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Foreign Direct Investment Trends and Economic Growth in Africa: Nigeria Experience in Pre Recession Era

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Abstract: *In developing societies, foreign direct investment is an invaluable tool for achieving economic growth by enhancing competitiveness through offering employment, transferring sophisticated technologies, boosting productivity and promoting infrastructure. The main objective of the paper is to examine the trends of foreign direct investment and economic growth in Africa, with specific reference to Nigeria's experience in pre-recession period. The paper notes that foreign direct investment provides capital for investment, it enhances job creation and managerial skills, and possibly technology transfer. The paper observe that prior to the economic recession, Nigeria experienced continued increased in foreign direct investment. The study is an empirical investigation, using a time series data between 1999-2014. The data collected was analyzed using table of frequency distribution, bar chart, graph and correlation analysis. The analysis shows that there is a high positive correlation relationship between FDI and economic growth in Nigeria during the period under study. Based on the results and findings, the paper recommend among others that for Nigeria to optimize the potential benefits of FDI, it is important that the government exercise fiscal discipline and control measures in its pattern of borrowing and spending.*

Keywords: Foreign Direct Investment, Economic Growth, Recession, Development, Per Capita Income

1. Introduction

Most countries strive to attract foreign direct investment (FDI) because of its acknowledged advantages as a tool of economic growth. Africa in general and Nigeria in particular joined the rest of the world in seeking FDI as evidenced by the formation of the New Partnership for Africa's Development (NEPAD), which has the attraction of foreign investment to Africa as a major component (Ayanwale, 2007). The role of foreign direct investment in the development of Nigerian economy cannot be over emphasized. Foreign direct investment provides capital for investment, it enhances job creation and managerial skills, and possibly technology transfer (Obida & Abu, 2010).

Foreign Direct Investment is considered an encouraging impetus for economic growth by enhancing competitiveness through offering employment, transferring sophisticated technologies, boosting productivity and promoting infrastructure, etc. FDI is seen as a way of filling the gap between domestic available supplies of saving, government revenue, human capital skills and the desired level of resources needed to achieve growth and development targets (Okonkwo, Egbunike & Udeh, 2015). FDI makes significant contributions to the host country's development process especially through easing of the constraints of low levels of domestic savings and investment as well as foreign exchange shortages. It increases the gross domestic product and generates a stream of real incomes in the host country. Nigeria is one of the economies with great demand for goods and services and has attracted some FDI over the years. This is 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.

2. Statement of the Problem

Nigeria being a developing economy has not been different from other developing economies in using foreign direct investment (FDI) as a strategy for achieving economic growth and development. However, unlike countries like Malaysia, Nigeria in spite of its 12 huge deposit of human, natural and material resources has failed to achieve rapid economic growth

The World Bank Global Business Index of 2015 ranked Nigeria 169th position out of 189 countries ranked. Similarly The World Economic Global Competitive Index 2015, ranked Nigeria as 38th out 144 countries with 286.5 billion US dollar using gross domestic product as an indicator, while the same index ranked Nigeria, 111th out of 144 countries also using GDP/Per Capita Income as an indicator. These results showed that Nigeria lacks the capacity to grow its local industries let alone attract reasonable foreign direct investment especially in the face of dwindling oil price and exchange rate volatility. Considering how foreign direct investment in Nigeria affects its economic growth, there is need for further studies to be carried out on how FDI affects the economic growth of the Nigeria after the economic recession.

3. Objective of the Study

The main objective of this study is to ascertain the extent at which Foreign Direct Investment inflow influences economic growth in Nigeria.

4. Literature Review

Concepts of Foreign Direct Investment, Economic Growth and Economic Recession

Foreign Direct Investment: Foreign Direct Investment according to Mariloman (2003) described as investment made to acquire a lasting management interest (usually at least 10% of voting stock) and acquiring at least 10% of equity share in an enterprise operating in a country other than the home country of the investor. Kumar (2007), described Direct Foreign Investment (DFI) in several ways. First and most likely it may involve parent enterprise injecting equity capital by purchasing shares in foreign affiliates. Second, it may take the form of reinvesting the affiliate's earning. Third, it may entail short-or foreign investment as a share of Gross Domestic Product has grown rapidly, becoming the largest source of capital moving from developed nations to developing nations.

Foreign direct investment according to Omankhanlen (2011) includes; external resources including technology, managerial and marketing expertise and capital. All these generate a considerable impact on host nation's productive capabilities and the success of government policies of stimulating the productive base of the economy depend largely on her ability to control adequate amount of FDI comprising of managerial, capital and technological resources to boast the existing production capacity. Similarly, Mallampally and Sauvant (1999) describe it as investment by multinational corporations in foreign countries in order to control assets and manage production activities in those countries.

Economic Growth: Economic Growth according to Jhinghan (2003) is the quantitative sustained increase in the countries per capital output or income accompanied by expansion in its labor force, consumption, capital and volume of trade. Schumpeter (1946) refers it as a gradual and steady change in the longrun which is brought about by a gradual increase in the rate of savings and population. Samuelson (2006) sees economic growth as the expansion of a country's potential GDP or national output. He explains it further as when a nation's productivity frontier shifts outwards. From the above definitions we can infer that economic growth is the process which leads to sustained increase in the national output over a period of time. Kindleberger (1965) sees economic growth as increase in the level of output without a change in institutional and technological arrangement.

Economic Recession: The National Bureau of Economic Research (2008) defines an economic recession as a "significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in a real gross domestic product (GDP), real income, employment, industrial production and wholesale-retail sales" (Noko, 2016). A recession is a business cycle contraction, a generally slowdown in economic activity (Meriam-Webster, 2008). During recession, many macro-economic indicators vary in a similar way. Production GDP, employment, investment spending, capacity utilization, household income, business profit and inflation all fall, while bankruptcies and unemployment rate rise.

A recession has many attributes that can occur simultaneously and includes decline in component measures of economic activity (GDP) such as consumption, investments, government spending and net export activity. The summary of measures reflect underlying drivers such as employment levels and skills, house hold savings rates, corporate investment decisions, interest demographics and government policies.

Foreign Direct Investment and Economic Growth: The Nexus

A nation that desires economic growth must save and invest a reasonable proportion of its national income. But developing countries are by definition poor and characterized by low savings and investment rates which in turn, have contributed to their remaining poor. An inflow of foreign resources is expected to supplement the domestic resources and assist in enhancing the growth of the economy.

Foreign Direct Investment is considered as an invaluable tool for achieving economic growth in developing countries. The United Nations defined foreign direct investment (FDI) as investment in enterprise located in one country but "effectively controlled" by residents of another country (UNCTAD, 2009). Foreign direct investment is perceived to have a positive impact on economic growth of a host country through various direct and indirect channels. It augments domestic investment, which is crucial to the attainment of sustained growth and development (Olokoyo, 2012).

Borensztein et al. (1998) see FDI as an important vehicle for the transfer of technology, contributing to growth in larger measure than domestic investment. Bengos and Sanchez-Robles (2003) assert that even though FDI is positively correlated with economic growth, host countries require minimum human capital, economic stability and liberalized markets in order to benefit from long-term FDI inflows. Foreign Direct Investment and economic growth nexus has spurred volumes of empirical studies on both developed and developing countries. This nexus has been studied by explaining the determinants of both growth and FDI, the role of Trans-National Companies (TNCs) in host countries, and the direction of causality between the two variables.

Impact of FDI on Economic Growth and Development in Nigeria

Over the last four decades, the macroeconomic performance of Nigeria can be described as being chequered. The average GDP growth rate of 3.95% achieved between 1970 and 2008 translates into a low growth rate of 1.49% in per capita income terms. This rate of growth in per capita income is insufficient to reduce in a significant way, the level of poverty which remains the primary goal of development policy in Nigeria (Okon, Augustine & Chuku, 2012). Domestically, Nigeria has been unable to generate sufficient investment to adequately propel her economic growth process. This has resulted in Nigeria government 'looking for more efficient source of investment. In other words, the government has resorted to wooing of foreign investors.

Recent studies have shown that Foreign Direct Investment (FDI) is what is needed to bridge that savings investments gap that exists in Africa in general and Nigeria in particular. Among the various sources of investment, Foreign Direct Investment (FDI) is considered as the most invaluable for economic growth in developing countries like Nigeria (Achugamonu, et al, 2016).

There are several Nigeria-specific studies on the relationship between FDI and economic growth in Nigeria. Some of the pioneering works include Aluko (1961), Brown (1962) and Obinna (1983). Edozien (1968) discussed the linkage effect of FDI on the Nigerian economy and submits that these have not been considerable and that the broad linkage effects were lower than the Chenery-Watanabe average. Odozi (1995) placed special emphasis on the factors affecting FDI flows into Nigeria in both pre and post Structural Adjustment Programme (SAP) eras and found that the macro policies in place before SAP where discouraging investors. This policy environment led to the proliferation and growth of parallel markets and sustained capital flight. Oseghale and Amonkhienan (1987) found that FDI is positively associated with GDP, concluding that greater inflows of FDI will spell a better economic performance for the country. Odozi (2003) observed the linkage effects of FDI on the Nigerian economy and submitted that they it has been inadequate. Oyinlola (2005) also asserted that there has being negative contributions of public investment to GDP growth in Nigeria.

Economic Recession and Foreign Direct Investment in Nigeria

A recession is usually characterized by a state of negative economic growth spanning up to two consecutive financial quarters. Economic recession has put at risk Nigeria's growth prospects. The consequences of shrinking growth would express in increased unemployment, a reduction in the states' capacities to provide social services and almost no social security safety nets as is the case in Nigeria; and forcing precariously placed workers into an already large informal economy.

The Nigeria economy has been hit hard by recession caused by excessive imports, plunging oil revenue and sharply low investments inflows (Agri, Mailafia, & Umejiaku, 2017). Economic recession has eaten deep into the economy to the extent that FDI inflow cannot serve as a pivot upon which the economy could strive.

Economic recession has impacted on the Nigerian economy through several channels, namely, the decline in oil prices, the fall in Foreign Direct Investment inflows and net outflows of portfolio investment have led to a reduction in aggregate demand and a decline in foreign exchange reserves (Ogwumike, 2009). Economic recession created harsh economic climate in Nigeria, which is evidenced by high energy cost, high bank interest rate and high naira exchange to dollar etc.

Empirical Studies on the Relationship between FDI and Economic Growth

Previous studies on the Foreign Direct Investment (FDI) and economic growth in Nigeria and other countries provided inconclusive evidence. Empirical research studies also support the assertion that Foreign Direct Investment positively contributes to the enhancement of the economies of host countries. Ayashagba and Abachi (2002) investigate on the effects of foreign direct investment on economic growth from 1980 to 1997. Their result revealed that foreign direct investment had significant impact on economic growth in Nigeria. However, the study concludes that the presence of foreign direct investment in the LDCs particularly in Nigeria is not totally useful. Saibu and Keke (2014) examined the impact of Foreign Private Investment on economic growth using annual time series data from Nigerian economy. The paper employed Cointegration and Error Correction Mechanism (ECM) techniques to empirically analyze the relationship between foreign private investment and economic growth and to draw policy inferences on the observed relationship. The study revealed that there was a substantial feedback of 116% and 78% from previous disequilibria between long-run economic growth and foreign private investment respectively.

Campos and Kinoshita (2002) examined the effects of FDI on growth for the period 1990-1998 for 25 Central and Eastern Europe and former Soviet Union transition economies. In these countries, FDI was pure technology transfer. Their main results indicate that FDI had a significant positive effect on economic growth of each selected country. This result is consistent with the theory that equates FDI with technology transfer that benefits the host country. Borensztein, Eduuardo, Jose De Gregorio and Jong-Wha Lee, (1998) found that the positive impact of FDI on growth is enhanced when the host country's education exceeds a certain threshold. Balasubramanyam, Salisu and Sapsford (1996) finds that the impact of FDI on growth is stronger in countries with a policy of export promotion than in countries that pursue a policy of import substitution

Olokoyo, (2012) examined the effects of Foreign Direct Investment (FDI) on the development of Nigerian economy. The paper tried to answer the question: what are the FDI determinants in Nigeria and how do they affect the Nigerian economy? The study employed the use of Ordinary Least Square (OLS) regression technique to test the time series data from 1970 – 2007. The Cochrane-Orcutt iterative method was also used to correct for autocorrelation. The model used hypothesizes that there is a functional relationship between the economy development of Nigeria using the real gross domestic product (RGDP) and Foreign Direct Investment.

Chowdhury and Mavrotas (2006) examines the causal relationship between FDI and economic growth by using time-series data covering the period 1969-2000 for Chile, Malaysia and Thailand. The study used the Toda and Yamamoto causality test approach. Their findings revealed that GDP causes FDI in the case of Chile and not vice versa, while for both Malaysia and Thailand, there is strong

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evidence of a bi-directional causality between the two variables.

A number of studies have been carried out on investment and growth in Nigeria with varying results and submissions Anyanwu (2007). In their study of the determinants of FDI in Nigeria, Anyanwu (2004) and Adelegan (2008) identified change in domestic investment, change in domestic output or market size, indigenization policy, and change in openness of the economy as major determinants of FDI. Jerome and Ogunkola (2004) assessed the magnitude, direction and prospects of FDI in Nigeria and noted that while FDI regime in Nigeria was generally improving, some serious deficiencies remain. These deficiencies are mainly in the area of the corporate environment (such as corporate law, bankruptcy, labour law, etc.) and institutional uncertainty, as well as the rule of law. Omagbeme (2010) further noted that there is a vast literature establishing the relationship between foreign direct investment (FDI) and economic growth especially in transitional societies, it implies an "array of investments made to acquire lasting interest in enterprises operating outside the economy of the investor", that is, FDI is a form of lending or finance in the area of equity participation, which involves the transfer of resources, including, capital, technology, management and marketing expertise.

5. METHODOLOGY

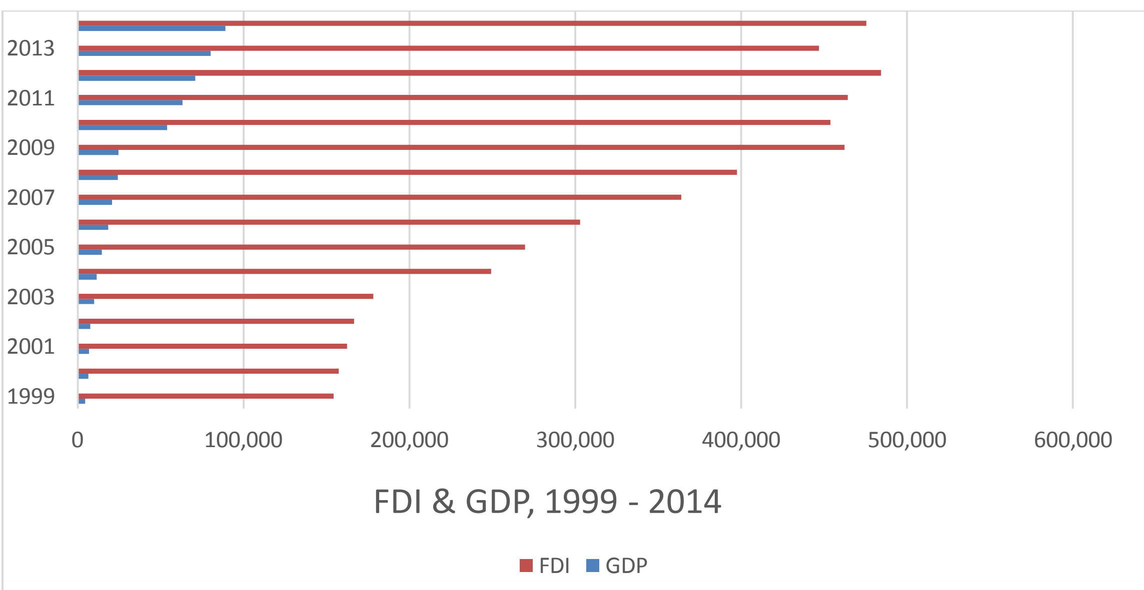
The study focused on the effect of foreign direct investment on economic growth in Nigeria before the economic recession. Using time series, data used in this analysis was secondary data and was sourced from central bank of Nigeria. (CBN) statistical bulletin (1999 to 2014). Bar chart and graph are used to analyse the data collected, while Pearson Coefficient was adopted to determine the relationship between GDP and FDI

Results Analysis and Discussion

TABLE 1: Gross Domestic Products (GDP) and Foreign Direct Investment (FDI) for the period 1999 – 2013.

Year	GDP	FDI
1999	4,679.21	154189
2000	6,713.57	157535
2001	6,895.20	162343
2002	7,795.76	166632
2003	9,913.52	178478
2004	11,411.07	249221
2005	14,610.88	269845
2006	18,564.59	302843
2007	20,657.32	364009
2008	24,296.33	397395
2009	24,794.24	462433
2010	54,204.80	453673
2011	63,258.58	464466
2012	71,186.53	484264
2013	80,222.13	446786
2014	89,043.62	475439

Source: Central Bank of Nigeria (2012). Statistical Bulletin. Abuja: Central Bank of Nigeria.



Trends in Foreign Direct Investment in Nigeria

Figure 1 displays trends in FDI in Nigeria from 1990-2014; just before onset of economic recession that lasted till Quarter 3 of 2017.

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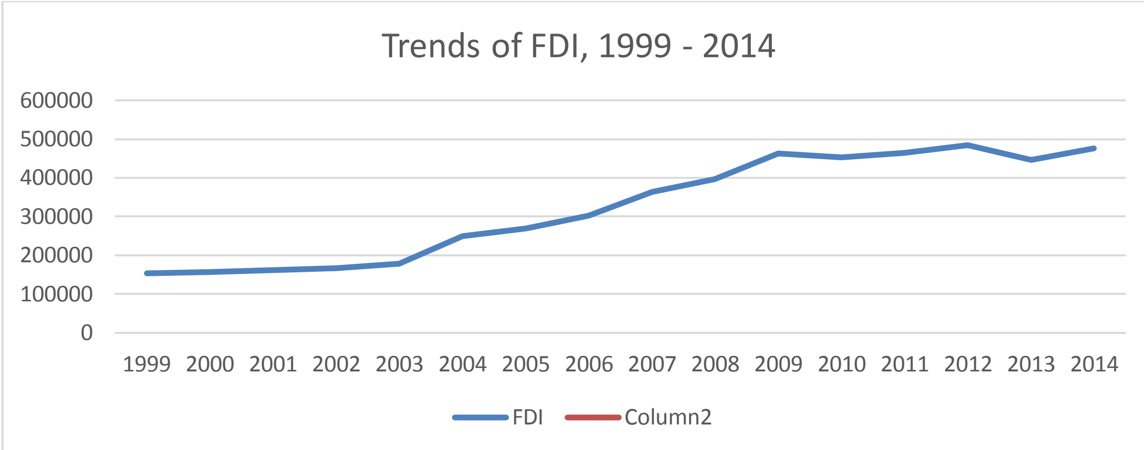

Foreign direct investment inflow in Nigeria increased substantially from 1999 although it fluctuated markedly in some years. For instance, the adverse effect to the global financial crises in 2008 led to decline in the volume of FDI inflow in 2009 even though it was more noticeable in 2010. The continuous increase in FDI inflow in Nigeria from the early 2000s can be attributed to several government policies designed to promote investment, such as economic reforms and incentives offered to foreign investors, the involvement of foreigners in the downstream and upstream oil sub-sector as well as the shift from military rule to democratic governance.

Result Interpretation and Discussion of findings

Correlations

		FDI	GDP
FDI	Pearson Correlation	1	-.045
	Sig. (2-tailed)		.933
	N	6	6
EXR	Pearson Correlation	.585	.306
	Sig. (2-tailed)	.222	.555
	N	6	6
GDP	Pearson Correlation	-.045	1
	Sig. (2-tailed)	.933	
	N	6	6

The above analysis shows the correlation coefficient of 0.585 and 0.306 indicates both positive correlation between FDI and GDP. To get an idea of how much variance the variables share, the coefficient of determination (R) is calculated. R is 0.585 x 0.585 = 0.3422. It implies that R is -0.045 x-0.045 =0.002. It implies that FDI help to explain 2% of the variance in GDP. R is 0.306 x 0.306 = 0.094.

From the above result, the study discovers that the confidence level between FDI and GDP is normal. It means that correlation coefficient is significant at 0.05 level. But the confidence level between FDI and GDP is not normal. Based on the statistical result, the economic growth of the country Nigeria is still at an infant stage, it shows that the extent of growth is still fluctuating. It can be seen that the exchange rate of Naira with that of other foreign countries is very high and this has affected the growth of foreign investment in the country.

The outcome of this study shows that FDI, despite the inherent limitations it is faced with, has a good prospect of growth in Nigeria. The study revealed a significant relationship between GDP and flow of FDI. This agrees with the finding of Edwards (1990) who found that there existed a direct and significant relationship between the flow of FDI and the growth of GDP.

6. Conclusion and Recommendations

Foreign direct investment no doubt has many beneficial effects for the growth and development of the national economy. However, for the country to optimize its potential benefits, it is important that the government exercise fiscal discipline and control measures in its pattern of borrowing and spending. Borrowed funds should be invested in productive economic activities that will further enhance investment opportunities that could guarantee the attraction of more foreign investors.

The study strongly supports trade liberalization and investment regimes. The challenge ahead of Nigerian government however, is to exercise caution in the design of policy measures to enhance liberal policy regime and trade. The study conclude that for foreign direct investment to enhance economic growth, the country should take advantage of spillovers and inflows of physical capital it has to offer and that it is when the economy is improving before investors can come into the country.

The Nigerian government should establish favorable economic and political policies. Economic policies will thus encourage a continuous flow of foreign direct investment and exportation of goods and services in Nigeria. Furthermore, government should improve the investment climate for existing domestic and foreign investors through infrastructure development; the availability of power especially would go a long way because it would reduce the cost on alternative power supply. There is a need for government to create enabling an environment for domestic investment to rise through the adoption of macroeconomic policies which will boost investment opportunities in the economy thereby contributing to the growth of the economy. Furthermore, government needs to liberalize the foreign sector in Nigeria so that all barriers to trade such as arbitrary tariffs; import and export duties and other levies should be reduced so as to encourage investors.

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