship between FDI and GDP in both short and long run of Bangladesh, Pakistan and India over the period of 1972-2008. The econometric models, ADF test, Engle-Granger two-step and co-integration test, VECM, and Granger Causality (GC) to find the directional relationship between FDI and GDP. The result found that there is significant relationship for both long run and short run of Pakistan. GC results suggested that there is one way or unidirectional relationship found for Pakistan and India, which means FDI caused economic output and was the vital contributor as well as a significant driver for the economic growth of Pakistan and India.

Heang and Moolio (2013) examine the relationship between foreign direct investment and gross domestic product of Cambodia in long run over the period of 1993-2011 by using simple regression analysis, Augmented Dickey-Fuller test, Durbin-Watson test, Breusch-Godfrey Serial Correlation LM test, Breusch-Pagan-Godfrey test, and Jarque-Bera test. The result from regression found that there is a positive relationship between FDI and GDP in the long run in Cambodia, which is also supported by qualitative studies

Qaiser, Salman, Ali, Hafiz and Muhammad (2011) investigate the impact of foreign direct investment on Growth (GDP) from year 2001 to 2010 of SAARC Countries and used multiple regression models to test for the relationship. They discovered that there is a positive and significant relationship between FDI and GDP.

Hameed and Bashir (2012) conduct a study on the MENA countries to see the impact of FDI on GDP via using econometric model. They come to this conclusion that FDI leads to

Economic Growth but varies according to region and over time. They also investigated that FDI is affected by domestic investment and openness to international trade.

Eryiğit (2012) investigated the long-term relationship between FDI and export volume, FDI and Gross Domestic Products (GDP), and export volume and GDP through cointegration tests and panel data analysis. The study's Panel unit-root tests showed that variables are stationary for the first difference level, residual based and error correction based cointegration tests revealed that there is long-term relationship between FDI and export volume, and FDI and GDP. Nishiyama and Yamaguchi (2010) also investigated FDI inflows from developed countries to developing countries and their result using OLS analysis indicated that FDI leads to an increase in GDP of developing countries.

Antwi, Mills, Mills & Zhao (2013) in their study of the impact of foreign direct investment on economic growth in Ghana from 1980 to 2010 using OLS discovered that FDI contributed to economic growth in Ghana over the period.

In Nigeria, Onu (2012) investigates the impact of foreign direct investment (FDI) on Economic Growth in Nigeria within the period 1986-2007. The study employed multiple regression models and the results also revealed that FDI, government tax revenue (GTR) and savings exerted positive but not significant impact, except savings, on GDP during the study period. Onakoya (2012) seeks the impact of FDI on GDP in different sectors of Nigeria country through using three-stage least square (3SLQ) technique and Macro Econometric model of simultaneous equation. He found that FDI affect the GDP but significantly cast an impact on the output of that economy.

However, in the study of Andeyangtso (2006) on the effects of foreign direct investment on economic growth in Nigeria, the empirical results show that there is a negative relationship

between the two variables. This finding was supported by Umeora (2013), who revealed that FDI did not have any effect on GDPGR in his study of the (granger causality study)effects of Foreign Direct Investment (FDI) on economic growth in Nigeria for the period 1986 through 2011.Farkas (2012) also tested the effect of FDI on GDP by doing the regression analysis and concluded the results that FDI has positive relationship with GDP and its impact depend upon the absorptive capacity of the host country, level of human capital and development of the financial markets.

2.3.2   Foreign Direct Investment and Manufacturing capacity/utilization

The effect of FDI on manufacturing output is a key segment of the multiplier effect of spillovers of FDI in an economy. In the literature, various researchers have exerted their findings and concluded on the possible effect of FDI in the manufacturing sector of an economy.

According to Sönmez and Pamukçu (2010), technology spillovers from foreign to domestic firms in emerging economies are considered to be the most important channel through which Foreign Direct Investment (FDI) influence the host economy. They opine that FDI technology spillover facilitates manufacturing growth in Turkey in their study of Foreign Direct Investment and Technological Spillover in the Turkish manufacturing sector. Graham and Wada (2001) in Rutaihwa and Simwela (2012) using econometric model to examine the effects of FDI on growth and export performance of China discovered FDI contributed positively to export growth. In particular, it was found that total factor productivity growth did accelerate in the coastal regional of China where the bulk of FDI were found to have taken place relative to other regions of China. However, the findings of Rutaihwa and Simwela (2012) examine the role of FDI in the Mining Sector to Tanzania's Export Capacity during 1989-2009 and discovered that the total exports performance to the rest of the world is negative and insignificant, which implies

that the contribution of FDI in mining have been weakly and exerting negative pressure on Tanzania's export performance over the period.

Girma and Gorg (2005) examine the effect of Foreign Direct Investment, spillovers and absorptive capacity on manufacturing in UK. In their study, they allow for different effects of FDI on establishments located at different quantiles of the productivity distribution by using conditional quantile regression and discovered that absorptive capacity matters for productivityspillover benefits in manufacturing companies in UK.

Fu (2008) further examined foreign direct investment, absorptive capacity and regional innovation capabilities in China and discovered that the globalization of R&D may provide an opportunity for developing countries to catch up on the technology frontier.

Raju and Samal (2016) investigated the role of Foreign Direct Investment (FDI) on Manufacturing Industry in India with particularly interest about the role and importance of FDI in manufacturing sector. Using OLS regression analysis, they discovered that FDI facilitates the economic development and as well as increase the growth of the domestic Product (GDP) of the country and found its positive impact in every sector of industrial life and Human life (i.e maintenance of sustainable & moderate life style).

Another study on India is the study of Mohan (2014), who empirically examined FDI and Indian Economic growth factors and revealsin his linear regression study that trade, GDP, Reserves, Exchange rate are the main determinant of FDI inflows to the country. He further observed that FDI is a significant factor influencing the economic growth in India and contributes to the GDP and foreign exchange reserves of the country.Pais (2014) also using regression analysis supported the standing of Mohan in his study of the impact of Foreign Direct

Investment on Indian Economy by concluding that FDI has had a positive impact on Indian Economy via supplementation of domestic capital, technology and skills of existing companies.

Sen (2008) also looking at India studied Trade, FDI and Industrial Transformation in India by examining the granger causality effects of trade and FDI inflows on India's industrial transformation, particularly since the onset of economic reforms in the 1980s and early 1990s to 2000s and discovered that trade reforms in India have had a strong positive impact on total factor productivity and the impact of trade in the net creation of jobs in the manufacturing sector has been relatively small. He further state that while trade and FDI have had major positive effects on efficiency in Indian manufacturing, they may not have had similar positive effects with respect to equity outcomes, especially in contributing to the growth of a labour-intensive export-oriented segment of the manufacturing sector.

Abraham, Konings, and Slootmaekers (2008) studied the FDI spillovers in the Chinese manufacturing sector looking at more than 15,000 manufacturing plants to analyze the heterogeneous responses of firms to foreign direct investment in China. They discovered that Domestic firms operating in sectors where also foreign firms are active have higher total factor productivity. However, the magnitude of such horizontal spillovers depends on the structure and origin of foreign ownership, the export status of firms, and the characteristics of the special economic zones firms are operating in.

Aitken and Harrison (1999) in their study of Domestic Firms benefit from Foreign Direct Investment in Venezuela using OLS regression method conclude that increased competition for input factors and market share drives firms up their average cost curves, which then results in a lower productivity of domestic firms.

Jaguli, (2011) examine the impact of various channels of technology spillovers on local innovative capacity at national and firm level. The study using OLS reveals that export-related spillovers are positively associated with Malaysia"s innovative capacity, whereas import related spillovers play a minor role in local innovation. He further discovered that there is strong evidence of the importance of foreign innovation activities to local innovative capacity at national level while also showing that knowledge spillovers measured by FDI inflows have no significant impact on local innovative capacity.

Jayawickrama and Thangavelu (2007) examines the influence of FDI on manufacturing growth of Singapore in a panel data sample of 14 manufacturing industries over 30 years stretching from 1975 to 2004. They discovered a positive contemporaneous effect of FDI on the output growth of Singapore manufacturing industries.

Yasar and Paul (2007) examined the existence of intra-industry spillovers in 437 firms across five countries: Poland, Moldova, Tajikistan, Uzbekistan, and Kyrgyz Republic. Their analysis found foreign presence in an industry results in an increase in labour productivity of domestic firms. Indirect contrast was discovered in Waldkirch and Ofusu (2010) investigation of FDI presence, Spillovers, and Productivity in Ghana showed significant negative relationship between FDI presence and the level of value added per employee in their study on 200 firms in Ghana, using Generalised Method of Moments (GMM) technique of estimation. However, the results using the growth rate of the model yielded positive spillovers.

Haskel, Pereira and Slaughter (2007) examine whether inward Foreign Direct Investment Boost the Productivity of Domestic Firms in UK and their regression result discover that no evidence of spillovers was found on the domestic firms in the UK. In the same vein Mullen and Williams (2007) examined Foreign Direct Investment and Regional Productivity Spillovers in

US Manufacturing firms but no evidence of spillovers also discovered. Showing FDI in developed economy has no spillover effect on the already robust and efficient manufacturing firms in the UK and US.

In Africa, Onyekwena (2012) empirically investigate the impact of Foreign Direct Investment on Nigerian manufacturing firms and banks, but his OLS findings discovered that FDI generates spillovers in Nigerian manufacturing firms. Bwalya (2006) also examined whether foreign direct investment and technology spillovers in intra-industry or inter-industry spillovers occur in 145 manufacturing firms in Zambia, using panel data analysis the results of the analysis show evidence of both positive intra-industry and inter-industry spillovers. Similar positive results were obtained in the study of Managi and Bwalya (2010) using Panel data analysis on foreign direct investment and technology spillovers in sub-Saharan Africa, looking at basically manufacturing firms in Kenya and Tazania.

2.3.3   Foreign Direct Investment and Gross National Savings

Empirical studies on the effects of FDI inflows on the economic growth proxied by the national savings in the literature are very minimal and very few studies were discovered in the literature. Instead, many studies examined the linkages between national savings, domestic investment and FDI to (on) economic growth. For instance Ruranga, Ocaya and Kaberuka (2014) analyses real Gross Domestic Product (GDP), Domestic Investment (DI), Foreign Direct Investment (FDI), Domestic Savings (DS) and Trade (TR) in Rwanda for the period 1970 to 2011. The study used Augmented Dickey-Fuller (ADF) tests, VAR model and Granger causality tests; the study discovered that all the variables were stationary and FDI has a bi-directional causal effect on the GNS in Rwanda. The study further buttress that here is bi-directional causality between GDP and TR and TR and DI and unidirectional causality from GDP to DI,

from DS to GDP, from DS to DI and from DS to TR and hence, conclude that FDI contribute to Gross National Savings.

Othman, Jafari and Sarmidi, (2014) estimated the impact of FDI on conventional GDP and GS growth as well as on the GDP-GS gap for Malaysia from 1974-2009. The result of the OLS study demonstrate stronger FDI impacts on Malaysian GDP and GS growth as well as on reducing the GDP-GS gap once the general macroeconomic conditions in the country reaches a particular level.

In Nigeria, Uremadu (2008) examined the impact of foreign private investment (FPI) on capital formation in Nigeria from 1980 to 2004. The study estimate time-series using an OLS methodology which included tests for stationarity and cointegration and the result of the study showed a positive influence of cumulative foreign private investment (CFPI), index of energy consumption (INDEXEC) and total banking system credit to the domestic economy (BSTCr), and a negative influence of gross national savings (GNS), domestic inflation rate (INFR), maximum lending rate (MLR), foreign exchange rate EXCHR) and debt service ratio (DSR) on capital formation.

Edu, Inaya and Bassey (2015) also examines the effect of foreign private capital inflows on Nigerian's gross growth rate (GDP), gross savings and investment, using data from period 1980 to 2013. They employed Ordinary Least Square (OLS) Regression technique in testing the causal relationship between foreign capital inflow and GDP, domestic investment and domestic savings in Nigeria. Findings from the analysis reveal that foreign capital inflow has a positive but insignificant effect of on economic growth (GDP) and domestic investment, while having a negative and non-significant effect on national savings. However, from the empirical review the study observed that little studies were carried out on FDI and savings.

2.3.4   Foreign Direct Investment and Gross Domestic Fixed Capital Formation

The empirical review showcases the impact of FDI on capital formation in the literature. Azlina and Suhanis (2014) examines the impact of inward FDI on domestic investment between 1970 and 2011; the study using Johansen and Juselius co-integration technique and error correction model discovered that FDI inflows in Malaysia "crowds out" domestic investment in the short run, in which an increase in one percentage point of inward FDI merely raises capital formation by 0.56 percentage point. While, Goh and Wong (2012) in their study of outward FDI and Domestic Investment (capital formation) observed that there is a long run relationship between Malaysia's inward FDI, outward FDI, domestic savings and domestic investment. Using the ARDL approach, they found that outward FDI exerts a negative effect on domestic investment and capital formation while inward FDI yields a positive effect on domestic investment and capital formation. The positive relationship may be due to Malaysia's FDI-friendly policy to attract high participation of foreign capital.

Krkoska (2001) examine the relationship between foreign direct investment (FDI) and gross fixed capital formation in transition countries as well as other sources of capital formation financing, namely debt financing, capital market financing and subsidies. In the findings of the OLS study, he discovered that capital formation is positively associated with FDI, along with domestic debt and capital market financing, but negatively correlated with stock market liquidity. There is no statistically significant link between capital formation and foreign credit or subsidies. In the same direction is the study of Ulussever (2010), who determined the relationship between foreign direct investment and capital formation in emerging economies using Turkey as a case study from 1970 to 2008. The findings of the study reveal that capital formation is positively associated with FDI, along with domestic debt and capital market financing, but negatively

correlated with stock market liquidity. The results also confirm that there is no statistically significant link between capital formation and foreign direct investments or foreign credit.

However, Fritz and Mihir et al (2005) made an effort to explore the relationship between outbound FDI and levels of domestic capital formation through regression analyses for a much broader sample of countries for the 1980s and 1990s and concluded that it had been natural to assume that foreign investment came at the expense of domestic investment.

Sarkar (2007) established the relationship between stock market development and capital accumulation in developing countries. He applied the ordinary least square technique (OLS) on time series data of 37 developed and less developed countries over the period 1976-2002 and showed that in the majority of cases (including France, UK and USA) the stock market turnover ratio an important indicator of stock market development- has no positive long-term relationship with gross fixed capital formation.

In Nigeria, Ugwuegbe, Modebe and Onyeanu (2014) investigated the impact of FDI on capital accumulation in Nigeria for the period of 1986-2012. Their study used OLS regression method to analyze the study; Johanson co-integration test for long run relationship in the study and ADF test was applied to determine the stationarity of the variables. They discovered that FDI, TCR, and INTR positively but insignificantly effect capital formation in the short-run whit GEXP exerting negative effect on GFCF. The result also indicate that in the long-run all the variables included in the model has a positive impact on GFCF with only FDI and TCR exerting a significant impact on capital accumulation in Nigeria for the period under review. Anfofum, Gambo and Suleiman (2013) findings is in tune with Ugwuegbe, Modebe and Onyeanu (2014) in their study of estimating the impact of foreign direct investment in Nigeria. Their study employed ADF test, Johanson co-integration test, OLS regression method and Granger causality

to analyze the study; the outcome of the estimated results revealed that FDI spurs exports, gross fixed capital formation and economic growth in Nigeria. Thus, FDI is a positive measure of economic growth. The Johansen unrestricted cointegration rank test showed a long run significant relationship between FDI and economic growth.

Uremadu (2008) also examined the impact of foreign private investment (FPI) on capital formation in Nigeria from 1980 to 2004. The study estimate time-series using an OLS methodology which included tests for stationarity and cointegration and the result of the study showed a positive influence of cumulative foreign private investment (CFPI), index of energy consumption (INDEXEC) and total banking system credit to the domestic economy (BSTCr), and a negative influence of gross national savings (GNS), domestic inflation rate (INFR), maximum lending rate (MLR), foreign exchange rate EXCHR) and debt service ratio (DSR) on capital formation.

Hejazi and Pauly (2003) in their study of motivations for FDI and domestic capital formation question the modalities for assuming that outward FDI reduces domestic capital formation while only inward FDI increases domestic capital formation. The implication of the result of their study is that rapid growth in outward FDI, relative to inward growth, should not be considered as a negative development, and may reflect success.

However, Hejazi & Pauly (2002) in their previous study on Foreign Direct Investment and Domestic Capital Formation in Canada from 1983 to 1995; using panel data techniques to estimate the link between FDI and domestic capital formation discovered that no statistically significant link between outward FDI and domestic investment. In contrast, inward FDI is found to supplement Canadian domestic capital formation. Hence, based on the empirical review as discussed here, there are mixed findings as to the implication of FDI inflow on capital formation

regardless of the expectations that inward FDI would increase Capital formation in the economy thereby fostering economic growth.

2.3.5 Foreign Direct Investment and Market Capitalization

Extensive studies prevail on the effects of FDI inflows on the economic growth proxied by the market capitalization in the literature. Mihir at el (2005) studied FDI and domestic capital stock. They collect the data from 1970 to 1980 and applying the OLS regression analysis, concluded that FDI has significant impact on capital stock.

Muhammad and Abedalsattar (2010) also examined the impact of FDI on share market in Amman exchange market. They collected primary data by distributed self-administrated questionnaire among 100 people and secondary data from the report of Amman Stock exchanges. Using multiple regression models they concluded that FDI has significant Impact on share market value in Amman exchange market.

The impact of FDI on the stock market development done by Kalim and Shahbaz (2009) on Pakistan to investigate whether FDI is a complement or a substitute to stock market development is another study worth mentioning. The researchers used log-linear model and co-integration method to estimate the relationship. The researcher run dynamic regression estimates for the short run and the long run analysis of data on Pakistan. The results showed that in both the short run and long run, FDI had positive relationship with stock market development. The findings of the research confirmed the results of other studies that FDI was a complement to stock market development. The findings is contradicted by a more recent work of Zafar, Qureshi and Abbas (2013), who examined this particular relationship between foreign direct investment and development of stock market of Pakistan. The study using cointegration and Granger causality techniques discovered that net FDI inflow, market capitalization and nominal exchange

rate do not have any long term equilibrium relationship with each other. FDI inflow also was unable to granger cause a significant change in market capitalization in the study. Hence, FDI inflow into Pakistan had no significant impact on market capitalization and market development at large.

In Africa, Anokye and Tweneboah (2008) investigated the impact of Foreign Direct Investment on Stock market development in Ghana and the results of the study indicate that there exists a long run relationship between FDI, nominal exchange rate and stock market development in Ghana. We find that a shock to FDI significantly influence the development of stock market in Ghana. This finding was supported by Kwaku and Wiafe (2013), who examined the impact of Foreign Direct Investment (FDI) on stock market development of Ghana from 1990 to 2010. FDI had positive impact on stock market development and this supported the complementary hypothesis in the short run. In addition, their study also showed that Inflation and Exchange rate had positive impact on stock market development and there was a bi-causality between FDI and stock market development in Ghana. Eniekezimene (2013) also examined the impact of foreign portfolio investment on capital market growth in Nigeria. Ordinary Least Square method was used to analyze the data collected and it was revealed that foreign portfolio investment has a positive impact on capital market growth. Supporting the findings is Edame and Okoro (2013), who reviewed the impact of capital market on economic growth in Nigeria. The scientific method of Ordinary Least Square (OLS) regression technique was used in the study and the result obtained show that capital market has positive and significant impact on economic growth in Nigeria.

Baghebo and Edoumiekumo (2012) also using group unit root and Johansen co-integration test to examine the relationship between Foreign Private Capital Accumulation and

Economic Development in Nigeria from 1970 to 2010. It was discovered that current and lagged FPI have positive impact on economic development. However, while the latter is statistically significant, the former is not. Thus formulating policies that encourage such investment would be a way forward.

Adaramola and Obisesan (2015) assess the impact of foreign direct investment on Nigerian capital market from 1970 to 2010. The study employed Johasen cointegration and ADF test to determine the long run relationship and stationarity of the variables under review and discovered that the variables were stationary but had no long run relationship. The result of the OLS regression showed that foreign direct investment impact positively and significantly on market capitalization in Nigeria.

Asien and Oriavwote (2013) examines the association between foreign capital inflows to Nigeria and real growth rate of gross domestic product, domestic credit to the private sector, rate of inflation, perceived level of corruption and market capitalization from 1982 to 2012. The results from the study suggest that domestic credit to the private sector, real growth rate of gross domestic product and market capitalization have been beneficial to foreign capital inflows to Nigeria.

Examining the impact of investment on stock market development in Nigeria from 2001-2010 was done by Nsofor (2016). The study employed Ordinary least square regression (OLS) technique and revealed positive and significant impact of investment on stock market development within the year under review. Finally, Shaibu, Osemwengie and Oseme (2014), studied the effect of capital market activities on economic growth (GDP) in Nigeria from 1975 to 2010 using VAR methodology. The study revealed that there exist a positive significant relationship between the All-share index and economic growth in Nigeria.

2.3.6 Foreign Direct Investment and Agricultural Output/Production

In the literature, it is revealed that a strong and an efficient agricultural sector would enable a country to feed its growing population, generate employment, earn foreign exchange and provide raw materials for industries. The agricultural sector has a multiplier effect on any nation's socio-economic and industrial fabric because of the multifunctional nature of agriculture. The level of funds channeled to the sector will play a more significant result in its output. Various studies have been carried out on agricultural output contribution to economic growth in the literature but this empirical review will deliberate more on foreign direct investment and agricultural sector performance/productivity.

According to traditionalist, the inflow of foreign investment improves agricultural productivity and economic growth by increasing the production capacity via technological advancement and international technology transfers. Blomstrom et al (1994) in their study of FDI and per capita income of 78 developing countries and 23 developed countries observe that FDI inflows had a significant positive effect on the average growth rate of per capita income (PCI) of the countries under consideration. However, when the sample of developing countries was split between two groups based on level of PCI, the effect of FDI on growth of lower income developing countries was not statistically significant although it still has a positive sign. They argue that least developed countries gain marginally from multinational enterprises (MNEs) because domestic enterprises are too far behind technologically to be either imitators or suppliers to MNEs.

However, UNCTAD (2000) maintains that FDI contributes to economic growth through technology transfer with the multinational firms transferring technology either directly to their foreign owned enterprises or indirectly to domestically owned and controlled firms in the host

country. Lucas (1988) further state that FDI spurs long-run growth through such variables as research and development (R&D), knowledge enhancement and human capital development. It is suggested that through technology transfer to their affiliates and technological spill-over to unaffiliated firms in the host economy, foreign companies can speed up the development of new intermediate product varieties, raise product quality, facilitate international collaboration on R&D, and introduce new forms of human capital.

Markuser (1995) in Iddrisu, Immurana and Halidu (2015) further state that there is growing evidence that foreign direct investment enhance technological changer through technological diffusions. He stated further foreign investment not only contribute to import of more efficient foreign technologies but also generate technological spillover for local firms.

Bonojour (2003) support the spillover channel of technological transfer by arguing that most important benefit of FDI and multinational co-operation on the host country is the increase of domestic firms' productivity. The African continent needs to increase its share of global FDI inflows as one of the most likely ways to increase the needed external capital for its development (Ngowi, 2001).

Alfaro and Charlton (2007) put forward the argument that a host country's sectoral composition is key in absorbing the spillover benefits since the said benefits across sectors such as services, agriculture, manufacturing and primary differ greatly.

Dutse (2008) opined that FDI facilitates productivity in Nigeria by generating both technological and efficiency spill over to local firms, encouraging innovation in the small and medium scale businesses, allowing technology adoption and developing human capital. Ayanwale and Bamire (2001) also added in their report that positive spills over of foreign firms on domestic firms' productivity are dominant in the small and medium scale businesses and

agricultural sectors. Thus, allowing for transfer of technology and spillovers in domestic agricultural sectors. This was supported by De Gregorio (2003) who noted that FDI may allow a country to bring in technologies and knowledge that are not readily available to domestic enterprises and in this way increases their productivity throughout the economy. Ikiara (2003) also opines that foreign firms allow local firms to appropriate its technology if this guarantees it access into some of the benefits available in the host country such as access to valuable local technology and possibility of receiving commercial advantages. Based on this premises of knowledge transfers that boost agricultural production (output), in the study of Olayiwola and Okodua (2005) a unidirectional causality runs from FDI to non-oil exports (agriculture and non-agriculture related activities). Responses of the economic growth, non-oil export and FDI to one standard deviation innovations were on the average, found to be dormant in the early stages of the out-of-sample forecast period but all demonstrated more pronounced responses after about seven years into the forecast period.

Oloyede (2014) examined the impact of FDI on the agricultural sector development of the Nigerian economy from 1981 to 2012 using secondary time series data for ADF stationarity test, OLS regression analysis and a granger causality test. The study discovered from the staitonarity result and OLS test that FDI positively impacted on agriculture in the short run and the granger result also showed a significant long run effect on agricultural output of Nigeria within the period under review. This was further stressed by the submission of Olayide and Essang (1976) who reported that Nigeria export earnings from major agricultural crops contributed significantly to the Gross Domestic Product (GDP).

In Bola (2007), agricultural sector remains the leading employment sector of the vast majority of the Nigerian population as it employs two- third of the labor force and Olatunji

(2002) stated that in Nigeria, farming still remains the sources of employment of majority of the adult population, its productivity is the most important single factor influencing the standard of living of both the rural and urban centers. The advantages prompted government direct involvement in agricultural activities and loan schemes to farmers to boost agricultural activities and to attract foreign investment into hugely untapped agricultural sector in 1973 and beyond. However, Ogen (2007) state that comparing Nigerian agricultural sector to that of Brazil and other developing countries of the world, the Nigerian government over time have been playing lip service to agricultural activities.

In the review of other countries on FDI and agricultural productivity, Elkanj et al (2013) found a positive impact of FDI on agriculture and economic growth in the Arabian countries. They also established that openness has even stronger positive impact on agricultural productivity and economic growth at large.

Djokoto (2011) in his study of the causal link or direction of movements between growth of FDI to agriculture and the growth of agricultural productivity by performing granger causality test using data covering the period 1966 and 2008 discover no causal link between the variables. Djokoto (2013) also looked at openness and performance of the agricultural sector, with FDI and trade openness as proxies for openness and data spanning the period 1995 to 2009 and discover that FDI and trade openness have no long term relationship with performance of agriculture in Ghana. However, he found openness and FDI to have negative and significant impact on agricultural performance over the short run. Insah (2013) also found a positive relationship between FDI and economic growth in Ghana, but noticed an inverse relationship between economic growth and FDI when the FDI values are lagged. Using the same data coverage of

between 1980 and 2010, Antwi et al (2013) found a similar result on Ghana by establishing that FDI has a positive relationship with economic growth in Ghana.

However, Nunnenkamp and Spatz (2003) criticize the view that developing countries should draw on FDI to create both agricultural and economic development. They conclude that the growth impacts of FDI are ambiguous because of highly aggregated FDI data. By disaggregating FDI and considering the compatibility of different types of FDI on agricultural and economic conditions prevailing in the host country, the positive growth effects of FDI are doubtful.

2.4   Summary of Literature

The study examined the effect of foreign direct investment on economic growth of Nigeria viewing the economy from different perspectives. In doing so Chapter two provided the Conceptual and theoretical foundation as well empirical evidence for the study. In this endeavour various classes of theories were discussed and two were adopted namely endogenous growth model theory and eclectic theory under the theoretical framework and finally several research works of notable authors around the world as well as locally were reviewed.

From the literatures reviewed, over 76% of the studies focused mainly on single country while 24% constituted comparative studies. While less than 30% of the comparative study focused on Africa and very few looked at the Sub-Sahara African region intently. The variables used in most cases were FDI, GDP, Manufacturing utilization (capacity) and Market Capitalization and less than 7% of the study was on Gross National Savings and agricultural productivity.

2.5   Gap in Literature

From the reviewed literatures, majority of the works done to examine the effect of FDI on Nigerian economic growth revealed the following gaps;

i.   Most of the work reviewed focused on single country analysis with single economic growth variable (Umeora, 2013; Farkas, 2012; Nadeem, Muhammad & Abdul, 2012; Adigwe, Ezeagba, &Francis, 2015)

ii.   There were limited works on how FDI affect savings in Nigeria (Edu, Inaya & Bassey, 2015; Uremadu, 2008).

iii.   The variables of study for the majority of the works did not adequately capture key sub growth variables in gross national savings and gross fixed capital formation in Nigeria.

iv.   The analytical methods adopted in most cases for data analysis were OLS and Johansen cointegration especially for data sharing time series characteristics (Uremadu, 2008; which used OLS technique;Ugwuegbe, Modebe & Onyeanu, 2014used OLS technique).

v.   There were clear inconsistencies and disagreements in some of the results obtained by various researchers particularly when compared with their apriori expectations.Mihir, Fritz, Foley and James (2005) and Sarkar (2007) post that FDI is detrimental to Domestic capital formation (investment); Ugwuegbe, Modebe and Onyeanu (2014) and Anfofum, Gambo and Suleiman (2013) FDI instigate and motivate domestic capital formation and growth).

This study based on the above listed observed gaps covered the following:

i)   Present a more current work on the subject (1984-2016) covering 33 years as earlier works covered a scope of 20years to 25 years and add to existing literatures.

ii)   Undertake a more robust country wide study of Nigeria economic growth.

iii)   Use more un-captured economic growth variable in Gross National Savings, Gross Domestic Fixed Capital Formation and agricultural output as measurement parameters.

iv)   Validate existing findings of scholars from studies on the Effect of FDI on Nigerian economic growth using Granger Causality technique.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1   Research Design

This contains the description of methods and procedures employed in data collection, design and validation of test instruments, testing of hypothesis and statistical analysis of raw data (Ibenta, 2008). The study adopts the *ex post facto* research method which is a very common and ideal method in conducting research in business and social sciences. It is mostly used where variables are drawn from already concluded events and there is no possibility of data manipulation. As for this work, there are two key reasons for the choice of the ex post facto method. Firstly, the data is secondary and is ex post from the Central Bank of Nigerian statistical bulletin of various years. Secondly, the reported figures or proxies for the variables of interest are not susceptible to the manipulations or doctoring of the researcher because, they are information in public domain and were easily verified.

3.2   Sources and Nature of Data

The data for this work are secondary data drawn from the statistical bulletin of the Central Bank of Nigeria for the range of years under study.

3.3   Model Specification and Validity

This research work adopts the model of Adigwe, Ezeagba andFrancis (2015), Othman, Jafari and Sarmidi, (2014) and Ugwuegbe, Modebe and Onyeanu (2014) with slight modifications (for example; removal of non-variable of interests). The researchers expressed economic growth indicators as a function of FDI.

Their models are stated thus;

$$GDP = \beta_0 + \beta_1 FDI + \beta_3 EXR + U_t$$

(Adigwe, Ezeagba &Francis, 2015)

$GDP = ß_0 + ß_1 FDI + ß_2 ME + U_t$ (where ME signify Macro-economic Condition)

(Othman, Jafari & Sarmidi, 2014)

$GFCF = ß_0 + ß_1 FDI + ß_2 GEXP + ß_3 INTR + ß_4 TCR + U_t$

(Ugwuegbe, Modebe & Onyeanu, 2014)

To examine the effect of FDI on GDP, Manufacturing capacity/utilization, Gross National Savings, Gross Fixed Capital Formation, Market capitalization and Agricultural Output; the model of the study are stated using the multivariate models estimation as shown below:

GDP   = f(FDI) 3.1

MU   = f(FDI) 3.2

GNS   = f(FDI) 3.3

GFCF = f(FDI) 3.4

MC   = f(FDI) 3.5

AO   = f(FDI) 3.6

Where:

GDP   = Gross Domestic Product

FDI   = Foreign Direct Investment

MU   = Manufacturing Capacity/Utilization

GNS   = Gross National Savings

GFCF   = Gross Fixed Capital Formation

MC   = Market Capitalization

AO   = Agricultural Output

$\boldsymbol{\mu}$ = Stochastic error term

a₀   = Constants that are estimated which are not explained by the independent variable.

 a₁ = is the estimate of the regression coefficients.

The independent variable known as FDI is the gross of all foreign direct investment types as available data did not make provision for the individual components. The economic developmentindicators (gross domestic product (GDP), Manufacturing capacity/utilization (MFC),gross national savings (GNS), gross fixed capital formation (GFCF), market capitalization (MC) and agricultural output/production (AO)) are the Dependent variables and the foreign direct investment (FDI) was the Independent variable.

These models equation 3.1 – 3.6 were transformed to log-linear econometric format to obtain the coefficient of the elasticity of the variables, while reducing the effect of any outliner variable. In the log-linear regression, the coefficients are easy to interpret as the problems of different units have been solved and the interpretation becomes easy in elasticity terms. Findings with log linear modeling specification are sensitive to functional form (Kalim, 2009) while Layson (1984) argued that log linear is superior to linear form and gives more favourable results. Thus;

$$\log GDP_t = \alpha_0 + \alpha_1 \log FDI_t + U_t \quad \ldots\ldots\ldots\ldots 3.7$$

$$\log MU_t = \alpha_0 + \alpha_1 \log FDI_t + U_t \quad \ldots\ldots\ldots\ldots 3.8$$

$$\log GNS_t = \alpha_0 + \alpha_1 \log FDI_t + U_t \quad \ldots\ldots\ldots\ldots 3.9$$

$$\log GFCF_t = \alpha_0 + \alpha_1 \log FDI_t + U_t \quad \ldots\ldots\ldots\ldots 3.10$$

$$\log MC_t = \alpha_0 + \alpha_1 \log FDI_t + U_t \quad \ldots\ldots\ldots\ldots 3.11$$

$$\log AO_t = \alpha_0 + \alpha_1 \log FDI_t + U_t \quad \ldots\ldots\ldots\ldots 3.12$$

3.4   Apriori Expectation

The apriori expectations adopted the findings of Adam and Tweneboah (2008), Adigwe, Ezeagba andFrancis (2015), Mohd and Izhar (2014), Othman, Jafari and Sarmidi, (2014) and Ugwuegbe, Modebe and Onyeanu (2014); which all stated a positive significant relationships between the foreign direct investment and economic growth variables/parameter indicators.

Under this model testings, the descriptive and Stationarity testing were done on all the variables and apriori reasoning that the economic growth indicators will flow in the same direction as FDI (Adigwe, Ezeagba &Francis, 2015;Ugwuegbe, Modebe & Onyeanu, 2014).

3.5   Techniques of Data Analyses

The data generated/collected was subjected to analysis. This studyappliedgranger causality techniques. The analytical tool used is Eviews9.5.

Several data analyses techniques were employed for the purposes of analyzing the collected data set and drawing conclusions based on them. The following analytical techniques and steps were followed:

     i.   Diagnostic Tests

    ii.   Test for Stationarity (Unit Root Test)

    iii.   Granger Causality Test

3.5.1   Diagnostic and Standard Tests

This is a test for the data behavior and goodness for the purposes of using them for the model estimation. This covers basic or descriptive statistics like skewness, kurtosis, normality, mean, median, variance, standard deviation etc. the mean, median and mode would be used to test the aggregative tendencies of the data set while variance, standard deviation, minimum and maximum would test spread and variability of the data sets.

The Jaque-Bera test for normality will be conducted to confirm that the data is normally distributed. According to Jacque and Bera (1980) the null hypothesis is a joint hypothesis of the skewness being zero and the excess kurtosis being zero. Samples from a normal distribution have an expected skewness of 0 and an expected excess kurtosis of 0 (which is the same as a kurtosis of 3).

3.5.2   Test for Stationarity

In carrying out this research work, it is important to test the stationarity properties of the time series. It has been observed of late that the body of statistical estimation theory is based on asymptotic convergence theorems which assume that the data are stationary and do not have mean reverting characteristics. In real life and with time series data, the asymptotic assumption most often does not hold. This implies that the data are found to be non-stationary as opposed to stationarity assumption.

The problem of stationarity lies with the fact that spurious regression commonly arises where the non-stationary series are used. Analyses and decisions based on such assumption of correlation in the light of spuriousness would not be quite dependable.

This is a test of stationarirty or non-stationarity in a data. By stationarity, we mean that the 'mean' and 'variance' are constant over time and the value of the covariance between the two time periods depends only on the distance or lag between the two time periods and not the actual time at which the covariance is computed. Using the Augmented Dickey Fuller (ADF) Test (Fuller, 1976; Dickey and Fuller, 1979) the model is as follows:

$Y: = Py_{t-1} + e_t$

Where, $P=1$

However, we regress Y_t on its (one period) lagged value Y_{t-1} and find out if estimated p is statistically equal to 1.

The Philip Peron (1988) test (PP) is different from the ADF test in that it makes provision for a drift term, time trend or structural break or shifts. It shall be used as a confirmatory test for ADF unit root test given that the model for PP most often produces the same result as the ADF (Brooks, 2008).

3.5.3   Test for Serial Correlation

In a time series or panel data model, this is correlation between the errors in different time periods. A series is said to be serially correlated where the data are correlated across time and the errors arise from adjacent time periods. It could either be positive or negative serial correlation:

$$\text{Corr}(u, u_s) \neq 0$$

A suspicion of serial correlation may be corrected using;

The Durbin-Watson (DW) Statistic: A test for first order autocorrelation, i.e. a test for whether a (residual) series is related to its immediately preceding values. One way to motivate the test and to interpret the test statistic would be in the context of a regression of the time t error on its previous value (Durbin & Watson, 1951).

$$U_t = pu_{t-1} \quad + \quad v_t$$

Where: u_t= Error term at time t; p = Probability values; v_t= Variable at time t.

The Breusch-Godfrey Statistic: This is a joint test for autocorrelation that will allow examination of the relationship between the mean of the error term and its lagged values at the same time. The Breusch-Godfrey test is a more general test for autocorrelation up to the order (Godfrey 1978, Pagan and Godfrey 1979).

3.5.4 Pairwise Granger Causality Test

This is used to prove the direction of influence. The test assumes that the information relevant to the prediction of the variable are contained solely in the time series data on these variables. Generally, since the future cannot predict the past, if variables x1, x2 and x3 should precede y. Therefore, in a regression of y on the variables (including its own past values) if we include past or lagged values x and it significantly improves the predication of y, then we can say that x (Granger) causes y and vice-versa. This test is popularized by Granger (1969) who assumed that the current values of a variable (Y) is conditioned on the past values of another (X) or the other way round. This test shows whether a bidirectional or unidirectional causality exists between the variables of interest. In this work, this test shall be adopted to confirm whether economic growth indicator granger causes foreign direct investments or foreign direct investments granger causes economic growth indicator. It may also show whether they both granger causes themselves. Specifically, it will show whether there is a causal relationship between the two and if there is, is it unidirectional or bidirectional.

The E-views statistical software version 9.5 was used to process the data.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS OF FINDINGS

4.1 DATA PRESENTATION

The developments of the critical variables used for the study is presented in table 4.1. The direction of the trend of FDI specified under column 2 and which is also the regressor or for the study would obviously impact either positively or negatively on the regressand i.e the dependent variables tabulated under column 3 to 8 of table 4.1.

Table 4.1: FDI into NIGERIAand Economic Development indicators 1984 –2016 (N' Billion)

	FDI	Agric	MU	MC	GDFCF	NS	GDP
1984	0.36	2,303.51	1,018.91	5.5	43.36	10.99	170.38
1985	0.43	2,731.06	1,416.79	6.6	40.93	12.52	192.27
1986	0.74	2,986.84	1,373.66	6.8	35.54	13.93	202.44
1987	2.45	2,891.67	1,398.10	8.2	27.16	18.68	249.44
1988	1.72	3,174.57	1,618.25	10.0	28.37	23.25	320.33
1989	13.88	3,325.95	1,665.09	12.8	28.94	23.80	419.20
1990	4.69	3,464.72	1,670.73	16.3	40.12	29.65	499.68
1991	6.92	3,590.84	1,829.34	23.1	39.97	37.74	596.04
1992	14.46	3,674.79	1,758.61	31.2	38.77	55.12	909.80
1993	29.66	3,743.67	1,706.70	47.5	44.97	85.03	1,259.07
1994	22.2	3,839.68	1,670.72	66.3	40.40	110.97	1,762.81
1995	75.9	3,977.38	1,592.49	180.4	29.82	108.49	2,895.20
1996	111.3	4,133.55	1,599.94	285.8	35.22	134.50	3,779.13
1997	110.5	4,305.68	1,609.83	281.9	38.33	177.65	4,111.64
1998	80.7	4,475.24	1,412.44	262.6	36.39	200.07	4,588.99
1999	92.8	4,703.64	1,459.02	300.0	35.33	277.67	5,307.36
2000	116.0	4,840.97	1,505.66	472.3	41.34	385.19	6,897.48
2001	132.4	5,024.54	1,666.49	662.5	6.33	488.05	8,134.14
2002	225.2	7,817.08	1,813.81	764.9	7.94	592.09	11,332.25
2003	258.4	8,364.83	1,918.09	1,359.3	12.99	655.74	13,301.56
2004	248.2	8,888.57	2,143.45	2,112.5	44.44	797.52	17,321.30
2005	654.2	9,516.99	2,350.99	2,900.1	39.80	1,316.96	22,269.98
2006	624.5	10,222.47	2,574.29	5,120.9	63.43	1,739.64	28,662.47
2007	759.4	10,958.47	2,823.53	13,181.7	89.90	2,693.55	32,995.38
2008	971.5	11,645.37	3,079.04	9,563.0	89.24	4,118.17	39,157.88
2009	1,273.8	12,330.33	3,323.41	7,030.8	120.27	5,763.51	44,285.56

2010	905.7	13,048.89	3,578.64	9,918.2	9,183.06	5,954.26	54,612.26
2011	1,360.3	13,429.38	4,216.19	10,275.3	8,425.76	6,531.91	62,980.40
2012	1,113.5	14,329.71	4,783.66	14,800.9	8,640.77	8,062.90	71,713.94
2013	875.1	14,750.52	5,826.36	19,077.4	9,320.35	8,656.12	80,092.56
2014	738.2	15,380.39	6,684.22	16,875.1	10,571.74	12,008.24	89,043.62
2015	602.1	15,952.22	6,586.62	17,003.4	10,636.22	11,458.13	94,144.96
2016	1,124.1	16,607.34	6,302.23	16,185.7	9,792.27	12,320.23	101,489.49

Source: CBN statistical Bulletin of Various years

4.2   Data Analysis

4.2.1   Descriptive Statistics and Test for Normality

The descriptive statistics were evaluated using the Jarque-Bera Normality test and requires that

for a series to be normally distributed; the histogram should be bell-shaped and the Jarque-Bera

statistics would not be significant. This implies that the p-value given at the bottom of the

normality test table should be greater than the chosen level of significance to accept the Null

hypothesis, that the series is Normally Distributed (Brooks, 2014).

Table 4.2:   Descriptive Statistics for FDI and Economic Development

	AGRIC	FDI	GDFCF	GDP	MC	MU	NS
Mean	7588.814	380.3487	2050.590	24415.12	4510.579	2605.374	2571.584
Median	4840.971	115.9522	40.40428	6897.482	472.3000	1758.606	385.1909
Maximum	16607.34	1360.308	10636.22	101489.5	19077.42	6684.218	12320.23
Minimum	2303.505	0.360000	6.331640	170.3778	5.500000	1018.907	10.98810
Std. Dev.	4721.699	443.4335	3948.626	31938.85	6394.893	1653.349	3918.322
Skewness	0.579092	0.856874	1.441868	1.205418	1.111008	1.453217	1.427766
Kurtosis	1.801278	2.263309	3.133879	3.061573	2.654885	3.795912	3.645564
Jarque-Bera	3.820196	4.784517	11.45905	7.996897	6.952636	12.48615	11.78487
Probability	0.148066	0.091423	0.003249	0.018344	0.030921	0.001944	0.002760
Sum	250430.9	12551.51	67669.47	805699.0	148849.1	85977.33	84862.26
Sum Sq. Dev.	7.13E+08	6292263.	4.99E+08	3.26E+10	1.31E+09	87473962	4.91E+08
Observations	33	33	33	33	33	33	33

Source: Computation by author using E-view 9.5

The descriptive statistics in table 4.2 shows the basic aggregative averages like mean, median

and mode for all the observations. The spread and variations in the series are also indicated using

the standard deviation. Significantly, kurtosis which shows the degree of peakedness is also

shown together with the skewness which is a reflection of the degree of or departure from

symmetry of the given series. With all the variables showing an average kurtosis≥ 2, there is evidence that they are all platykurtic with almost all the variables showing Jarque-Bera statistics of p-values below 5% level of significance, indicates a normal distribution except for agric which is pletokurtic.

4.2.3 Diagnostic Tests

The aim here is to carry out various diagnostic tests to ensure that our data and model used in this research work conforms to the basic assumptions of the classical linear regression. This will ensure that the output of this process is not error prone and is reliable.

4.2.2.1: Test for Stationarity

The test for stationarity requires that the variables in the series model to be stationery at a given level and p-value must be significant at that level. Stationarity is attained where the test statistics is most negative and greater than the critical value of the chosen level of significance.

Table 4.3:   Unit Root Tests for FDI and Economic Development Indicators

Variables	ADF Test Statistics	Critical Values @5%	P-value	Order of Integration
FDI	-6.772724	-2.960411	0.0000	I(1)
GDFCF	-5.976461	-2.960411	0.0000	I(1)
GDP	-9.661810	-3.568379	0.0000	I(2)
MC	-5.482645	-2.960411	0.0001	I(1)
MU	-5.365371	-2.963972	0.0001	I(2)
NS	-4.817735	-2.960411	0.0005	I(1)
AGRIC	-4.517557	-2.960411	0.0011	I(1)

Source: Computation by author using E-view 9.5

The stationarity outcome in table 4.3 reports that the tests for stationarity properties of the series (all the variables) following the Augumented Dickey Fuller (ADF) statistics were found to be stationery at order one (1) and (2). At the First difference as reported, the ADF Statistics for the respective variables were all negative than the critical values at 10% significance level. The reported P values were all less than 0.05 chosen level of significance for which cause, the Null Hypothesis of the presence of unit root in all the variables is convincingly rejected.

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4.3 Test of Hypotheses

Sixhypotheses were formulated with the following GDP, MU, GNS, GDFCF, MC and AGRIC as individual regressand and FDI as the regressor to the six regressands in the six models respectively. The hypotheses defined the effect of the regressor on the six regressand and vice versa. Thus, using either of vector auto-regression (VAR) granger causality method or vector error correction (VEC) granger causality method, the result of the model are shown below;

4.2.1: Model One

Test of Hypothesis One (1)

Ho_1: Foreign Direct Investments have no significanteffect on Gross Domestic Product in Nigeria.

HA_1: Foreign Direct Investments have significanteffect on Gross Domestic Product in Nigeria.

Table 4.4: Vector Auto-regression Granger Causality model for GDP and FDI

VAR Granger Causality/Block Exogeneity Wald Tests			
Date: 08/26/18 Time: 23:25			
Sample: 1984 2016			
Included observations: 31			
Dependent variable: FDI			
Excluded	Chi-sq	df	Prob.
GDP	3.863108	2	0.1449
All	3.863108	2	0.1449
Dependent variable: GDP			
Excluded	Chi-sq	df	Prob.
FDI	23.10541	2	0.0000
All	23.10541	2	0.0000

Source: Computation by author using E-view 9.5

From table 4.4, the vector auto-regression granger causality result indicate that FDI was able to granger-cause a change in GDP in the long run but the GDP was unable to granger cause a change in FDI significantly. This result shows unidirectional impact from FDI to GDP. The VAR granger effect is shown in Chi-sq of 23.10541 with probability value of 0.0000 which is less than the significance level of 5% and proves that FDI have significant effect on GDP in

Nigeria, however GDP was unable to show granger effect with Chi-sq of 3.86108 with probability value of 0.1449 which is more than the significance level of 5%.

Hypothesis one Decision

Based on the findings of the analysis in table 4.4, the study therefore reject the null hypothesis that states that foreign direct investments have no significant effect on GDP thereby accepting the alternative that states that foreign direct investments (FDI) have significant effect on GDP in Nigeria.

4.3.2 Model Two

Test of Hypothesis Two (2)

Ho_2: Foreign Direct Investments do not significantly affect on manufacturing capacity/utilizationin Nigeria.

HA_2: Foreign Direct Investments do significantly affect on manufacturing capacity/utilizationin Nigeria.

Table 4.5:   Vector Auto-regression Granger Causality Model for MU and FDI

VAR Granger Causality/Block Exogeneity Wald Tests			
Date: 08/26/18 Time: 23:11			
Sample: 1984 2016			
Included observations: 31			
Dependent variable: FDI			
Excluded	Chi-sq	df	Prob.
MU	9.522825	2	0.0086
All	9.522825	2	0.0086
Dependent variable: MU			
Excluded	Chi-sq	df	Prob.
FDI	18.10486	2	0.0001
All	18.10486	2	0.0001

Source: Computation by author using E-view 9.5

The table 4.5 VARgranger causality results indicate bidirectional effect from FDI to manufacturing capacity/utilization and vice versa within the period under review. The result showed that FDI granger-cause manufacturing capacity/utilization with Chi-sq of 18.10486 and probability value of 0.0.0001,and the manufacturing capacity was also able to granger cause a

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significant effect with Chi-sq of 9.522825 and p-value of 0.0086which is less than the significance level of 5%. Thus, FDI significantly affect on manufacturing capacity/utilization in Nigeria with a corresponding effect from manufacturing capacity/utilization significantly to FDI within the same period under review.

Hypothesis Two Decision

Based on the findings and conclusion of the analysis in table 4.5, the study therefore reject the null hypothesis that states that foreign direct investments do not significantly affect on manufacturing capacity/utilization therefore accepting the alternative that states that foreign direct investments (FDI) do significantlyaffect on manufacturing capacity/utility in Nigeria.

4.3.3   Model Three

Test of Hypothesis Three (3)

Ho_3:   Foreign Direct Investments exert no significant effect on Gross National Savings in Nigeria.

HA_3:   Foreign Direct Investments exert significant effect on Gross National Savings in Nigeria.

Table 4.6:   Vector Error Correction Granger Causality model for GNS and FDI

VEC Granger Causality/Block Exogeneity Wald Tests			
Date: 08/26/18 Time: 23:09			
Sample: 1984 2016			
Included observations: 30			
Dependent variable: D(FDI)			
Excluded	Chi-sq	df	Prob.
D(NS)	9.372316	2	0.0092
All	9.372316	2	0.0092
Dependent variable: D(NS)			
Excluded	Chi-sq	df	Prob.
D(FDI)	26.04815	2	0.0000
All	26.04815	2	0.0000

Source: Computation by author using E-view 9.5

In table 4.6, the VEC granger causality result showed that the long run effect between gross national saving and FDI is bidirectional and significant at 5% significance level. The result

showed that FDI granger-cause gross national savings significantly showing Chi-sq of 26.04815 and probability value of 0.0000with a corresponding effect of gross national savings on FDI via Chi-sq of 9.372316 and probability values of 0.0092 at 5% significance level. Thus, confirming the significance of bidirectional effect of FDI on NS and vice versa since their probability values are less than the critical significance level of 5%.

Hypothesis Three Decision

Hence, in line with the findings of the analysis in table 4.6, the study therefore reject the null hypothesis that states that foreign direct investments exert no significant effect on gross national savings thus accepting the alternative hypothesis that states that foreign direct investments (FDI) exert significant effect on gross national savings in Nigeria within the period under review.

4.3.4   Model Four

Test of Hypothesis Four (4)

H_{O4}:   Foreign Direct Investments have no significant effect on Gross Domestic Fixed Capital Formations in Nigeria.

HA_4:   Foreign Direct Investments have significant effect on Gross Domestic Fixed Capital Formations in Nigeria.

Table 4.7:   Vector Error Correction Granger Causality Model for GDFCF and FDI

VEC Granger Causality/Block Exogeneity Wald Tests			
Date: 08/26/18 Time: 23:28			
Sample: 1984 2016			
Included observations: 30			
Dependent variable: D(FDI)			
Excluded	Chi-sq	df	Prob.
D(GDFCF)	3.091319	2	0.2132
All	3.091319	2	0.2132
Dependent variable: D(GDFCF)			
Excluded	Chi-sq	df	Prob.
D(FDI)	0.620787	2	0.7332
All	0.620787	2	0.7332

Source: Computation by author using E-view 9.5

The table 4.7 VEC granger causality results indicated absence of the long run effect of FDI on gross domestic fixed capital formation (GDFCF) with probability value of 0.7332 which is more than the critical value of 5% significance level. The high Chi-sq of 0.620787 further showcase the inability of FDI to significantly affect GDFCF confirming no significant effect and relationship between FDI and GDFCF within the period under review. The result also showed that FDI was unable to be granger-caused by GDFCF as low Chi-sq of 3.091319 with probability value of 0.2132 which is more than the critical significance level of 5% further confirms the insignificant effect of GDFCF on FDI in Nigeria. Thus, FDI haveno significant effect on GDFCF in Nigeria.

Hypothesis Four Decision

The findings of table 4.7 analysis thus prove that the null hypothesis which states that foreign direct investments have no significant effect on GDFCF is accepted thus rejecting the alternative that states that foreign direct investments (FDI) have significant effect on GDFCF in Nigeria in the long run.

4.3.5 Model Five

Test of Hypothesis Five (5)

Ho_5: Foreign Direct Investments have no significant effect on Market Capitalization in Nigeria.

HA_5: Foreign Direct Investments have significant effect on Market Capitalization in Nigeria.

Table 4.8: Vector Error Correction Granger Causality Model for MC and FDI

VEC Granger Causality/Block Exogeneity Wald Tests			
Date: 08/26/18 Time: 23:32			
Sample: 1984 2016			
Included observations: 30			
Dependent variable: D(FDI)			
Excluded	Chi-sq	df	Prob.
D(MC)	0.062112	2	0.9694
All	0.062112	2	0.9694
Dependent variable: D(MC)			

Excluded	Chi-sq	df	Prob.
D(FDI)	1.591653	2	0.4512
All	1.591653	2	0.4512

The table 4.8 VEC granger causality results indicate no line of directional relationship between FDI and market capitalization within the period under review. The result showed that FDI does not granger-cause manufacturing capacity/utilization with Chi-sq of 1.591653 and probability value of 0.4512. The MC was also unable to granger cause FDI with Chi-sq of 0.062112 with probability value of 0.9694 which is higher the statistical significance level of 0.05. Thus, FDI have no significant effect on market capitalization and there was also no effect from MC to foreign direct investment in Nigeria.

Hypothesis Five Decision

In line with the findings of table 4.8, the analysis showed that the null hypothesis which states that foreign direct investments have no significant effect on MC is accepted thus rejecting the alternative that states that foreign direct investments (FDI) have significant effect on MC in Nigeria in the long run.

4.3.6   Model Six

Test of Hypothesis Six (6)

Ho_6:   Foreign Direct Investments have no significant effect on Agricultural Production in Nigeria.

HA_6:   Foreign Direct Investments have significant effect on Agricultural Production in Nigeria.

Table 4.9:   Vector Error Correction Granger Causality Model for AGRIC and FDI

VEC Granger Causality/Block Exogeneity Wald Tests			
Date: 08/26/18 Time: 23:34			
Sample: 1984 2016			
Included observations: 30			
Dependent variable: D(FDI)			
Excluded	Chi-sq	df	Prob.
D(AGRIC)	1.327161	2	0.5150

All	1.327161	2	0.5150
Dependent variable: D(AGRIC)			
Excluded	Chi-sq	df	Prob.
D(FDI)	1.006772	2	0.6045
All	1.006772	2	0.6045

Source: Computation by author using E-view 9.5

The table 4.9 granger causality results indicate absence of relational effect between FDI and agriculture output within the period under review. The result showed that FDI was unable to significantly granger-cause agricultural output as indicated by the Chi-sq of 1.006772 and extremely high p-value of 0.6045 which is more than the critical 5% significance level. The FDI also is insignificantly granger caused by agricultural output (as shown by Chi-sq of 1.327161 with p-value of 0.5150> 0.05) within the period under review.

Hypothesis Six Decision

Based on the findings of the analysis in table 4.9, the study therefore accept the null hypothesis that states that foreign direct investments have no significant effect on agricultural output therefore rejecting the alternative that states that foreign direct investments (FDI) have significant effect on agricultural output in Nigeria.

4.4   Discussion of Findings

This study examined the effect of Foreign Direct Investment on economic growth variables in Nigeria from 1984 to 2016 with a view to affirming or refuting the nexus between Foreign Direct Investment and economic growth variables in Nigeria using empirical evidence from Nigeria. Following a detail theoretical review and empirical analyses, findings were made in line with the research questions as well as set and tested hypotheses. The study employed six models and used diagnostics tests namely – Unit root test and VAR/VEC granger causality tests techniques to test and analyze the effect of FDI on economic growth represented in table 4.2; and

the subsequent tests results in tables 4.4 to table 4.9. The findings are hereby discussed below in line with the objectives of this study.

Objective One: To explore the effect of Foreign Direct Investments on Gross Domestic Product in Nigeria.

The result of the VAR granger causality result revealed that Foreign Direct Investment (FDI) inflows significantly and positively affect economic growth variable in Gross Domestic Product (GDP) in Nigeria. The granger causality result of FDI to GDP shows 23.10541 with P-value of 0.0000 showing that FDI significantly granger causes an effective change in GDP within the period under review. Thus, FDI inflow shows positive and significant effect on Nigerian economic growth in GDP. The result of this study is consistent with the findings of Heang and Moolio (2013), Onakoya (2012),Farkas (2012), Qaiser, Salman, Ali, Hafiz and Muhammad (2011)and Sandalcilar and Altiner (2012) who also discovered a positively significant effect of FDI on GDP (economic growth). A plausible direct interpretation of this result is that the FDI Inflow overtime affected economic growth (GDP) due to robustness and industrial nature of the Nigerian investment environment.

Objective Two: To find out the effect of Foreign Direct Investments on Manufacturing capacity/Utilization in Nigeria.

The result of the VAR granger causality test shows that Foreign Direct Investments inflows have high positive and significant effect on (Manufacturing capacity/utilization [MU]) economic growth of Nigeria. The study showed that past levels of FDI inflows positively and significantly affect Manufacturing Utilization in Nigeria with F-statistics of 18.10486.The result of this study for Nigeria is corroborated by the study of Rutaihwa and Simwela (2012), Nguyen, Duysters, Patterson and Sander (2017), Raju and Samal (2016), Onyekwena (2012), Managi and

Bwalya (2010) whose study found a positive and significant effect of FDI inflows on Manufacturing Utilization in Nigeria. Thus, the result corroborates and supports our apriori expectations.

Objective Three: To ascertain the effect of Foreign Direct Investments on Gross National Savings in Nigeria.

The result of the VEC granger causality result revealed that Foreign Direct Investment (FDI) inflows significant and positively affect economic growth variable in Gross National Savings (GNS) in Nigeria in the long run. The granger causality result of FDI to GNS shows 9.372319 with P-value of 0.0092 showing that FDI significantly granger causes an effective change in NS within the period under review. Thus, FDI inflow shows more positive effect on Nigeria economic growth in GNS. The result of this study is consistent with the findings of Othman, Jafari & Sarmidi, (2014) and Ruranga, Ocaya and Kaberuka (2014) who also discovered a positively significant effect of FDI on GNS (economic growth). A plausible direct interpretation of this result is that the FDI Inflow overtime affected economic growth (GNS) due to retention of funds and improved domestic market. However, the result of this objective was contradicted by Edu, Inaya and Bassey (2015) and Uremadu (2008) who discovered that FDI inflows have no significant effect on Gross National savings. The study thus holds that the result corroborate our apriori expectation of positive effect of FDI inflows on economic variables.

Objective Four: To access the effect of Foreign Direct Investments on Gross Domestic Fixed Capital Formations in Nigeria.

The results of the VEC granger causality result showed that Foreign Direct Investment (FDI) has a positive but insignificant effect on (GDFCF) economic growth of Nigeria. The study showed that features of Foreign Direct Investment have positive Chi-sq of 0.620787with

probability of 0.7332 signifying that FDI showed positive but insignificantly effecton GDFCF of Nigeria.

The result of this study is contradicted by the findings of Krkoska (2001), Ulussever (2010), Ugwuegbe, Modebe and Onyeanu (2014) and Hejazi & Pauly (2002)who found a statistically significant effect of FDI on GDFCF (economic growth). This study experience supports the apriori expectations of positive effect of FDI on GDFCF. A probable direct interpretation of this result is that the effort of FDI (Foreign Direct Investment) inflow for Nigeria is concentrated in key productive and economic enhancement investments which help to also attract FDI spillovers but are however insignificant.

Objective Five: To determine the effect of Foreign Direct Investments on Market Capitalization in Nigeria.

The VEC granger causality results showed that Foreign Direct Investments (FDI) Inflows has a positive and statistically insignificant effect on Market Capitalization (MC) in Nigeria. This finding is revealed by the granger causality effect of FDI inflow on MC in Chi-sq of 1.591653 with p-value of 0.4512.The result of this study is contradicted by the findings of Muhammad and Abedalsattar (2010), Kalim and Shahbaz (2009), Kwaku and Wiafe (2013), Eniekezimene (2013), Adaramola and Obisesan (2015) and Nsofor (2016) who found a positive and significant effect of FDI inflow on MC. However, the study was supported by Zafar, Qureshi and Abbas (2013). The finding further supports our apriori expectation of a positive effect.

Objective Six: To determine the effect of Foreign Direct Investments on Agricultural Productivity in Nigeria.

The result of the VECgranger causality showed that Foreign Direct Investment (FDI) inflows were unable to significantly affect economic growth variable in Agricultural

Productivity(AGRIC)in Nigeria. The study showed that FDI inflows has a positive butinsignificant (in Chi-sq of1.006772 and extremely high p-value of 0.6045 which is more than the critical 5% significance level) effect on Agricultural productivity (AGRIC) at 5% level of significance. The result of this study contradict the findings of Immurana and Halidu (2015) Dutse (2008) and Oloyede (2014) who discovered a positively significant effect of FDI on Agriculture (economic growth). A plausible direct interpretation of this result is that the FDI Inflow overtime could not affect economic growth (AGRIC) due to total abandonment of the sector by both government and the investors. The study thus holds that the result does not corroborate our apriori expectation of positive effect of FDI inflows on economic growth variables.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1   Summary of Findings

The findings from the specific objectives of this study are as follows:

1.   That Foreign Direct Investment (FDI) Inflow has positive and significant effect on Gross Domestic Product (GDP) in Nigeria.

2.   Foreign Direct Investment (FDI) Inflow has positive and significant effect on manufacturing capacity/utilization (MU) in Nigeria.

3.   That Foreign Direct Investment (FDI) Inflow has positive and significant effect on Gross National Savings in Nigeria. The granger causality result further showed that FDI affected Gross National Savings positively and significantly and vice versa.

4.   That Foreign Direct Investment has positive butinsignificant effect on Gross Domestic Fixed Capital Formation in Nigeria. The insignificant effect of FDI on GDFCF is further stressed by low Chi-sq outcome of VEC granger causality.

5.   Foreign Direct Investment (FDI) Inflow has positive and insignificant effect on Market Capitalization in Nigeria.

6.   That Foreign Direct Investment (FDI) Inflow has positive but insignificant effect on Agricultural Production within the period under review.

5.2   Conclusion

This research work studied the effect of Foreign Direct Investment (FDI) Inflowon Nigerian economic development variables.

Studies in favour of Foreign Direct Investment Inflow on economic development and contradictions were reviewed from theoretical and empirical literature. Even lines of argument which suggests that economic growth responds to Foreign Direct Investment Inflow postulate that it drives Gross Domestic Product, improve Manufacturing capacity/utilization (MU), increase the Market Capitalization (MC), aid increased Gross National Savings (NS), improve Agricultural Production (AGRIC) and help build Gross Domestic Fixed Capital Formation (GDFCF) in Nigeria. It is generally accepted across the globe irrespective of ideological bent that no economy thrives very well in global financial village without FDI, either in the form of re-investment or port folio re-investment. FDI therefore occupy a strategic position in the economies of developing countries and those of the emerging market. Every developing and emerging country attract FDI to catch up with the advance countries by opening up its economy to foreign direct investors in view of the poor level of savings and capital formation of those countries;thus FDI helps to bridge deficit gap between savings and investment of developing and emerging market. FDI have direct effect on GDP, and its effects cut across the economy for example inMarket Capitalization (MC), Gross National Savings (NS) and Gross Domestic Fixed Capital Formation (GDFCF) except Agricultural output (AGRIC) and Manufacturing Capacity/Utilization; this study is thus motivated touse a more dynamic and robust analytical tool that capture the time series nature of the data to ascertain the effect of FDI inflows on the economic growth variables in Nigeria.

Based on the findings of the study in chapter four, the study concludes that Foreign Direct Investment inflows positively and significantly affect economic growth variables in gross domestic product (GDP), gross national savings (NS) and manufacturing capacity/utilization but

have no significant effect on market capitalization (MC),gross domestic fixed capital formation (GDFCF) and agricultural output.

5.3   Recommendations

In line with the objectives of this study, findings and conclusions were made which facilitate for the following recommendations: There is a need for domestic actions which involve actions to be taken by policy makers in the country. These include image building (re-branding Nigeria), domestic regulatory reforms and marketing of investment opportunities.

1.   The governments should improve the currently dwindling image of the country, which is the key to reversing the fluctuations in FDI trend of the country. This requires an increase in Political stability, Macroeconomic stability and the protection of property rights as well as the rule of law. This will allow the countries to maximize the gains of the spillover effects of FDI on the GDP and retained funds to increase economic activities in manufacturing, agricultural production, national savings etc.

2.   The governments should encourage and improve the investment climate for existing domestic and foreign investors through infrastructure development; provision of services and changes in the regulatory framework by relaxing laws on profit repatriation etc which will encourage them to increase their investments in the manufacturing sector of the economy and also attract new investors. In the case of domestic investors, an improvement in the investment climate will also encourage them to keep their wealth in the region.

3.   Government should create awareness of investment opportunities through the use of existing investors and information communication technologies such as the internet to

advertise the various economic sectors that have investment potentials and previous investment successes. This is also relevant because studies have shown that previous success will motivate investors to take advantage of the investment goodwill and national savings resulted from previous investments.

4.   There is also the need for the country to adopt a more targeted investment promotion strategy like capital formation. In other words, identification of the sectors where comparative and competitive advantages exist and then promote FDI into those sectors. This would make investment promotion less costly and more effective capital formation.

5.   The Nigerian government should improve the investment climate via enhancement of the stock market activities to raise funds from both local financial investors and foreign investors so as to augment economic engagement of viable companies who need funds for further investments. Thus, the focal point of action should be to coordinate stock market policy, promote investment, improve security, and increase connectivity to global market to improve FDI inflows.

6.   Nigeria relies on the exportation of crude oil commodities for foreign exchange earnings. This exposes them to significant terms of trade shocks. Hence, the Nigerian economy should be diversified by enhancing the agricultural sector activities. Diversification of the Nigerian economy will help to cushion the effects of these shocks and reduce country risk. The reduction in country risk will attract FDI into the diversified agricultural sector of the economy at the secondary and tertiary level.

5.4   Contributions to Knowledge

The study empirically proves that foreign direct investment inflows have significant effect on economic growth of Nigeria which is in line with our apriori expectations of the study.

1. This work contributes to current literature on subject by extending number of years used by other scholars from 20 years to 33 years (1984 – 2016).

2. This work further validates the findings of some researchers Dutse (2008) and Oloyede (2014), Eniekezimene (2013), Adaramola and Obisesan (2015) and Nsofor (2016), Ugwuegbe, Modebe and Onyeanu (2014), Nguyen, Duysters, Patterson and Sander (2017), Raju and Samal (2016), Onyekwena (2012), Heang and Moolio (2013), Onakoya (2012) andFarkas (2012)that foreign direct investment inflows significantly affects economic growth.

3. Most reviewed literature looked at foreign direct investment inflow on gross domestic product, Manufacturing capacity/utilization, market capitalization with little research on gross domestic fixed capital formation, gross national savings and agricultural output. This work adds gross national savings, agricultural output and gross domestic capital formation to economic growth variables that respond to foreign direct investment inflows in Nigeria.

5.5 Recommendations for Further Studies

As this work does not claim to be exhaustive, this study recommends the following for further studies:

1. The long run relationship of Foreign Direct Investment inflow on economic growth of Nigeria considering all the economic growth variables used in the study.

2. Secondly, the researcher recommends a vector auto-regression study of the effect of Foreign Direct Investment inflow on economic growth of Nigeria.

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Appendix
Unit root tests
Appendix I: FDI Unit root test

			t-Statistic	Prob.*
Null Hypothesis: D(FDI) has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=0)

			t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic			-6.772724	0.0000
Test critical values:	1% level		-3.661661	
	5% level		-2.960411	
	10% level		-2.619160	

*MacKinnon (1996) one-sided p-values.
Augmented Dickey-Fuller Test Equation
Dependent Variable: D(FDI,2)
Method: Least Squares
Date: 12/17/17   Time: 13:23
Sample (adjusted): 1986 2016
Included observations: 31 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(FDI(-1))	-1.358871	0.200639	-6.772724	0.0000
C	43.21467	32.90477	1.313325	0.1994
R-squared	0.612661	Mean dependent var		16.83907
Adjusted R-squared	0.599304	S.D. dependent var		287.3884
S.E. of regression	181.9184	Akaike info criterion		13.30733
Sum squared resid	959734.5	Schwarz criterion		13.39985
Log likelihood	-204.2637	Hannan-Quinn criter.		13.33749
F-statistic	45.86979	Durbin-Watson stat		1.782516
Prob(F-statistic)	0.000000			

Source: Computation by author using E-view 9.5

Appendix II: GDFCF Unit root test

Null Hypothesis: D(GDFCF) has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=0)

			t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic			-5.976461	0.0000
Test critical values:	1% level		-3.661661	
	5% level		-2.960411	
	10% level		-2.619160	

*MacKinnon (1996) one-sided p-values.
Augmented Dickey-Fuller Test Equation
Dependent Variable: D(GDFCF,2)
Method: Least Squares
Date: 12/17/17   Time: 13:27
Sample (adjusted): 1986 2016
Included observations: 31 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(GDFCF(-1))	-1.111540	0.185986	-5.976461	0.0000
C	352.6731	307.5917	1.146563	0.2609
R-squared	0.551903	Mean dependent var		-27.14587
Adjusted R-squared	0.536451	S.D. dependent var		2461.128
S.E. of regression	1675.645	Akaike info criterion		17.74812
Sum squared resid	81425768	Schwarz criterion		17.84064
Log likelihood	-273.0959	Hannan-Quinn criter.		17.77828
F-statistic	35.71809	Durbin-Watson stat		1.994263
Prob(F-statistic)	0.000002			

Source: Computation by author using E-view 9.5

Appendix III: GDP Unit root test

			t-Statistic	Prob.*
Null Hypothesis: D(GDP,2) has a unit root				
Exogenous: Constant, Linear Trend				
Lag Length: 0 (Automatic - based on SIC, maxlag=6)				
Augmented Dickey-Fuller test statistic			-9.661810	0.0000
Test critical values:	1% level		-4.296729	
	5% level		-3.568379	
	10% level		-3.218382	
*MacKinnon (1996) one-sided p-values.				
Augmented Dickey-Fuller Test Equation				
Dependent Variable: D(GDP,3)				
Method: Least Squares				
Date: 12/18/17 Time: 19:43				
Sample (adjusted): 1987 2016				
Included observations: 30 after adjustments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(GDP(-1),2)	-1.580921	0.163626	-9.661810	0.0000
C	309.8246	558.7628	0.554483	0.5838
@TREND("1984")	1.886456	28.54147	0.066095	0.9478
R-squared	0.775992	Mean dependent var		75.16397
Adjusted R-squared	0.759399	S.D. dependent var		2756.624
S.E. of regression	1352.155	Akaike info criterion		17.35143
Sum squared resid	49364696	Schwarz criterion		17.49155
Log likelihood	-257.2714	Hannan-Quinn criter.		17.39625
F-statistic	46.76574	Durbin-Watson stat		1.837813
Prob(F-statistic)	0.000000			

Source: Computation by author using E-view 9.5

Appendix IV: MC Unit root test

			t-Statistic	Prob.*
Null Hypothesis: D(MC) has a unit root				
Exogenous: Constant				
Lag Length: 0 (Automatic - based on SIC, maxlag=0)				
Augmented Dickey-Fuller test statistic			-5.482645	0.0001
Test critical values:	1% level		-3.661661	
	5% level		-2.960411	
	10% level		-2.619160	
*MacKinnon (1996) one-sided p-values.				
Augmented Dickey-Fuller Test Equation				
Dependent Variable: D(MC,2)				
Method: Least Squares				
Date: 12/17/17 Time: 13:37				
Sample (adjusted): 1986 2016				
Included observations: 31 after adjustments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(MC(-1))	-1.023677	0.186712	-5.482645	0.0000
C	534.8898	401.2380	1.333099	0.1929
R-squared	0.508969	Mean dependent var		-26.41171
Adjusted R-squared	0.492037	S.D. dependent var		3030.738
S.E. of regression	2160.053	Akaike info criterion		18.25599
Sum squared resid	1.35E+08	Schwarz criterion		18.34851
Log likelihood	-280.9679	Hannan-Quinn criter.		18.28615
F-statistic	30.05939	Durbin-Watson stat		2.000198
Prob(F-statistic)	0.000007			

Source: Computation by author using E-view 9.5

Appendix V: MU Unit root test

		t-Statistic	Prob.*
Null Hypothesis: D(MU,2) has a unit root			
Exogenous: Constant			
Lag Length: 0 (Automatic - based on SIC, maxlag=0)			
Augmented Dickey-Fuller test statistic		-5.365371	0.0001
Test critical values:	1% level	-3.670170	
	5% level	-2.963972	
	10% level	-2.621007	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(MU,3)
Method: Least Squares
Date: 12/17/17   Time: 13:42
Sample (adjusted): 1987 2016
Included observations: 30 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(MU(-1),2)	-0.969419	0.180681	-5.365371	0.0000
C	-7.536939	44.41158	-0.169707	0.8665
R-squared	0.506931	Mean dependent var		8.473984
Adjusted R-squared	0.489322	S.D. dependent var		339.6257
S.E. of regression	242.7025	Akaike info criterion		13.88589
Sum squared resid	1649326.	Schwarz criterion		13.97930
Log likelihood	-206.2884	Hannan-Quinn criter.		13.91577
F-statistic	28.78721	Durbin-Watson stat		1.922420
Prob(F-statistic)	0.000010			

Source: Computation by author using E-view 9.5

Appendix VI: NS Unit root test

		t-Statistic	Prob.*
Null Hypothesis: D(NS) has a unit root			
Exogenous: Constant			
Lag Length: 0 (Automatic - based on SIC, maxlag=0)			
Augmented Dickey-Fuller test statistic		-4.817735	0.0005
Test critical values:	1% level	-3.661661	
	5% level	-2.960411	
	10% level	-2.619160	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(NS,2)
Method: Least Squares
Date: 12/17/17   Time: 13:44
Sample (adjusted): 1986 2016
Included observations: 31 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(NS(-1))	-0.891639	0.185074	-4.817735	0.0000
C	357.0090	151.4844	2.356738	0.0254
R-squared	0.444557	Mean dependent var		27.76007
Adjusted R-squared	0.425404	S.D. dependent var		993.0068
S.E. of regression	752.7203	Akaike info criterion		16.14761
Sum squared resid	16431047	Schwarz criterion		16.24012
Log likelihood	-248.2879	Hannan-Quinn criter.		16.17776
F-statistic	23.21057	Durbin-Watson stat		2.085090
Prob(F-statistic)	0.000042			

Source: Computation by author using E-view 9.5

Appendix VII: AGRIC Unit root test

			t-Statistic	Prob.*
Null Hypothesis: D(AGRIC) has a unit root				
Exogenous: Constant				
Lag Length: 0 (Automatic - based on SIC, maxlag=0)				
Augmented Dickey-Fuller test statistic			-4.517557	0.0011
Test critical values:	1% level		-3.661661	
	5% level		-2.960411	
	10% level		-2.619160	
*MacKinnon (1996) one-sided p-values.				
Augmented Dickey-Fuller Test Equation				
Dependent Variable: D(AGRIC,2)				
Method: Least Squares				
Date: 12/17/17 Time: 13:46				
Sample (adjusted): 1986 2016				
Included observations: 31 after adjustments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(AGRIC(-1))	-0.828964	0.183498	-4.517557	0.0001
C	372.3180	122.1790	3.047315	0.0049
R-squared	0.413054	Mean dependent var		7.340650
Adjusted R-squared	0.392815	S.D. dependent var		654.8987
S.E. of regression	510.3107	Akaike info criterion		15.37026
Sum squared resid	7552094.	Schwarz criterion		15.46277
Log likelihood	-236.2390	Hannan-Quinn criter.		15.40042
F-statistic	20.40832	Durbin-Watson stat		2.037777
Prob(F-statistic)	0.000097			

Source: Computation by author using E-view 9.5