TITLE PAGE

FOREIGN DIRECT INVESTMENT AND ITS IMPACT ON THE DEVELOPMENT OF NIGERIAN ECONOMY

(1990 – 2010)

BY

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CERTIFICATION PAGE

This is to certify that this study was carried out by me Akabogu Onyekachukwu Innocent under the supervision of chief E.O. Uche

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DEDICATION

This work is wholly dedicated to the Almighty God for giving me the gift of life and his limitless love for me and for his protection throughout my stay in the university and to my beloved parents ENGR and Mrs I.C. Akabogu for their priceless effort in making sure that this project is a success.

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ABSTRACT

Generally, policies and strategies of Nigerian government towards foreign direct investment are shaped by two principal objectives of the desire for economic independence and the demand for economic development. Multinational corporations are expected to bring into Nigeria foreign capital in the form of technical skills, entrepreneurship, and technology and investment fund to boost economic activities thereby raising the standard of living in Nigeria.

The main issues in this paper relates to understanding the effects of foreign direct investment on the Nigerian economy as well as our ability to attract adequate amounts, sufficient enough to accelerate the price of our economic growth and development. From related research and studies, it was revealed that multinational corporations are highly adaptive social agents and therefore, the degree to which they can help in improving economic activities through FDI will be heavily influenced by the policy choice of the host country.

Therefore this research work examines FDI and development of the Nigerian economy from 1990 / 2010, a period o 20 years, using an ordinary least square method of regression, the trade o relationship between FDI and GDP in Nigeria was examined, the result showed that FDI has a positive relationship with GDP and a positive change in FDI will increase GDP by 50.594 and also the nature and magnitude of FDI can be determined.

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CHAPTER ONE

1.1 BACKGROUND OF THE STUDY

Since Nigeria got her independence in 1960, it has created policies which are geared towards promoting the Nigerian economic growth and development by influencing domestic investment or indirectly policies which are aimed at stimulating the flow of finance in any growing economy. This is so given that in the literature there are divergent views on the nature of effects of foreign direct investment. It has been argued to be the most growth stimulation sources of foreign finance in any growing economy. There are divergent views on the nature of foreign direct investment on host economies. There are views that foreign direct investment produce positive effects on host economies and they argue that some of the benefit are in the form of externalities and adoption of foreign technology. Employers training and introduction of new process by the foreign firms.

Developing countries in Africa, Asia and Latin America have come increasingly to see that foreign direct investment is a source of economic development, modernization, income growth and employment and poverty reduction. These countries are successfully developing their economies under outward oriented policies albeit in varying degrees.

Globally economists tend to favor the free flow of capital across national borders because it allows capital to seek out the highest rate of returns. Nigeria is reputed to be buoyantly blessed with an enormous minerals and human resources but believe to be at a high risk market for investment. Foreign direct investment can also be veritable booster to an economy (Omagbemir 2010).

Nigeria in the past and present has a large population and enlightened market. A real potential market, an investment conscious society and a conclusive sustainable environment for foreign private investment to thrive in the development of the economy.

Foreign direct investment can be described as investment made so as to acquire a lasting management interest (for instance 10% of voting stocks) and at least 10% of equity shares main enterprise operating in another country other than that of investor country(Willima 2003, World Bank 2007). Policy makers believe that foreign direct investment (FDI) produce positive effects on host economies. Some of these benefits are in the form of externalities and adoption of foreign technology. Externalities can be a form of licensing agreement, limitation, employee training and introduction of new processes by the foreign firms (Alfaro 2006).

According to Utomi (2007) foreign direct investment (FDI) via transnational corporations do posses the needed capabilities which can be put to the services of growth in any host economy.

1.2 STATEMENT OF THE PROBLEM

One of the major economic problems in less developed countries (LDC) is low per capital formation to finance the necessary investment for economic growth.

Capital was once regarded by most economists as the principal obstacle to economic development and this made a lot of attention to be paid to capital formation. The role of capital in economic growth is still regarded as very crucial. Both the theory of “big push” and the concept of “vicious cycle” are all a test to the crucial role of capital in the growth process. The theory of big push simply states that the stagnant and undeveloped economies need huge and sudden injection of large capital from foreign direct investment.

However in the literature FDI is found to be related to export growth while human capacity building is found to be related to FDI floe.

Most studies on FDI and growth are cross country studies. However FDI and growth debates are country specific. Among Nigeria, studies like those by Otepola (2002), Oyeyide (2005), and Akinlo (2004) examined the importance of FDI on growth for several periods and the channel through which it may be befitting the economy.

In the literature there exist, a direct positive link between export growth and the growth of an economy. This growth in export can further be traced down to the level of investment which in most cases can be domestic or foreign investment.

This is so given that foreign capital remains the best option to filling the saving investment gap where it exists. Given this fact assessment will be based on the existing link among investment, export, exchange rate and economic growth.

1.3 RESEARCH QUESTIONS

Based on the objective of the study the following research questions are necessary or the formulation of hypothesis

1. Does the FDI have a significant impact on the development of the Nigeria economy?

2. What is the nature and magnitude of the FDI on economic growth in Nigeria?
3. Are there enough incentives by the governed to encourage the flow of FDI

1.4 OBJECTIVE OF THE STUDY

The objectives of the study are as follows

I. To find out whether or not FDI has a significant impact on the growth of the Nigerian economy

II. To determine the nature and magnitude of the impact of FDI on economic growth in Nigeria

III. To ascertain the adequacy of the level of fiscal incentives given to foreign investors by the Nigerian government

1.5 SIGNIFICANCE OF THE STUDY

It is hoped that this study will act as a reference point for policy debate in the idea of FDI in our economy.

On the whole it is envisaged that the research findings will be of the following specific significance.

1. It will serve as a guide to economic policy makers and planners in future decisions concerning FDI
2. It is equally hoped that the findings and recommendation of this study will be of immense benefit not only to the government but also to other researchers and students for future research undertakings

1.6 RESEARCH HYPOTHESIS

In order to find answers to the questions raised in the research questions, the following hypothesis are necessary and would be tested and it will either be accepted or rejected based on the research findings

I. Null hypothesis (H_O): Foreign direct investment has a significant impact on the development of the Nigeria economy

   Alternate hypothesis (H_1): Foreign direct investment has a significant impact on the development of the Nigerian economy

II. Null hypothesis (H_O): The nature and magnitude of foreign direct investment on economic development in Nigeria cannot be determined

   Alternate hypothesis (H_1): The nature and magnitude of foreign direct investment on economic development in Nigeria can be determined

III. Null hypothesis (H_O):The level of fiscal incentive given to foreign investors by the Nigeria government are not adequate

Alternate hypothesis (H_1): The levels of fiscal incentives given to foreign investors by the Nigeria government are adequate

1.7 SCOPE AND LIMITATION OF THE STUDY

Its focus is to verify if there is any contribution made toward economic growth and development of Nigeria economy via gross domestic product (GDP) through foreign direct investment for the period 1990-2010. It will be limited to investigate the impact of FDI in the development of Nigeria economy. Government also sought for measures to enhance economic development and inflow of foreign direct investment into the country to reach its peak.

CHAPTER TWO

LITERATURE REVIEW

2.1 CONCEPTUAL ISSUES

There are some variables that will be used in our model to examine our study, they are as follows

GROSS DOMESTIC PRODUCT (GDP): it is the total value of all final goods and services produce in a country in a given year. It is also the market value of all officially recognized final goods and services produced within a country in a given period of time. GDP was chosen because been an indicator of growth we could use it to show the impact of FDI on economic growth.

EXPORT EARNINGS: the variable was chosen to know if export earning has an impact on FDI which stimulates economic growth since export earnings is the proceeds from the export of goods and services of a country and the return from its foreign investment denominated in convertible currencies.

EXCHANGE RATE: the rate at which a unit of currency of one country can be exchanged for a unit of the currency of another country. These variables were chosen because of the role of exchange rate in foreign exchange market to know if FDI has an impact on economic development in Nigeria.

2.1.1 DEFINITION OF FOREIGN DIRECT INVESTMENT

Todaro (1977) says that foreign investment is the international flow of financial resources to most third world countries to foster long run development strategies in their countries.

Foreign direct investment according to M. Willima (2003), World Bank (2007) can be described as investment made so as to acquire a lasting management interest.(for instance 10% of voting stocks) and at least 10% equity shares in an enterprise operating in another country other than that of the investor country. It is typically a way of filling the gap between the domestically available resources by foreign investors.

Nwankwo (1981) defined foreign investment as the transfer of resources which is available in developed countries. These developed countries supply scarce capital in form of foreign private investment so as to encourage economic growth in these countries.

Foreign direct investment is a tool used by foreign investors to generate foreign exchange through the production of exports in less developed countries.

Foreign direct investment is also viewed as a way of increasing the efficiency with which the world scarce resources are used. A recent and specific example is the perceived role of foreign direct investment in efforts to stimulate economic growth in many of the world poorest countries.

2.1.2 FOREIGN DIRECT INVESTMENT AND MULTINATIONAL CORPORATION

Companies that undertake foreign direct investment is called a multinational corporation (MNC). There is generally no acceptable definition of MNC however for a company it must satisfy some criteria.

It must operate in many countries at different level of economic development. It must have a multinational stock ownership and an expansion by FDI which can take any of the three forms:

A. Horizontal expansion where the same products are produced.
B. Vertical expansion is the process that comes before the processing activity
C. Conglomerate expansion whereby different goods for those of the domestic market are produced.

The greatest part of the FDI in terms of value and number involves either horizontal expansion to produce the same or similar line of goods abroad or vertical integration backwards into the production of some raw materials.

Foreign investment originates from differentiated oligopoly in the home market which is also oligopolistic with the product differentiation. They are large in size. They are oligopolistic firm in the home market having exhausted all possible sources of economic of scales, a firm would not invest abroad while profitable opportunities remained for the exploitation of scale economic in the home market.

Multinational Corporation tends to populate a foreign oligopolistic market which is protected by strong banners from entry. They have advantage against sources of entry banners in the foreign market. This is achieved in the following ways

A. They can attain and even exceed the minimum optimal scale of plaint in a foreign market because

i. Having a better product, it may well expect to compute a large scale of foreign market than the local produce.

ii. The subsidiary may start exporting to some other countries or send back part of its product to home country.

B. Multinational corporations develop new superior products which may lead over foreign local producer.
C. Initial capital investment has no banners since the subsidiaries are financed largely by the retained earnings of the parent company or corporation.
D. Multinational Corporation has substantial cost advantage over foreign producer. Such advantage is derived mainly from the lower cost of capital, superior technical knowhow and more efficient and skilled management talcum. The greatest risk of foreign investment can be borne by large firms which explain why they require a higher rate of profit in foreign investment and large size of such firm. FDI is an alternative to other firm of penetration of foreign market such as exporting or licensing of foreign producer. The decision to undertake FDI is a cost benefit and therefore a profit maximizing firm will evaluate the decisions on the basis of return and cost.

Multinational corporation carries with them technology of production, taste and style of living management service, diverse business practice including corporative arrangement, market retraction, advertising phenomenon of transfer pricing. This is exemplified by conglomerate such as the united African company (UAC), nestle corporation, leventis, Berger and recks.

2.1.3 GAINS OF FOREIGN DIRECT INVESTMENT

Foreign direct investment contribute to the development of an economy and these contribution are called gains and they include

i. **TECHNOLOGICAL TRANSFER OF TECHNOLOGY TO A COUNTRY:**

The technical and organizational knowledge and information available for the production of many goods and services together with the tool for producing the goods are made available through many foreign controlled enterprise established in developed countries. In most cases, the specification blue point engineering design, material requires basic production technique, operational knowhow and arcillary technology used by the parent companies. Although the importation of the attack of the government for not creating or designing manufactured package that follows for at least a minimum value added.

In many developed countries like china, Taiwan e.t.c. they have achieved real technological transfer. It is although the insistence of the government on the execution of training aspects of all agreement existing between their natural and foreign parties that such country were able to acquire technology (Diz, 2009)

ii. **EMPLOYMENT AND TRAINING:**

Direct employment generation by multinational corporations depend on several factors. The nature of investment, green field's site, joint ventures and labor market institution of the host. Employment generation of FDI is normally higher in green field foreign direct investment. It is higher within export oriented regimes with abundant cheap labor. In some countries, export oriented and competitive domestic policy tends to generate more sustainable growth. The highest positive effect of FDI can be derived in a situation where labor can move easily to a new job or enter new types of employment and where information on job opportunities is transparent and accessible.

iii. **INCOME:**

It deals with the financial or fiscal reward of foreign private investment. It concerns itself with income accruing to the government by way of taxes paid by foreign corporations. It is difficult to say the precise amount of tax paid by foreign corporations to the government.

IV. ENHANCEMENT OF BALANCE OF PAYMENT:

Since foreign investment enterprise engage in import substitution or export producing industries, their production activities could improve the balance of payment of the host country.

Furthermore the enterprises established through the foreign investment have the potential for generating significant indirect benefit involving improvement in investment.

Competitiveness and enhancement of productivity in most countries, FDI enterprise could constitute local monopolies thereby imposing their technologies to the determent of employment of the labor surplus on the host development countries, restrictions on exports are also known to exist in the host countries are therefore carried about the establishment of many affiliates over which they have no country.

2.2 THEORETICAL LITERATURE

The debate which has taken a long period of time is whether foreign direct investment affects economic development or not.

According to the traditionalist, the inflows of foreign investment improves economic development by increasing the capital stock where a recent literature points to the role of foreign direct investment as a channel of international technology transfer.

According to Markuser (1995) there is growing evidence of FDI enhancing technological changes through technological diffusion. For example because multinational firms are concentrated in industries with high a ratio of research and development relatives to sales and a large number of technical and professional work. He argued further that international corporation are probably among the most technologically advanced firms in the world and the foreign investment not only contribute to the importation of more efficient foreign technology but also generate technological spillovers for local firms.

Kinshasa (1977) and Soyohalon (1999) stated that technological change plays a pivot role in economic growth. Multinational Corporation is one of the major channels in providing developing countries with access to advanced technologies. They stated further that the knowledge spillover may take place via imitation; completion linkage and training although it is in practice but rather difficult to distinguish between their firm channels, the underlying theory.

Both above writers provide the analysis that imitation channel is based on the view that domestic firm may become more productive by imitating the more advanced technologies or managerial practices of foreign firms. They argue that in the absence of FDI lower the cost of technological availability to local firms on the competition channels. They emphasize that the entrance of foreign firms intensifies local firms to become more efficient by upgrading their technological base.

Bonojour (2003) support the spillover channel of technological transfer by arguing that most important benefit of FDI and Multinational Corporation on the host country is the increase of domestic firms' productivity.

This relating to the concept of technological and productivity spillover Ngwo (2001) summarized the potential role of FDI to host country into ten (10) points

- Employment creation
- Technology transfer
- Skill and management technique
- Contribution to capital formation
- Increase production diversity
- Facilitate local resources more efficiently and productivity
- Use of local resources more efficiently and productivity
- Use of environmentally clean technology
- Observe human and labor right
- Create a lot linkage effect in the economy both forward and backward

According to him, FDI can be an engine of economic growth in a host economy such investment can sustain and improve economics development in a country or region, he emphasizes that given the economic conditions of African countries and its level, direct investment in the region cannot be overemphasized. The 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.

Helpman (1984) and Kingman (1985) argues that the impact of trade performance adopted by multinational enterprise in the case of vertical investment, theoretical imperfect competition, models predict complementary relationships between FDI and trade.

Beriassary (2000) argues that the influence of real exchange rate in foreign direct investment is ambiguous and depends on the motivation of foreign investors for instance depreciation make local assets and production cost cheaper leading to higher inflows of FDI.

2.2.1 THE THEORY OF FOREIGN DIRECT INVESTMENT

Foreign direct investment plays a large role in the international economy in the period leading to World War II. Most of those investments were of portfolio type.

Great Britain was the leader and 90% of British investments at that time were in France and Germany.

Exchange rates then were negligible and political situation stable. These international portfolio investments were governed by interest rate differential. Young expanding economy which offered high return on capital investment could attract money from major leading countries.

According to Nwadike (1991) the American investors were of content with small interest rate differential from portfolio investment.

A dominant share of U.S capital export consisted of direct investment. Foreign direct investment among developing countries can attract other investment opportunities and stability in government.

A distinct feature of indirect investment is that investors want to return control over his investment. One of the main determinants of foreign direct investment is technological superiority or superior managerial skills. A firm under monopolistic or oligopolistic market condition may develop some new product or new product technology. It wants to make use of its innovation to increase its possibility of making profit from its superior technology. Therefore it may be decided as entering a foreign market. The national way to do it is by fo0reign direct investment.

We now live in a world were factors of production are mobile and some actors are being more mobile than others. The least mobile factor is labor; capital is more mobile than labor and management is most of the time the only complementary factor of production movement of technique or organizational comparative advantage. It is not necessary that a country must have a surplus in its balance of payment to engage in direct investment.

Foreign direct investment is often a two sided affair for example the United States can make direct investment in Europe while Western Europe also makes direct investment in the U.S. Though U.S. have the most important development technology, its technology is not the most developed in all sectors of the economy.

Therefore some parts for example German industries, Swedish industries are technologically more sophisticated than their American counterpart.

These being the case makes sense for German Swedish industries to engage indirect investment in the U.S. the relationship between the development and developing countries themselves then is a one sided relationship whereby the developed countries make direct investment in the less developed countries. The capital flows from less developed countries are mostly in the portfolio type in the same model above managerial or technological superiority is the key variable. The model assumes that there is no pure competition, firms are small and there is no production differentiation. The most important industries that engage in direct investment are typically those where monopolistic or oligopolistic market corporation engaging in direct investment is trying to export a new innovation under the monopolistic or oligopolistic market. Market condition also helps to explain why most corporations are against patently or joint ventures. Other actors that may encourage direct investment include

- Protectionist policy
- A rapid economic growth under a political stable government
- Share size for example of large personnel and financial resources compared to foreign counterpart can encourage direct investment in foreign areas.

The principal advantage of direct investment is they raise world output by running managerial skills and capital from region where they are scarce and this earns a higher return.

The immediate impact of foreign direct investment in the investing country's balance of payment is often adverse for the host country. This immediate impact is an improvement in balance of payment to the long run. However the effect could be negative from a real point of view. The effect could also be beneficial as long as the positive effect and the country's economic growth are longer than the negative effect on the balance o payment.

An adverse effect for a host country of FDI is that it may stifle scientific research and development work in the host country. Also direct investment could lead to exploitation especially of less developed countries.

2.3 EMPIRICAL LITERATURE

Having reviewed the theoretical aspect of foreign direct investment literature, it is necessary to take a look at some importance of empirical contribution based on the observation of role of nature significance and controversy regarding foreign direct investment especially in recent past all over the world.

Recent studies showed the inflow of FDI have been on the increase in recent years.

Akinola (2004) investigates the impact of foreign direct investment on economic growth in Nigeria using date for the period of 1970-2001. His error correction model (ECM) result shows that private capital and lagged foreign capital have small and insignificant impact on economic growth in Nigeria. This he attributed to capital flight. In another manner, labor force and human capital were formed to have a positive effect on growth.

Fiani and De melo (1990) found that unstable macroeconomic environment constitute one of the major sediment to investments in many LDCs. The author estimated on OLS regression of the fixed country effect of total and private investments in 20 countries using standard and deviation of the exchange rate as a proxy for instability. The study find a negative sign associated with the coefficient of exchange rate uncertainty.

Serven and Soluumano (1992) also investigated economic adjustment and FDI performance for fifteen developing countries. The pooled gross sections time series data from 1975 to 1988. The investment equation estimated in the study used exchange rate and inflation as proxies for instability and in such case instability was measured by the coefficient of the variation of relevant variable over three years. The two measures were found to be jointly significant in producing negative effect on investment. The same effect was confirmed by Hadgmehael etal (1995) study on growth of saving and investment performance of 41 developing countries between 1986 and 1993.

Olumigina (2003) in the test conducted using OLS, found market exchange rate in the official market as being significant at 10% for FDI to agricultural sector. The same is however not significant for manufacturing. He therefore concluded proper management of the exchange rate to forestall costly distribution, constitute an impartial pillar in determining flows of FDI in Nigeria and sub-Saharan African countries.

Asiedo (2003/05) in his work, panel data for 22 countries in sub-Saharan Africa over the period of 1984 -2000 to investigate the impact of political risks, institutional frame work and government policies in the FDI flows. The dependent variable was the rate of the net FDI flows to GDP while the independent variable used include natural resources intensity, attractiveness of the host country's market, infrastructural development, and macro economic instability, openness to FDI, host country institution and political instability. His result showed that macroeconomic stability, efficient institution, political stability and goods regulatory frame work have positive impacts on FDI on importation implication of the result that FDI to Africa is not solely driven by natural resources endowment and that government can play an important role in promoting FDI to less developed regions.

2.3.1 THE ROLE OF NIGERIAN INVESTMENT PROMOTION COMMISSION (NIPC) IN THE PROMOTION OF FDI IN NIGERIA

The Nigerian investment promotion commission (NIPC) is an agency of the federal government established by the Nigerian investment promotion act NO16 OF 1995 to promote investment in Nigeria. It is a government agency with perpetual succession and a common seal specially established among other things to

- Coordinate, monitor, encourage and provide necessary assistance and guidance for the establishment and operation of enterprise in Nigeria
- Initiate and support measures which shall enhance the investment climate in Nigeria for both Nigeria and non Nigerian investors
- Promote investments in and outside Nigeria through effective promotional means
- Collect, analyze and disseminate information about investment opportunities and source of investment capital and advise on request the availability, chance or suitability of partners in joint venture projects

- Register and keep records of all enterprise to which the NIPC decree legislation applies
- Identify specific projects and invite interested investors for participation in those projects
- Initiate, organize and participate in promotion activities such as exhibitions, conferences and seminars for the stimulation of investment
- Maintain liaison between investors and ministries, government departments and agencies, institutional leaders and other authorities concerned with investment
- Provide and disseminate up to date information on incentives available to investors
- Assist incoming and existing investors by providing support services
- Evaluate the impact of the commission in investment in Nigeria and recommend appropriate remedies and additional incentives
- Advise the federal government in policy matters including fiscal measures designed to promote the industrialization of Nigeria or the general development of the economy
- Perform such other functions that are supplementary or incidental to the attainment of the objective of NIPC decree

Abubakar, Haruna and Ahmed (2012) examined the role of Nigerian investment promotion commission (NIPC) in attracting foreign direct investment (FDI) in Nigeria. Independent t-test was applied in analyzing the data. Findings from their result reveal that there is a significant correlation between the establishment of NIPC and an increase in FDI inflow. And lastly, the results revealed that NIPC had succeeded in influencing the growth of FDI in Nigeria.

NIPC has executed a bilateral protocol that established the Nigeria trade office at Shanghai china. In addition, the NIPC has initiated and supported measures which enhance the investment climate in Nigeria for both Nigerian and non Nigerian investors. NIPC also promotes investments in and outside Nigeria through effective promotional means. This is why today the country has been able to create global brands in the manufacturing, telecommunication and financial services such as Dangote, Globalcom e.t.c.

The NIPC in a bid to encourage new and existing business with foreign participation to register their presence, on February 11 2012, the NIPC issued a statement notifying the general public and would be foreign investors that the minister of trade and investment had approved a reduction in the fee to register a company with foreign participation with the NIPC from ₦50,000 to ₦15,000 (around $90).

CHAPTER THREE

3.0 METHODOLOGY

The study will adopt applied econometric approach which is concerned with the destination of parameters of economic relationship and with the prediction by means of these parameters of the values of economic variables. The relationship of economic theory which can be measured with one or another econometric test, which means there are relationship in which some variables are postulated as causes of variation of other variables (koutsoyianis 1977). To be specific this research work will employ the single equation technique of econometric simulation for its analysis. The ordinary least square (OLS) regression model will be adopted. The merit for using ordinary least square test is based on the fact that it posses a blue property which is best linear unbiased estimator (koutsoyianis 1977). Along with the OLS model we shall use the granger causality test for the causal relationship between foreign direct investment and gross domestic product in Nigeria. Econometric modeling which this work is concerned with require three major steps

- Model specification
- Data collection

- Model estimation (Soludo 1998)

3.1 MODEL SPECIFICATION

The specific model for this work is drawn from the objective. Based on this, the model is thus specified on the impact of FDI on economic growth in Nigeria. Theoretically, the model can be specified as gross domestic product (GDP) is a function of FDI, inflation ratio, real exchange rate and interest rate. In this GDP is used as a proxy for economic growth. Thus mathematically, the relationship is stated as follows in a compact form

GDP=gross domestic product as proxy for economic growth

RER=real exchange rate

RIR=real interest rate

INF=inflation

Statistically we can linearize this equation as a complete model of the following

$$\textit{Log}\ \text{GDP} = \beta_0 + \beta_1 log\text{FDI} + \beta_2 \textit{log}\ \text{RER} + \beta_3 \textit{log}\ \text{RIR} + \beta_4 \textit{log}\ \text{INF} + \mu_1$$

3.2 METHOD OF EVALUATION

3.2.1 EVALUATION BASED ON ECONOMIC CRITERIA

This is evaluation based on theoretical criteria, under these criteria the a priori expectation (signs and sizes) of the parameter estimates of the variables in the model will be evaluated to check whether it may conform to economic theory. Hence the constant term β_0 occurs when the inclined variables are meant to be zero. Also μ_1, which is the random term capturer or explains the proportion of the variation in GDP which is not accounted for by the model due to other less important omitted variables that can be attributed to chance and collective contribution to the model

3.2.2 EVALUATION BASED ON STATISTICAL CRITERIA

The coefficient of determination (R^2) explains the total variation in the dependent variable caused by variations in the explanatory variables included in the model.

A. The t-Test

This test is used to check whether the variables included in the models are significant or not as determining their effects on the dependent variables. Each elements of β follows the t distribution with n-k degree of freedom

B. The F- test

This test overall significance of the regression model. That is it investigates whether the entire model is statistically significant.

3.2.3 EVALUATION BASED ON ECONOMETRIC CRITERIA

a. Normality test

This test will be carried out to test whether the error term follows the normal distribution. The normality test would adopt the test for normality.

b. Test for autocorrelation

This is to test whether the errors corresponding to different observations are uncorrelated. The test will adopt the Durbin Watson statistics because of the presence of lagged dependent variables, as well as the regressor which indicates that the model is an autoregressive model (Gujarati 2004)

c. Test for multicollinearity

This will be used to check for multicollinearity among the variable. The basis for the test being the correlation coefficient between pairs of regressors

d. Test for heteroscedasticity

This test will be conducted to ascertain whether or not the error term μ_1 in the regression model has a common or constant variance. The white heteroscedasticity (with no cross term) will be adopted.

e. Test for specification of error

The Ramsey reset test for model adequacy will be cancelled out to find out if the model is correctly specified or not.

3.3 JUSTIFICATION OF THE MODEL

The reason for the preference of this technique in estimating the model is that it involves a linear relation between the dependent and explanatory variables. Thus the ordinary least square (OLS) techniques is the most suitable for estimation of this model. This work lays emphasis on the statistical significance of the variables. Thus the ordinary least square estimator possesses the properties of best linear and unbiased estimator (BLUE). The ordinary least square technique is relatively simple to use and there are also readily available software packages to use like the Microsoft excel and pc-give e.t.c. that are user friendly

3.4 DATA SOURCES

The data for this study are time series data from 1990 – 2010 procured from the central bank of Nigeria statistical bulletin (2009).

CHAPTER FOUR

PRESENTATION AND INTERPRETATION OF RESULTS

4.1 PRESENTATION OF RESULT:

The results of the ordinary least square regression conducted are highly presented with the interpretations and comprehensive analysis of it.

Below is the summary of the result.

Table 4.1: Summary of result

variable	**Coefficient**	**Std. Error**	**t- value**	**t-prob.**	**PartRy**
C	-1.1495E+007	7.8650E+006	-1.462	0.16832	0.1178
INF	-10262	63100.	-0.163	0.8728	0.0017
INTR	4.1152E+005	3.5601E+005	1.156	0.2647	0.0771
EXR	17999.	36864.	0.488	0.6320	0.0147
FDI	50.594	14.605	3.464	0.0032	0.4286

R^2 = 0.769779

F (4, 16) = 13.375

Durbin-Watson stat = 2.23.

No of observations: 21

No of variables: 5

4.2 INTERPRETATION OF RESULT:

4.2.1 ANALYSIS OF REGRESSION COEFFICIENTS:

i. **INFLATION (INF)**:

From the above result, the study found a negative relationship between INF and gross domestic product which is -10262, which implies that a unit increase in INF will decrease GDP by 10262.

ii. **INTEREST RATE (INTR):**

The result of this study showed a positive relationship between GDP and INTR. From the findings, the coefficient of INTR is 4.1152 which imply that a unit increase in INTR will increase GDP 4.1152.

iii. EXCHANGE RATE (EXR):

There exist a positive relationship between GDP and EXR, from our findings, the coefficient of EXR is 17999, which shows that a unit increase in EXR will increase GDP by 17999.

iv. FOREIGN DIRECT INVESTMENT (FDI):

We found a positive relationship between GDP and FDI, where the coefficient of FDI is 50.594, thereby increasing GDP by 50.594 with a unit increase in FDI.

V. CONSTANT (C):

The coefficient of the constant is -1.1495. It shows that when all independent variables are held constant, the value of GDP will be -1.1495.

4.2.2 ECONOMIC A PRIOR CRITERIA

This shows if the a priori expectation conforms to empirical findings.

Table 4.2: Economic a priori expectation.

Independent variables	Expected signs	Observed signs	Remark
INF	-	-	Conforms
INTR	-	+	Does not conform
EXR	+	+	Conforms
FDI	+	+	Conforms

4.2.3 STATISTICAL CRITERIA (FIRST ORDER CONDITION)

i. **CO – EFFICIENT OF MULTIPLE DETERMINANTS (R^2).**

The R^2 which measures the overall goodness of fit of the entire regression is 0.769779, showing that approximately 77% of changes in the GDP can be accounted for, by INTR, EXR, INF, and FDI.

ii. The T-test:

The t-test is used for testing the individual significance with n-k degrees of freedom. Conventionally, when the absolute value of the t-value is greater than 2, then it is considered significant at 5%.

H_o: β = 0

H_1: β ≠ n0

H_o = Null hypothesis

H_1 = Alternative hypothesis.

DECISION RULE

Reject Ho, if t-cal > t-tab or accept Ho if otherwise

n = 21

K = 5

n-k = 16

Table 4.3: t-test

Variables	t-cal	t-tab	Decision Rule	Conclusion
CONSTANT	-1.462	±2.1199	Accept H_o	NS
INF	-0.163	±2.1199	Accept H_o	NS
INTR	1.156	±2.1199	Accept H_o	NS
EXR	0.488	±2.1199	Accept H_o	NS
FDI	3.464	±2.1199	Reject H_o	SS

This shows that FDI is significant while INF, INTR, and EXR are insignificant.

Where SS: statistically significant

NS: Not statistically significant

iii. **F- TEST STATISTICS**

This test was conducted to ascertain the significance or overall significance of the estimated regression.

The hypothesis is stated.

H_o: $\beta \neq 0$

H_1: $\beta \neq 0$

H_o: Shows that the model is not significant.

H_1: Shows that the model is significant

DECISION RULE

If F-cal > F-tab reject null hypothesis that the overall estimate is not significant and conclude that the model is significant.

For the numerator, the degree of freedom = k – 1+ 5-1 = 4.

For the denominator, the degree of freedom n – k = 21 – 5 = 16 at 5% level of significance.

Table 4.4: F-test

F – cal	**F – tab**	**Decision**	**Conclusion**
13.375	3.24	Reject H_0	ss

The result shows F – cal > F – tab (that is 13.375 > 3.24) , therefore the overall estimate of the model is significant.

4.2.4 ECOMETRICS TEST (SECOND ORDER TEST)

1. **TEST FOR AUTOCORRELATION:**

The Durbin Watson test for autocorrelation is used to determine if there is auto correlation among the error terms generated in the model.

Table 4.5: Decision rule

Null hypothesis (Ho)	**Decision**	**If**
No positive autocorrelation	Reject	$0 < d < dl$
No positive autocorrelation	No decision	$dL \leq d \leq du$
No negative correlation	Reject	$4 – dl < d < 4$
No negative correlation	No decision	$4 – du \leq d \leq 4 – dl$
No positive or negative autocorrelation	Do not reject	$du < d < 4 – du$.

D = Durbin Watson

dL= Lower limit

du = Upper limit

d = 2.23

dL = 1.02624

du = 1.66942

We say, du < d < 4 – du (that is, 1.66942 < 2.23 < 2.33058).

With this, the researcher concludes that there is no positive or negative autocorrelation in the residuals and therefore, the null hypothesis should not be rejected.

2. TEST FOR NORMALITY

The normality test is used to check whether the residuals are normally distributed. Chi – square distribution with 2 degrees of freedom, using the chi square table, if X^2-cal > X^2-tab, reject the null hypothesis.

H_o: residuals are normally distributed.

H_1: residuals are not normally distributed.

Using chi-square the table under 2 degrees of freedom and at 0.05 level of significance,

X^2-cal = 16.207

X^2 -tab = 5.99147

Therefore, the residuals are not normally distributed since 5.99147 > 16.207, thus, we reject H_o.

3. TEST FOR HETEROSCEDASTICITY:

The test adopted is the white's General Heteroscedasticity (no cross terms). The test follows the chi-square distribution asymptotically.

Hypothesis:

$H_{o:}$ $\beta_1 = \beta_2 = \beta_3$ ……….$= \beta_n = 0$ (Homoscedasticity)

H_1: $\beta_1 \neq \beta_2 \neq \beta_3$ ……….$\neq \beta_n \neq 0$ (Heteroscedasticity)

$\alpha = 0.05$ at 8 degrees of freedom.

Decision Rule:

Reject H_o if $X^2_{cal} > X^2_{cal}$, accept H_o otherwise.

$X^2_{cal} = 10.218$, while $X^2_{tab} = 15.5073$

Conclusion:

Since $X^2_{cal} = 10.218 < X^2_{tab} = 15.5073$ at 8 degrees of freedom, we accept H_o and conclude that the variance of the error term is constant.

4. TEST FOR MULTICOLLINEARITY:

The basis for this test is the correlation matrix. Multicollinearity is said to exist if any correlation value is in excess of 0.8.

The result of the correlation matrix is summarized below:

Table 4.6: summary of correlation matrix

Variables	Correlation coefficient	Conclusion
INF & GDP	-0.3706	No multicollinearity
INTR & GDP	-0.2975	No multicollinearity
INTR& INF	0.2662	No multicollinearity
EXR & GDP	0.7691	No multicollinearity
EXR & INF	-0.5003	No multicollinearity

EXR & INTR	-0.3000	No multicollinearity
FDI & GDP	0.8598	Multicollinearity
FDI & INF	-0.3984	No multicollinearity
FDI & INTR	-0.5054	No multicollinearity
FDI & EXR	0.8245	Multicollinearity

From the table 4.3 above, it is clear that there exist multicollinearity FDI & GDP and FDI & EXR.

4.3 HYPOTHESIS TESTING:

H_0: foreign direct investment has no significant impact on the development on Nigeria.

H_0: the nature and magnitude of foreign direct investment on economic development in Nigeria cannot be determined.

H_0: The level of fiscal incentive given to foreign investor the by the Nigerian government are not adequate.

From the findings of this research work, foreign direct investment was revealed to have a positive relationship with the gross domestic product, which showed that with a unit change in FDI, the gross domestic product will increase by 50.594. Also, FDI was seen to have a significant impact on the GDP. The interest rate and the exchange rate have an insignificant impact on the gross domestic product, which means that the fiscal incentive given to foreign investors is not adequate.

From the foregoing we conclude thus:

- That foreign direct investment has a significant impact on the development of Nigeria.
- That the nature and magnitude of foreign direct investment on economic development in Nigeria can be determined.
- That the level of fiscal incentives given to foreign investors by the Nigerian government, are not adequate.

CHAPTER FIVE

SUMMARY, POLICY RECOMMENDATIONS AND CONCLUSION

5.1 SUMMARY

This study examines an analysis of the impact of foreign direct investment on Nigeria economic growth over the period 1990 – 2010. We use an ordinary least square regression (OLS)

Based on the objectives of this work, we will find out that foreign direct investment (FDI) has a significant impact on the growth of the Nigerian economy and that it has a positive relationship with the gross domestic product (GDP) i.e. an increase in the foreign direct investment (FDI) will bring about an increase in GDP. Also from the results, foreign direct investment was statistically significant because its T-calculated value is greater than its T-tabulated value at 5% level of significance. This findings conforms the granger causality result which shows that foreign direct investment granger has an impact on the Nigerian economy. The INF, INTR, and EXR were not statistically significant from the findings.

5.2 POLICY RECOMMENDATION

In the light of the above findings, the following recommendation are proposed to encourage and improve the inflow of foreign direct investment in Nigeria

- Government should provide adequate infrastructure and policy framework that will be conducive for doing business in Nigeria so as to attract the inflow of foreign direct investment
- There is need for government to formulate investment policies that will be favorable to local investors in order to complement the inflow of investment from abroad
- There is need to consolidate the ongoing democracy and improve the act of governance; this will reduce the uncertainty and unpredictability of investment policies in Nigeria hence instill confidence in investors
- To enhance rapid economic growth, government should encourage the development of strong linkages between exchange rate and interest rate in order to feel the presence of foreign investment

5.3 CONCLUSION

In the light of the above, we say that policies which are conducive to sustain growth and macroeconomic stability are essential elements if an enabling investment environment. They are also important to foreign investors as they are to domestic ones as they determine risk profitability of investment.

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