THE IMPACT OF FOREIGN DIRECT INVESTMENT ON ECONOMIC GROWTH IN NIGERIA

A RESEARCH PROJECT

BY

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EC/2009/687

A PROJECT REPORT PRESENTED TO THE DEPARTMENT OF ECONOMICS

FACULTY OF MANAGEMENT AND SOCIAL SCIENCES

CARITAS UNIVERSITY AMORJI NIKE ENUGU STATE

IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR OF SCIENCE (B.Sc.) DEGREE IN ECONOMICS.

AUGUST, 2013

APPROVAL

This project has been approved for Ekweogwu Rita Nkechi whose registration number is EC/2009/687, by the department of Economics, Faculty of Management and Social Science, in partial fulfilment of the requirements for the award of the Bachelor's Degree in Economics

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DEDICATION

This work is dedicated to the Sacred Heart of Jesus and Immaculate Heart of Mary, also to Jesus the divine mercy, for their love, mercies, guidance and protection during and even after this work.

This work is also dedicated to my lovely and caring parents, Mr & Mrs Charles Ekweogwu, wonderful sisters and my friends David A.J.U Gregory Mong, Roger Williams and Umeadim Chisom for their love, support and encouragement.

ACKNOWLEDGEMENT

I wish to acknowledge and thank everyone who contributed one way or the other towards the success of this work.

I am most grateful to my supervisor, Prof. F.E. Onah for his immense contribution and readiness, also his advice, patience and supervision towards the success of this work. My special thanks goes to my head of department, Br Peter onwudinjo, and to my past and present lecturers.

Words can never be enough to express my profound gratitude to my ever caring and irreplaceable parents Mr & Mrs Charles Ekweogwu for their words of inspiration and wisdom. Thanks also to my sisters, friend, my roommates Christabel , Anita and Chiamaka and many others who have been helpful to me. Most importantly, to God Almighty, the author and finisher of all things. I say a big thank you.

ABSTRACT

Foreign Direct Investmemt has been widely described as an indispensible vihicle of economic growth, Variuos reseachers have tried to advocate foreign direct investment as a tool for employment generation, transfer of technological skills, manpower development and increased foreign dexchange earnings.

This study was carried out to determine the impact of FDI on economic growth in Nigeria. The study made use of the ordinary least square (OLS) method of estimation in determinig the impact of FDI amid other variables on economic growth from the period of 1980 – 2010. This study further reveals that inflation rate have a negative influence on economic growth. Recommandation based on the findings made are geared towards a restructuring and redirecting of foreign direct investment if successfully put in place would yeild great benefits to economic growth in Nigeria.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Over the years countries of the world have mutually helped each other in growing and developing. This has been made possible through the instrument of international trade. This trade is necessitated by the fact that no country is an island therefore is naturally endowed with all her needed resources.

In line with this trade between the advanced countries and the developing countries is necessary so that the advanced countries with their technical knowledge can transform the raw materials of the developing nations into finished goods.

The advantage of foreign capital investment especially foreign direct investment cannot be over emphasised, some of which include the acquisition of relevant and required technology, employment, inflow of foreign direct investment, manpower and human capital development, increased foreign exchange to the host countries and international accreditation and relevance.

In Nigeria context successive government supported by the strong industrial and academic forces have identified this machinery of international trade as an important tool for growth and development. Using some e measures like giving credit consideration provision, basic infrastructure and right environment for production and investment, quality tax concession and favourable lending rates.

A compares of the results between the impact of FDI on economic growth and domestic investment has been made between the East and West African countries. The overall results indicate that FDI promotes economic growth that higher foreign direct investment promotes economic growth rate. Foreign direct investment is also found to crowd in domestic investments likely attributed to technology transfer and related spill overs effects comprising East and West African countries. It is found that the positive effect of FDI on growth is driven by West African countries while the negative effect of FDI on domestic investment is led by East African countries.

Over the last decades, the macro-economic performance of Nigeria can be described as being chequered. The average GDP growth rate of 3.95% achieved between 1970 – 2008 translates into a low growth rate of 1.49% in per capita income terms. This rate of growth in per capita terms is insufficient to reduce in a significant ay the level of poverty which remains the primary goal of developing policies in Nigeria. Ajayi (2006) notes that the savings rate of Nigeria is lower than that of most countries and far lower than the required investment that can induce growth rates that are capable of alleviating poverty.

Recent studies however show that Foreign Direct Investment is what is needed to bridge the gap of savings and investment that exists in African and in nigeria particularly. Prior to the 1970's FDI was not seen as an instrument of economic development the perception of FDI as parasitic and retarding the development of domestic industies for export promotion had engendered hospitality to multi –national companies and their direct investments in many countries.

However, the consensus now is that FDI is an engine of growth as it provides the much needed capital for investment, increased competition in the host countries industries and aids local firms to become more productive by adopting more efficient technologies or by investing in human and or physical capital. Foreign Direct investment contributes to growth in a substantial manner

because it is more stable than other forms of capital (Ajayi ,2006). While the FDI growth link is still ambiguous most macroeconomics studies nevertheless support the notion of a positive role of FDI within particular economic conditions. There are three main channels through which FDI can bring about economic growth. The first is through the release it affords from the binding constraints of domestic savings. In this case, foreign direct investment contributes to savings in the process of capital accumulation. Second FDI is the main source through which technology spillovers lead to an increase in factor productivity and efficiency in the utilization of resources which leads to growth . third FDI leads to export as a result of increased capacity and competitiveness in domestic production. This linkage is often said to depend on another factor called ''Absorptive Capacity'' which include the level of human capital development, type of trade regimes and degree of openness (Ajayi 2006; Borenztein et al 1998).

The proposition made in this paper is that FDI facilitates economic growth on one hand and on the other hand economic growth attracts FDI into Nigeria. In other words FDI and economic growth are endogeneously determined in Nigeria.

Consequently the objective of this study is to analyse the edogeneouse nature of the effect of FDI on economic growth in Nigeria using data between 1980-2010. The aim is to find out if there is a directional relationship between economic growth and FDI's inflows into Nigeria.

This study justified particularly for the following reasons: the study recognizes the growing evidence from cross countries studies that the relationship between FDI and economic growth is endogenous. That is FDI engenders growth and growth attracts FDI. The study does not simply assume endogenity but actively tests for endogenity of FDI and economic growth in Nigeria, using appropriate econometric methodologies. The study is also significant because it differs from other studies in the scope. This gives the study an edge because it examines the FDI growth relation in the near contemporary context, checking account of past trends and recent developments in the global financial market for capital flows.

Finally the study adds to the literature by specifically examine the interaction between FDI and human capital and infrastructure with the view for examining whether FDI affects growth by itself or through an indirect interaction term.

1.2STATEMENT OF THE PROBLEM

Interestingly there are some arguments about whether FDI is really beneficial and how significant this benefit is to economic growth some critical proponents have said that in the cost of benefit analysis context, the less accuring to the host countries as a result of FDI outweighs the guaranteed benefit. Typically, multinational corporations in developed countries have actually become a threat to host countries as they are now subversive and exploitative.

Also, multinational corporations are in reality the representation of the global corporation around countries as they see the state as the only unit of analysis in international relation. These arguments above and indeed many more have necessitated a critical look and finding out of whether the often acclaimed benefits of FDI are significant or not.

Dependency theorist has also focused on how FDI of Multinational Corporation distorts developing nation economies. In the view of these scholars, distortion includes the crowding out of national firms rising unemployment related to the use of capital intensive technology and a marked loss of political sovereignty. Developing nations generally depend on the foreign investors for the finance capital that they need. Multinational corporations carryout much of this foreign investment and many developing countries also borrow money from international financial markets by selling bonds, but they usually must pay higher interest rate (the cost of borrowing). Foreign investors may refuse to buy bonds if they fear that a government may not be able to repay its loans.

However the basis of this study is the general notion that FDI investment generates considerable benefits to the host country by helping to accelerate her development efforts

1.3 OBJECTIVE OF THE STUDY

The general and foremost objective of this study is to examine and determine the impact of Foreign Direct Investment on the Nigerian economic development specifically. Other aims of this research work includes;

1. Determine whether foreign direct investment has actually been contributing significantly to economic growth in Nigeria.
2. To ascertain the magnitude of the impact of FDI on economic growth in Nigeria.

1.4 RESEARCH HYPOTHENSIS

1. Ho - There is no significant relationship between Foreign Direct Investment and Economic Growth.

2. Ho -Foreign Direct investment and Economic growth are not endogenously determined in Nigeria.

1.5 SCOPE OF THE STUDY.

This research work focuses on FDI and the economic growth in Nigeria and covers a period of time between 1980-2010. This period was chosen to sufficiently determine the long –run impact of FDI on economic growth.

1.6 SIGNIFICANCE OF THE STUDY

This research will help policy makers' access or find out the extent to which FDI has gone in influencing economic growth in Nigeria. It also serves as an eye opener for the Nigerian government in the area of FDI and also a reference material to researchers.

CHAPTER TWO

LITERATURE REVIEW

2.1 Theoretical literature

Due to the large growth of foreign direct investment in recent times, a lot of literature woks on these have emerged. A large portion of which is descriptive other parts the normative. Also, a small part of this literature looks at some economic theoretical issues like which motivates foreign direct Investment (FDI) and the subsequent effect on the host country.

The term FDI is used to explain investment in a foreign country where the investors (usually multi-national) maintains control over investment. Director investment typifies the foreign firm establishing the sub-company in question. Therefore, FDI is the extent to which the foreign firm takes control of another firm in another country.

Since the Second World War, FDI has maintained prominence in the economy of the world. Two countries of the world that have been key foreign direct investors are Great Britain and the United states of America. Also while the European Union and the Western Europe Countries became increasingly importance receivers of direct investment while in the smaller industrialized countries like Switzerland, Sweden and Netherland, Japan as tremendously increased its level of direct investment in the last two decades.

About two-third (2/3) of direct investment is embarked on by developed countries while the remaining one-third (1/3) of direct investment is carried out by less developed countries Direct investment is usually carried out by multinational corporations, which have their operations spread over countries and their management representing the country in which they operate. These firms poses durance technology and management skills and hence, seek to expand their borders and increase their profits by broadening horizon and investment abroad.

This usually generates a lot of criticism, as the multinational firm is seen as exploiters of less developed countries. However, undeniable is the fact that the involvement of the multinational corporation have d crucial role in developing the less develop countries (LDCs) and in reducing the unequal economic gap existent between the industrialized and less developed countries. Also, it has helped to produce remarkable changes in the structure and organization of all domestic firms.

2.1.1 Foreign Director Investment and the Nigeria Economy

Nigeria is less than one ninth (1/9) as large is Brazil and about the size of Texas but has the eighth or ninth largest population in the world. There are ranging estimates but its population is put at approximately 686 million (1991, Nigerian census).

The WESS 2006 seeks to explain the role that FDI plays in explaining divergence in economic growth performance over the period since the first UN Development Decade in the 1960's. the role has been a contested one (e.g. Frediksson and Zimny 2004) from the 1960's on ward favour of FDI and against and productivity increases in the economy as d whole but others stress the FDI-development nexus.

Foreign Direct Investment used to be viewed as unhelpful, negative and bringing inappropriate technology to developing countries. More than four decades on, the radically different view from the beginning of the period has emerged. Foreign Direct Investment is now seen as beneficial and nearly all countries try to provide the welcoming that they can affect the attraction of FDI using both general economic policies and appropriate specific FDI policies.

However at the same time as country government have begun to realize the positive aspects of FBI, a more nuanced view on FDI and growth how now emerged in the research community which views the impact of FDI on economic growth as not only positive or negative but that the effects depend on the type of and policies. The type and sequencing of general and specific policies in areas covering investment, trade, innovation and human resources are now seen as crucial in affecting the link between FDI and growth while FDI is often superior in terms of capital and technology, spill overs to local economic growth is not automatic. Appropriate polices to benefit from FDI include building up local human resources and technological corporations (TNCs).

2.1.2 Trends of Foreign Direct Investment

The level and composition of FDI has changed markedly over time and this implication for how FDI affects growth, not least because countries with increased amounts of the right type of FDI will have a bigger potential to benefit. This section presents the FDI data in historical perspective. There decades with a decrease more recently for developed countries though with difference across countries.

Various classification have been made of FDI for instance, FDI has been described as investment made so is to acquire the lasting management interest (for instance 10% of voting stock) and it last 10% of equity shares in an enterprise operating in mother country other than that of investors' country (William, 2003; world bank 2007) policy makes be here that foreign direct investment (FDI) produces positive effects on host economies. Some of these benefits are in the form of extensities, imitation, employee training and the introduction of new processes by the foreign firms (Alfaro, 2006). According to Tang, Selvanathan and Selvanathan (2008), multinational enterprise (MNEs) diffuse technology and management know-how to domestic firms. When FDI is undertaken in high risk dress or new industries, economic rents are credited accuring to and technologies beneficial to the recipient economy. In addition, FDI helps in bridging the capital storage gap and complement domestic investment especially when it flows to the high risk area of new firms where domestic resources are limited (Norzoy, 1979).

By disaggregating FDI and considering the compatibility of different types of FDI on economic conditions prevailing in the host country, the positive growth effects of FDI are doubt full. Host country and industry between both sets of characteristic determine the growth impact of FDI in developing nations. Alfdro et al (2006) analysed the role of local financial markets in enabling FDI to promote growth through backward linkages. They asserted that they operate intermediate firms in the good sector the entrepreneur require up front capital investments. The more developed the local financial market is, the easier it is for credit constrained firms to operate. The increase in the varieties and quantities of intermediate goods, lead to spill over to the final good sector. Due to this the financial market ensures the backward firms linkages between foreign and domestic forms to turn into FDI spillovers. Their calibration result presence constant, financially well developed economies perform almost as twice as economy than an economy with less developed financial system.

Local conditions such as market structures and human capital are also important to generate positive effect of FDI issues in Nigeria include Onyjide(2005) which provide conceptual framework for the analysis of the macro economic effects of volatile capital flows. Capital flow has their pros and condition. This however depends on the initial condition the capacity building is way of maximizing benefits and minimizing risk from capital flows.

Otapola (2002) examines the importance of foreign director investment in Nigeria. The study empirically examined the impact of FDI on growth. He concluded that FDI contributes significantly to growth especially through exports.

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depends on the initial condition the capacity building is a way of maximizing benefits and immixing risk from Nigeria is one of the economies will great demand for goods and services and has attracted some FDI over the years. The amount of FDI of flows into Nigeria has reached Us $ 2. 23 billion in 2003 increased this figure rose to US $ 9.92 billion Cd 87% increase) in 2005. The figure how ever declined slightly to Us $ 9. 44 billion in 2006 (LDCO Monitor Com). The question that comes to mind is, do the FDI actually contribute to growth in Nigeria? If FDI actually contributes to growth, than the sustainability of FDI is a worthwhile activity and a way of achieving its sustainability is by identifying the factors contributing to its growth with a view to ensuring its enhancement Agencies, most however, FDI and growth debates are country specific. Earlier studies (for instance Orepla 2002; oyejide, 2005 Akinto 2004) examines only the importance of FDI on growth and the channels through which it may be benefiting the economy. This study however examines the contribution of FDI to growth.

Rome (1993) argues that the gaps exist between the rich and poor countries and foreign investment can ease the transfer of technology and business understanding of the poser countries. Based on this view, FDI can have the spillover on all firms thereby boost productivity of the entire economy . Boyd and Smith (1992) however argued to the contrary. According to them, FDI can affect resources allocation and growth negatively where is price determination, financial

trade and other forms of distortion, existing prior to FDI injections. Where and Mady (1992) also supports the view of Boyd and smith (1992).

According to wheeler and mdoy (1992) infrastructure enhances FDIs contributions by reducing their operating costs and increasing the productivity of investments. In other words, the growth impacts of FDI is not automatic but ted to certain levels of infrastructure and economic performance.

Empirical contributions to FDI dabte include Boren Eztein, De Gregorio and Lee (1998). They examined the effect of FDI on economic growth using data on FDI flows from industrial countries to 69developing countries over the last two decades their regression results suggest the FDI is an important tool for technology transfer and it has contributed to the growth more then domestic investments. However, the higher productivity of FDI can be realized more when the host country has the minimum stock of human capital. In addition, FDI has the potentials of increasing total investment more than the potentials of increasing total investment more than one for one. The above points to complementarily effect of FDI on domestic firms in another similar study.

Balasubra manyam, Salisu and sspaford (1999) found evidence in support of FDI on the growth of Nibbled Economy from 1991 to 2001 using a combination

of bivariate and multivariate models the study concludes that FDI and export did in economic growth potential.

Nunnemkamp and Spetz (2002) however citizen the view that developing countries should draw on FDI to create the growth impacts of FDI are ambiguous because of highly aggraded FDI date.

There is a preponderance of empirical studies on the FDI-growth mexus and the determinates of FDI inflows. Early empirical works on the FDI growth nexus modified accounting method introduces by Solow (1957). The approach defined an argument Solow model with technology, capital, labour, inward FDI and a vector of ancillary variables such as import and export volumes. Following this theory , most of the empirical works on the effects of FDI, focused on their impact on output and productivity, with a special attention on the interaction FDI with human capital and the level of technology (Vu and Noy 2009).

However, recent empirical works have been influenced by Manknw et al (1992) pioneering research which adds education to the standard growth equation is a proxy for human capital. B Lomstrom et al (1994) and Coe et al (1997) found that for FDI to have position impacts on growth, the host country must have positive impacts on development that helps it reap the benefits of higher

productivity. In contrast, De Mellow(1997) finds that the correction between FDI and domestic investment is negative in developed countries.

Li and Liu (2005) found that FDI not only affects growth directly, but also indirectly through its interaction with human capital. Further, they find a negative coefficient for FDI when it is regressed with technology gap between the source and host economy using the large sample, borensztein et al (1998) found similar results i.e that inward FDI has positive effects the interaction between FDI and human capital.

De Mello (1997) found positive effects of FDI on economic growth in both developing and developed countries is determined by the spillovers of knowledge similarlu Balasubramanyam et al (1996) found support for their hypotheses that the growth effect of FDI is positive for export promoting countries in potentially negative for import-substituting ones.

Alfrano et al (2004) and Durham (2004) focused on the way in which the FDI effect depends on the strength of the domestic financial markets of the host country. They both found that only countries with well developed banking and financial systems benefit from FDI. In addition, Durham (2004) found that only countries with strong institutional and investor-friendly legal environment are

likely to benefit from FDI that a high level of work, said and Shen(2003) add that a high level of urbanization is also conducive to a positive impact of FDI on growth.

Comprising evidence from developed and developing countries, Blonigen and Wang (2005) argued that mixing wealthy and poor countries is inappropriate in FDI studies. They note that the factor that affect FDI flows are different across the income groups. Interestingly they find evidence of beneficial FDI only for developing countries and not for the developed one. While the find the crowding -out effect of FDI on Domestic investment to hold for the wealthy group of nations.

Recently, Vu and Noy (2009) carried out the sartorial analysis of foreign direct investment and growth in developed countries. They focused on the sector specific impacts of FDI on growth. They that FDI has the positive and no statistically dissemble effects on economic growth through its interaction with labor. Moreover, they that the effects seem to be very different across countries and economic sectors.

Carkovic and Levine (2005) argue that the positive results found in the empirical literature are due to biased estimation methodology . when they employed to different estimation technique i.e Arellano. Bond Generalized

moment of Methods (GMM), the found no robust relationship between FDI inflows and domestic growth.

In line the notion that there is an ericogenous relationship between FDI and economic growth, Ruxand and Muraru (2010) investigated the relationship between FDI and economic growth , Ruzand and Murdru (2010) investigated the relationship between FDI and economic growth in the Romanam economy, usin g simultaneous equation model. They obtained evidence of the bi-directional connection between FDI and economic growth, meaning that incoming FDI stimulates economic growth and in the its turn, a higher GDP attracts FDI.

In a paper most similar to this work li and L.u (2005) investigation the relationship between FDI and economic growth based on a panel of 84 countries, using both single equation and simultaneous equation systems. They found that FDI affects growth indirectly through its impact on human capital. This work is similar to their own in that we both single equation and simultaneous equation system however, our work is different in that it is country specific (Nigeria) and involves a longer time frame (1980-2012).

The consensus in the literature seems to be that FDI increase growth through productivity and efficiency gains by local firms. The empirical evidence is not unanimous, however. Available evidence for developed countries seems to

support the idea that the productivity of domestic firms is positively related to the presence of foreign firms (Globeman, 1997), Imbbrian and Regnatic 1997). The result for development countries are not so cleary with some finding positive spillover (Blomstron and Sjoholm 1999. Kokko, 1994) and others such as Aitken et al (1997) reporting limited evidence still other find no evidence of positive short-run spillover from foreign firms.

Some of the reasons adduced for these mized result are the envisage forward and backward linkage may not necessity be there (Aitken et al , 1997) and that arguments of MNEs encouraging increased productivity due to competition may not be true in practice (Ayanwale, 2007). Other reasons include the fact that MNEs tend to locate in high productivity industries and, therefore could force less productive firms to exist (Smarzynska 2002) cares (1996) also postulates the crowding out of domestic firms and possible contraction in total industry size and/or employment. However, crowding out is the more rare event and the benefit of FDI tends to be prevalent (cotto and ramachandran, 2001).

Further, the role of FDI in export promotion remains controversial and depends usually on the motive for such investment (world bank, 2009.) the consensus in the literature appears to be that FDI spillover depend on the host country's capacity to absorb the foreign technology and the type of investment climate (Obonde, 2004).

The review here and in the references provided, shows that the debate on the impact of FDI on economic growth as far from being conclusive the role of FDi seems to be country specific and can be positively negative or insignificant, depending on the economic , institutional and technological conditions in the recipient countries.

Most studies on FDI and growth are cross-country evidences, while the role of FDI in economic growth com be country specific. Further, only the few of the country specific studies actually took conscious note of the endogenous nature of the relationship between FM and growth in their analysis, thereby raising some questions on the industries of their findings.

Finally, the relationship between FDI and growth is condition on the Microeconomic dispensation the country in question is passing through. In fact, Zhang (2001) asserts that " the extent to which FDI contributes to growth depends on the economic and social condition or in short, the quality of the environment of the recipient country". In essence, the impact FDI has on the growth of any economy may be country and period specific studies. This discovery from the literature is what provides the motivation for this study on the relationship between FDI and economic growth in Nigerian.

2.1.3 THE FDI-GROWTH RELATION IN NIGERIA

There are several Nigeria-specific studies on the relationship between FDI and economic growth in Nigeria. Some of the pioneering work include Aluko (1961), Brown (1962) and Obinna (1983).these authors separately reported that there is a positive linkage between FDI and economic growth in nigeria . 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 chinerfwatanabe average. Oseghale and Amonkmen (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 (1995) placed special emphasis on the factors effecting FDI flows into Nigeria in both pre and post Structural Adjustment Programme (SAP) area and discouraging investors. This policy environmental led to the proliferation and growth of Parnell markets and sustained capital flight.

Adelegan (2000) explored the seemingly unrelated regression model (SUR) to examine the impact of FDI on economic growth in Nigeria and found out that FDI is pro-consumption, pro-import and negatively related to grass domestic investment. In another paper, Ekpo (1995) reported that political regime, redl income per capital , inflation rate, world interest rate, credit rating and dept service were the key factors explaining the variability of FDI inflows into Nigeria. Similarly, Ayamwale and Bamire (2001) assessed the influence of FDI on

firm level productivity in Nigeria and reported positive spillover of foreign firms on domestic firm productivity.

Ariyo (1998) studied the investment trend and its impact on Nigeria's economic growth over the years. He found that only private domestic investment consistently considered (1970-1995). Furthermore, there is no reliable evidence that the entire investment variable included in his analysis have any perceptible influence an economies growth. The therefore suggested the need for an institutional of major partners in the development of the economy.

A common weakness that has been identified in most of these studies is that they filed to control for the fact that most of the FDI inflows to Nigeria has been concentrated on the extractive industry (to oil and natural resources sector) according to Ayanrogale (2007), these works invariably assessed the impacts of FDI inflows to the extractive industry on Nigeria's economic growth.

Akinlo (2004) especially controlled for the oil, non-oil FDI dichotomy in Nigeria. He investigated the impact of foreign direct investment (FDI) on economic growth in Nigeria, using an error correction model (ECM). He found that both private capital and lagged foreign capital have small and a statistically significant effect on economic growth. Further, has results support the argument that extractive FDI might not be growth enhancing as much as manufacturing FDI.

Examining the contribution of foreign capital to the prosperity or poverty of LDSC. Oynlle (1995) centralized foreign capital to include foreign loans, direct foreign investment and export earnings. Using chancery and stout's two gap model (chancery and stout 1966), he concluded that FDI has the negative effect on economic development in Nigeria. Further on the basis of time series data, Ekpo(1995) reported that political regime, read income per capital, rate of inflation, world interest rate , credit rating and debt service were the key factors explaining the variability of FDI into Nigeria.

Anyanwu (1998) paid particular emphasis on the determinants of FDI inflows to Nigeria the indentified change in domestic investment, change in domestic output or market size, indigenization policy and change in openness of the economy is major determinants of FDI inflow into Nigeria and that it effort must be to raise the nation's economic growth so as to be able to attract more FDI.

A yanwale (2007) investigated the empirical relationship between non-extractive FDI and economic growth in Nigeria and also examined the determined of FDI inflows into simultaneous equation models to examine the relationship. He results suggest that the determinants of FDI in Nigeria are market size, infrastructure development and stable macroeconomic policy. Openness to trade and human capital were found not be FDI inducing. Also, he found a positive link between FDI and growth in Nigeria. My work is similar to that of Ayanwale

(2007) in that we seek to examine the impact of FDI in growth in the Nigeria economy. However, my work is improved because I am considering a longer frame (1970-2012), whereas that of Agenwale was (1970-1998) and I used the more robust system of (1970-1998) and I used the more robust system of equation.

2.1.4 IMPACT OF FOREIGN DIRECT INVESTMENT ON NATIONAL ECONOMIC GROWTH.

As said earlier direct investment bring about management skill and the technical knowhow to next country. The laudable effect of FDI are at the macro-economic level, for example, employment stimulation, increased output and economic growth.

In the first instance, the tax collected from the multinational subsidiaries is direct gain to the host country.

Second, direct investment makes for advanced skill of the labour force of the host country. As the multinational corporation are in certain about their future needs in skilled labour and personal turnover especially in every technological advancing labour beyond its immediate need, this training could either be in scientific, technical or managerial skill, leading to higher rate of wage at no cost really. This is inturn would lead to an increase in the production capacity of the economy of the host country. This increase in the production capacity of the

economy would lead to an outward stript of the production of the possibility frontier of the host country as the result of the spillovers of the activities of the subsidiaries.

Usually, foreign occupy the top managerial and technical positions in the multinational cooperation; thus reflecting their attitude towards the real and potential absence of human relations in countries where their presence is felt.

Koutoyeannis (1988) different results emerge from the manpower training carried out by multinational firms.

1. Higher wages would be earned by the skilled personal employed in the subsidiaries. However, as such personal are in excess supply; the subsidiary would not pay the full rent of the higher profit for the higher productivity of its labour profit.
2. With the presence of advanced specialization and training for skills by the multinational cooperation's domestic producers in the host countries may be induced to undertake similar training programme or the government may establish similar institution.
3. A clear benefit to the host country would be the excon supply of skill personal trained by the multinational corporation at no extra cost which also be wanted by the domestic producers.

There would be great mobility of labour force from the foreign subsidiary.

Thirdly, since FDI increases the productivity of factor resources of the host country, the behavior of the subsidiary market gives rise to substantial gain. As we know foreign subsidiaries are more efficient than the host country's and hence bring about more substantial gains. Host country competitors are normally protected by strong barriers to new entry hence they suffer from technical in efficiency and operate at sub-optimal scale and produce at their chosen output with inefficient combinations of factors making the domestic obgopolistic firm have in unit costs relative to the foreign subsidiary. Also, if the foreign subsidiaries higher productivity is captured fully in its profits, then apart from extra revenue raised from the subsidiary's higher profits there's no benefit to the host country.

Koutsoyannis (1995); productivity improvement has occurred when the excess personnel trained by the multinational employers is the knowledge impartial in them by the multinational firms to improve the organization and operations of domestic firms.

Thus, multinational firm take the first step to improve the efficiency of domestic firms giving them stand and to adopt and inducing their enhanced productivity.

Foreign direct investment also induces efficient resources allocation. As the result of many multinational firms in the market. There is the decline in price and therefore, when resources are released they are absorbed by the more productive sectors and in the long run, the host country gain are resources are efficiently allocated.

Foreign Direct Investment encourage faster technological development in the host country. Usually domestic firm protected by strong entry restriction take their time and are slow in technological changes. The presence of multinational subsidiaries with its superior technology to be able to compete.

FDI also boosts the host country's invention and innovation also with the presence of multinational firms in their economy.

Another advantage of FDI is that it raised output and marginal productivity. As it moves capital and managerial skills from regions where they are abundant and earn how returns. FDI here has a positive effect on both real wage and the real rate of return to capital. The host country also has the advantages of controlling the multinational cooperation's. Other wise, due to their big size, in comparison with their host countries, they would have been monopolistic and monopolists. However, this control is likely to diminish their profits (even though it may

enhance the social goals of the society). Hence, this control must be carefully exercised so as not to scare these multinational corporations awat.

Kindleberger, C.P (1977); control may be exercised in different from like licensing or even license or return rather requiring detailed paper work for imports of all inputs and any proposed expansions. Also, control can be exercised by regulating foreign exchange such that the company has to bring back its export earnings and sell them to the exchange authorities at prices not representative of world market prices for local currency.

Finally, the benefits of foreign direct investment to host country include, increases in the productivity of its resources (technical efficiency), a more efficient allocation of its resources locative efficiency gain) improvement in the quality of its resources (especially its labour force skills) and of course technical progress. All these enlarge the economy's production capacity.

2.1.5 NEGATIVE EFFECT OF FDI

Foreign direct investment also had some negative effects on the host country. Subsequently, we would discuss it.

Firstly, let us consider the effect on the balance of payment normally, in short run, the host country will improve its terms of trade and balance of payment. But in the long run it would be different. In this case, the

remittanbalance on profits will be a negative effect on the country's balance of payment will soon out weigh the positive effect. But this is not the case of the positive effect on the host country's economic growth is more then its negative effects on the balance of payment.

Sodersten(1986); a serious criticism against investment has been control. Previously, we have taken not of the issue of management control in direct investment wherever there is direct investment in the country. It means that part of that industry would be controlled by foreigners. This has not always down well with the host countries and has led to counter measures on most countries. A good example is canada where 59% of the total manufacturing capital is controlled by foreigners.

We also know that FDI has a major influence on the host country's domestic research and development. If there is domination by foreign countries of important sectors of the host country's industries, this can stifle scientific and development progress in the country. Already, we know that the main determinants of FDI are superior technology and managerial skills posed by the multinational firms. And that power (key) to further develop these keys industries are in the hands of the investing countries. Therefore, the host countries are deprived of necessary motivation brought about by research in these industries.

Research tends to be more concentrated in the home country because of the importance they attached to their economic development. The home country begins with a comparative advantage in the production and innovating capacity which are intensive research to direct investment. Those comparative advantage becomes more evident and the host country definitely takes the second state position of economic power.

The taking over of key sectors in the industry by foreign firms further shirts research to their own country. This could force scientist and technicians to more our of their countries when there is drift countries for higher wages and other benefits. This is the real brain drain inherent in direct investment to the real relocation of research activities.

The advanced and industrialized countries encourage this and often justify it that the real reason why the educated and skill manpower come to their countries is not necessarily for the higher wages but for the better equipments and more assistance in congenial surroundings. Another fear of the host countries against FDI is against foreign control. On such fear is the balance of payment.

Considering this foreign firms do not sufficiently export and when they do they give preference to the firm in this home countries and subsidiaries. These foreign firm ignore local employment practices this interfering with domestic

economic policies, in the case of fiscal and monetary policy they could make economic planning difficult.

Kindleberger C.P (1977); corruption due to high profit ability by these foreign firm is one. The foreign offers bribes to the government officials which even local cultural norms accept these income supplement now, if this bribe is more than the charge to the companies in the absence of bribe, the foreigner cant attempt to maximize profit and avoid legal limitations.

Obviously, and such result from the approval and receiving of bribes would not direct the nation's economy in good path and would not be in the best interest of the national citizenry.

Lipsey and Chrystel (2003) observed that FDI is often undertaken by domestic firms which have accumulated some advantages in the local market. Such advantages include patents and know-how that bestowed on them advantages when they enter into foreign markets. According to Lipsey and Chrystal (2003) FDI often generates somewhat higher paying jogs than might otherwise be available to local citizens.

Second, it generates investment that may not be possible with local resources only. Third, it links the recipient economy into the world economy in manner that would be hard to achieved by new firms of a purely local origin. Furth by working

large firms linked with the global market, FDI provides training in workers and management fifth, it can provide advanced technology that is that easily transferable outside the firms and are already in use by foreign firm.

According to Lipsey and Chrystal (2003), the FDi works through the following mechanism. " by altering a country's comparative advange and improving its competitiveness through, technology transfer and the effects of myrdid extemelities, foreign as well as domestic investment can alter a country's volume and pattern of trade in many income enhancing directions" During (1977) also proposes the eclectic theory of FDI which states that firm must posses some ownership advantage over. Other firm in the area of the firm's specific intangible assets are optimized only if they area used by the firm rather than selling or leasing them. More importantly these intangible assets are most beneficial when combined with factor inputs abroad thus, providing a justification for FDI.

Theoretical models of FDI spillover via backward linkage include Rodriguez-clare(1996), Markusen and of these models investigate the critical role played by local financial markets and neither do they focus with dynamic effect of FDI spillovers. Instead, these are static models. Our model closely follows Grossman and helpman's (1990,1991) small open economy set up of endogenous technological progress resulting from diversity. We modify their basic framework to incorporate foreign- owned firms and financial intermediation. The standard

Grossman-helpman setting is preferred since it provides the most transparent solution. Further, models of FDI such as the ones mentioned use the intermediate product variety structure in the static setting, thus making it the natural choice when moving to the dynamic framework.

Foreign direct investment by take the following forms:

- Formation of companies for investing countries
- Creating fixed assets by investing in infrastructure like power plants, refineries, nilways etc.
- Setting up the corporation for assembling the parent product, its distribution sales and exports
- Formation in the capital importing country of a company financial exclusively by the present concern situated in investing country.

2.1.6 CHALLENGES OF FOREIGN DIRECT INVESTMENT IN NIGERIA ECONOMY

As promising as the Nigeria economy seems to be, there are still some they daunting challenges head, which must be addressed it is to attract foreign investors. At the same time, it will be important to address they key problems that

pose challenges for foreign direct investment in Nigeria. Some of them that have been identified are:

1. SOCIAL INFRASTRUCTURE/ENABLING ENVIROMET: indecency of social infrastructure has imposed considerable stain on business especially in the productive sector some of them include.

   a. Electricity (Power) Supply: The electricity supply today remains unsatisfactory and to circumvent this odd, serious companies have to invest in back-up power supply system with attendant increased capacity outlay and overhead cost not to mention the disruption of process plant –operation. Currently the government has adopted measures to advert the situation by privatizing PHCN so as to allow for interested companies home and abroad to invest in order to ensure efficiency in electricity supply, the former Company (NEPA) single handedly operated by the government has changed it name to Power Holding Company of Nigeria (PHCN).

   b. Telecommunication, the sector which has in recent fears improved significantly as a result of the attraction of foreign investors still requires urgent attention. More investors should be attracted into the sector because of the vital role telecommunication system plays in modern day business. The deterioration of the entire transportation system is a

dawing many of our roads require urgent rehabilitation in addition to the expansion of the existing road Network. The rail transportation system seems to have been abandoned despite its cost effectiveness in mess movement of goods and people. This situation has negative implications on communication, movement of raw materials, finished goods areas mentioned have to be urgently addressed since the provision of efficient social infrastructure and utilities are important in foreign private investment

c. Political environment: A very stable political environment that provide security of foreign investments creates room for economic growth which attract foreign private investment in the year 1994 when the country witnessed several disruption of 1993 general election, negative signals were sent to the interactional community. Honestly, in Nigeria is instability of policy stability of policy stability engender confidence security and provides conductive climate for investor.

d. Efficiency and improved credibility of the finance and banking sector: The need for efficiencies in our banking and finance is very much the challenge simile constitutes the heart best of any economy. The past government monetary paid fiscal policy have adversely affected the banking system forcing some banks to become distressed the central bank

of Nigeria has however has however taken bold steps and measures to improve the banking system with the N25 million capitalization policy that is targeted at restoring the confidence of investors and Nigerians in our banking system. There is every need for us to present such a position picture of our banking and finance to the international community if we are the attract foreign direct investment.

e. External debt burden: a high level of external debt generates high amount of debt service payments which is the substantial change on the aggregate foreign exchange receipts of the debtor country. Payment of the external bedt service services therefore, impose the significant foreign exchange repatriation that may constrain their activities.

f. Multi of taxes and levies: the multiplicity of taxes and levies have unbearable bum to companies, this is a very strong signal to foreign investors. Some countries are known is tax havens and such are unable to attract significant foreign direct investment, the present tax regime still binders business growth even through government has embarked on some tax incentives and concessions such as the tax relief for research and development and tax free dividends. The becomes a challenge for foreign direct investment in Nigeria. Hence a review of taxes to a suitable level where foreign investors will be attracted is very important

2.1.7 GOVERNMENT POLICIES ON FDI

Government over the years, have adopted policies that will encourage foreign director investment in Nigerian economic growth some of the remained relevant still today;

a. Repeal of Nigeria enterprise promotion decree 1989: According to the 1995 budget speech, the objective of pedling the act was to ensure free flow of investments and funds into Nigeria in order to improve investment climate in the country.
b. Tax policies: The tax policies were related to incentive measures to encourage foreign private investment, which are based on tax reduction or increase tax allowance they comprises of:

- Pioneer status to be enjoyed by indigenous and foreign investor
- Tax free dividend and double taxation
- Group of companies taxation

Based on the polices of present government, virtually every sector of Nigeria economy is open to foreign director investment. Today, there are enough investment opportunities in petroleum, solid minerals, power and

telecommunications. Since the nations export examining, several measures have been adopted. They include;

a. Joint venture operation policies; Government is giving several considerations to selling 57% equality to foreign investors
b. New refineries policies: Government has taken measures to grant licenses to competent foreign private investors for the establishment of export oriented retainers in the country
c. Down stream activities.

2.2 EMPIRICAL LITERATURE (REVIEW)

A REVIEW OF THE EMPIRICAL LITERATURE ON FOREIGN DIRECT INVESTMENT.

It is well known that the growth of multinational enterprises (MNE activity in the form of foreign direct investment (FDI) has grown at the faster rate than most other international transaction, particularly trade flows between countries. In many ways, MNEs are the control centres for the large position of international transactions other than FDI. For example, almost half of trade flows are intra firm i.e. trade within an MNE.

These result-world trends have led to substantial recent interest by the international economics literature to empirically investigate the fundamental factors that drive FDI behaviour. This paper provides critical reviews of this literature to with the discussion of future research areas.

To organize used, we first examine the literature that motivates and tests its analysis of FDI determinants from a partial equilibrium view of the MNE. After briefly discussing the internal firm specific factors that motivate the firm to become an MNE in the first place, we then examine the external factors that are likely determinates of the location and magnitude of FDI by MNEs. The external factors range from exchange rates and taxes, to factors that are likely more endogenous with FDI by MNEs. These external factors ranges from exchanges rates and taxes, to factors that are likely more endogenous with FDI activity, such as trade protection and trade flows.

Firm characteristic also affect the MNS decision the most fundamental question about FDI activity is why a firm would choose to service a foreign market through affiliate production, rather than other option, such as exporting or licensing arrangement. The standard answer reviews around the presence of intangible assets specifics to the firm, such as technologies, managerial skills etc. such assets are public goods within a firm to the extent that using such assets in other plants. A standard hypothesis is that it is difficult to fully appropriate rent

from such asset through an arrangement of external party. For example, the license will not offer full value in negotiation over a contract if the intangible asset is not fully revealed, but the licensor will not want to revealed, but the licensor will not want to reveal the asset fully until a contract is finalized. In such situation, the decision may be for the firm to internalize the market transaction, which would mean establishing its own production affiliate in the market. Early conceptualization of this nation includes Oliver Williamson's work on transaction costs, and the development of the ownership location internalization (OLI) paradigm (e.g, Rugman, 1980 and Dunning 2001).

Festing these hypothesis is difficult because the firm specific factors leading to the FDI decision are inherently unobservable . as the result, R and D intensity (the rate of research and development expenditures been assets or sales) and adverting intensity have been primary used is proxies for the presence of intangible assets and then used for explanatory variables or not. In fact, it has become standard to include such variables in any firm level analysis of the FDI discussion.

In the final analysis, however, it is not possible to suggest that these empirical analyze irrefutably confirm intemelization hypothesis. Such measure as R and D.

Exchange rate effects.

The effect of exchange rate on FDI has been examined both with respect to changes in the bilateral level of the exchange rate between countries and in the volubility of exchange rates. The export market and the extent to which this affects the relationship – specificity between the multinational firm and the clines factories.

Froot and Stein (1991) presents and imperfect capital markets story for why the currency appreciation may actually increase foreign investment a firm. Imperfect capital markets mean the internal cost of capital is lower than borrowing from external sources. Thus, and appreciation not the currency leads to increased firm wealth and provides the firm with greater low cost funds to invests relative to the counterpart firms in the foreign country that experience the devaluation of their currency Froot and Stein (1991) provides empirical evidence of increased inward FDI with currency depreciation through simple regression using g a small specialization. Kilein and Rosengren (1994), however, confirms that exchange rate depreciation increase US FDI using various samples of US FDI disaggregated by country sources and types f FDI.

Blongen (1997) provides another way in which changes in the exchange rate level may affect inward FDI for a host country of assets that are transferable

within transaction (e.g) firm-specific asset, such as technology, managerial skills etc) then an exchange rate appreciation of the foreign currency will lower the price of the asset in that foreign currency, but will not necessarily lower the nominal returns. In other words, the depreciation of a country's currency may very well allow a "fire sale' of such transferable assets to foreign firm operating in global economies.

Other studies have generally found consistent evident that short-run movements in exchange rate lead to increased inward FDI, including Gurbert and multinational (1991),sweson (1994), and kogut and change (1996) with limited evidence that the effect is larger for Merger and acquisition FDI thus, the evidence has largely been consistent with Foot and Stein (1991) and Blonigen (1997) hypothesis one serious issue in the literature is that these exchange rate effects have been tested almost exclusively with US data, through some studies have focused on US out bound FDI, while others have used UDS in bound FDI.

Previous studies have also made the implicit assumption that exchange effects on FDI are exchange and proportional to the size of the exchange rate movement. The financial crises of the Late 1990s have just begun to spur a small nascent literature on the effects of large sudden exchange rate swings on the variety of economic variables, including FDI by MNEs.

Lipsey (2001) studies U.S, FDI into there regions as they experience currency crises (Latin America in 1982), Mexico in 1994 , and East Asid in 1997) and finds that FDI flows are much more stable during these crises than other flows of capital. Desal, Foley and Forbes (2004) compares the performance of U.S foreign asset significantly more than local firms during and subsequent to the crises. They attribute the internally to the larger extent then local firms.

Taxes

Interest in the effects of taxes on FDI has been considerable from both international and public economist. An obvious hypothesis is that higher taxes discourage FDI with the more important question are of magnitude. De Mooy and Ederveen (2003) provides and even more detailed discussion of the literature then the provided here and finds a median tax –elasticity of FDI across. However some of the more well-placed articles in the literature have highlight why such a number may be quite misleading. As these paper points out, the effects of taxes, measurement of FDI can vary substantially by type of taxes, measurement of FDI activity and Tax treatment in the host and the home countries. Countries have different ways of addressing this double taxations issue, which further complicates expected effects of taxes on FDI.

Most of the literature on taxation effects of FDI point to Hartman's papers (1984, 1985) as the starting point of the literature, is these were the first to point out a way in which certain types of FDI may surprisingly not be very sensitive to taxes. The key insight by Harman is that earnings by an affiliate in foreign country will ultimately be subject to parent and host country taxes regardless of whether it is repatriated or reinvested in the foreign affiliate to generate further earnings. There is no way to ultimately avoid foreign taxes on these earning. On the other hand, new investment decision consider transfers of new capital from the parent to the affiliate that do not originate from the host country and thus, have not yet incurred any foreign country.

2.3 LIMITATION OF PRREVIOUS STUDIES

The following observations were noted from available literature at my disposal . Most of the studies were carried out in foreign countries . Previous studies focuses on the determinants of foreign direct investment . Based on these observations i intend to further research on the issues of foreign direct investment in Nigeria.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introductions

This chapter explains the method of analysis used in this study. It further explains the method of estimating and analysis mode of study. The linkage mechanism between the Nigeria economic growth and foreign direct investment is modeled with the helped with the help of econometric technique.

FDI can be analytically linked to growth through a differeciated impact domestic capital, through the transmission of superior technology. The analytical structure, is therefore, in the spirit of Romer (1986). The important of FDI can be seen as closing the capital gap identified by Romer (1993) as the main obstacle

facing developing countries trying to catch up with advanced countries. The gap is more in knowledge or human capital, than the gap in physical capital. The relationship of economic theory which can be measured with another econometric test means that there are relationships in which some variables are postulated as the causes of other variables. The ordinary least square (OLS) regression model will be adopted in this research.

The merit of using ordinary least square test is based on the fact that is possess the 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 modelling which this work is concerned with requires there major step.

i. Model specification
ii. Data collection and
iii. Model estimation (Soludo, 1998)

3.2 MODEL SPECIFICATION

The specification of model for this work is drawn from the objective. Based on this, the model specification on the impact of foreign direct investment on economic with in Nigeria. Theoretically the model can be specified as gross

domestic product (GDP) is a function of foreign direct investment, inflation rate, real exchange rate, and interest rate. In this GDP is used as a proxy for economic growth, thus, methodically the relationship is stated as follow:

GDP Gross Domestic Product as Proxy for economic growth

FDI Foreign Direct Investment

RER Real exchange rate

RIR Real interest rate

INF Inflation

Statically, we can linearism the equation as a complete model GDP.

3.2.1 METHODS OF EVALUATION

(a) Evaluation based on economic criteria

This evaluation is based in theoretical criteria. Under these criteria the peroic expectation of the parameter estimates of the variables in the model will be evaluated to check whether may unform to economic theory. Hence the constant term Bo occurs when the include variables are meant to be zero. Also u which is the randon term capture or explains the proportion of the variation in GDP which

is not accounted for by the model, due to other less important mitted variables that can be attributed to chance and collective contribute to the model.

(b) Evaluation based on statistical criteria

The coefficient of determination (r) explain the total variation in the dependent variables caused by variation in the explanatory variables included in the model

(c) The T-Test

This test is used to check whether the variables includes in the model are significant or not in determining their effect on the dependent variable. Each element of B follows the T-distribution with n- k degree of freedom.

(d) The F-Test

This tests the overall significance of the regression model that is, it investigated whether the enter model is statically significant.

(e) Evaluation based on econometric criteria normality test

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

(f) Test for autocorrelation

This is to test whether the errors corresponding to different observation area uncorrelated. This test will adopt the Durbin Watson stalisty, because of the presence of logged dependent variables, as well as the regressor, which indicates that the model is and autoregressive model (Gujarati, 2004).

(g) Test for muticolltinerrity

This will be used to check for mutinerity among the variables. The basis for the test being the correlation matrix result, using the correlation co-efficient between pairs of regressors.

(h) Heterscedlasitcity test

The test would be conducted to ascertain whether or not the error term U, in the regression model, have a common or constant variance. The white Heterocelasity (with no cross terms) will be adopted.

Test for specification for errors

The Ramsey Rest test for model adequacy will be cancelled out to find out if the model is correctly specified.

3.3 justification of the model

The reason for the preference of this technique in estimating the model is that is involves the linear relation between the dependent and explanatory variables. This ordinary least square (OLS) technique is the most suitable for estimation significance of the variables. Thus, the ordinary least square estimator possesses the properties of best linear and unbiased estimator (blue). The ordinary least square techniques is relatively simple to used and there are also readily available software packages for use like the Ms-Excel and Pc-give which are user friendly.

3.4 Data Sources and method of collection.

The data of this study are time series data from 1980-2010, procured from the central bank of Nigeria statistical bulletin and the National bureau of statistics.

CHAPTER FIVE

SUMMARY OF THE FINDINGS, P CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF RESULT

4.1 PRESENTATION OF RESULT

The Ordinary Least Square (OLS) result of the model specified in the previous chapter is presented below.

TABLE 4.1: Modeling LGDP by OLS

Variable	Coefficient	Std. Error	t-value	t-prob	PartRy
Constant	1.0796	0.96874	1.765	0.0894	0.1070
LFDI	1.1776	0.079332	14.845	0.0000	0.8945
RIR	-0.0061994	0.011745	-0.528	0.6021	0.0106
INF	-0.015439	0.012409	-1.244	0.2245	0.0562
RER	-0.0020990	0.0010678	-1.966	0.0601	0.1294

Ry = 0.95243 F(4, 26) = 130.14 [0.0000] DW = 1.90

Ry = Coefficient of multiple determination

F = Overall test of significance

DW = Durbin-Watson statistics

Therefore,

GDP = 1.7096 + 1.1776FDI – 0.0061994RIR – 0.015439INF – 0.0020990RER + u

4.2 RESULT INTERPRETATION.

4.2.1 ANALYSIS OF REGRESSION COEFFICIENTS:

- ✓ **Constant:** The coefficient of the constant is 1.7096. this implies that when all independent variables are held constant, the value of the gross domestic product will be 1.7096.
- ✓ **Foreign direct investment (FDI):** The coefficient of FDI is 1.1776, implying that a unit change in FDI will result to a 1.1776 increase in the gross domestic product.
- ✓ **Real interest rate (RIR):** RIR has a coefficient of -0.0061994, which means that a unit change in RIR will bring about a decrease in the gross domestic product by 0.0061994.
- ✓ **Inflation (INF):** The coefficient of INF is -0.015439. This means that a unit in INF will bring about a 0.015439 decrease in the gross domestic product.

- ✓ **Real exchange real (RER):** The coefficient of RER is -0.0020990, which means that a unit change in RER will bring about a decrease in gross domestic product by 0.0020990.

4.2.2 STATISTICAL EVALUATION OF RESULT

1. **THE COEFFICIENT OF DETERMINATION (R2)**

From the result, the value of R^2 is 0.95243. This means that the explanatory variables explain much of the variations in gross domestic product to the tune of 95.243%.

2. **STUDENT T- TEST.**

This form of test involves comparing the estimated t-statistic with its table value at a chosen level of significance under a null hypothesis (H_0). The hypothesis for the t-test is thus;

Ho: B = 0 – Not statistically significant

Hi: B ≠ 0 – Statistically significant

Decision rule:

The decision rule employed in the t-test is to reject the null hypothesis if the computed t exceeds the tabulated t, using the5% level of significance and (n – k) degrees of freedom.

Table 4.3: The t-test

VARIABLE	T-VALUE	T-TAB(0.025)	RESULT
CONSTANT	1.765	±2.0555	Not significant
LFDI	14.845	±2.0555	Significant
RIR	-0.58	±2.0555	Not significant
INF	-1.244	±2.0555	Not significant
RER	-1.966	±2.0555	Not significant

Note: n – k = 31 – 5 = 26

The above result shows that the constant, real interest rate, inflation, and real exchange rate are insignificant, while foreign direct investment is significant.

3. F-TEST

The F – test is used to test the joint influence of the explanatory variables on the dependent variable. Thus,

F – cal = 130.14

F-tab (4, 26) = 2.74

Accept Ho if F-calculated > F-tabulated at (K-1, n-k) degree of freedom.

Therefore, since 174.74 > 2.74, we reject the null hypothesis and accept the alternative hypothesis, that the relationships between LFDI, RIR, INF and RER is statistical significant.

4.2.3 ECONOMETRIC TEST (SECOND ORDER TEST)

a. Test for autocorrelation

The Durbin-Watson d* statistics would be used to test for the presence of autocorrelation. The decision rule is given below:

Table 4.4: Decision Rule

NULL HYPOTHESIS	DECISION	IF
No positive autocorrelation	Reject	$0 < d^* < d_L$
No positive autocorrelation	No decision	$d_L \leq d^* \leq d_U$
No negative autocorrelation	Reject	$4\text{-}d_L < d^* < 4$
No negative autocorrelation	No decision	$4\text{-}d_L \leq d^* \leq 4\text{-}d_L$
No autocorrelation positive or negative	Do not reject	$d_U < d^* < 4\text{-}d_U$

Given:

Durbin Watson $d^* = 1.90$

$d_L = 1.22915$ – lower limit

du = 1.65002 – upper limit

Hence we use $d_U < d^* < 4\text{-}d_U$: therefore $1.65002 \leq 1.90 \leq 2.34998$.

From the result, d* falls within the range where we reject the null hypothesis, and conclude that there is no positive or negative autocorrelation.

b. NORMALITY TEST

The null hypothesis for the test is

H_O bi = 0 (The error term follows a normal distribution).

Hi: bi ≠ 0 (The error term does not follow a normal distribution).

At 5% with 2 degrees of freedom;

X^2 – cal = 14.16

X^2 – tab = 5.991

The decision rule is to reject Ho if x^2-cal > x^2-tab

Since x^2-cal > x^2-tab i.e. 14.16 > 5.991, we reject Ho and conclude that the error term does not follow a normal distribution.

c. TEST FOR MULTICOLLINEARITY.

The test was carried out using the correlation matrix. According to Barry and Feldman (1985) criteria "multicollinearity is not a Problem if no correlation exceeds 0.80"

TABLE 4.5: Correlation matrix

	RIR	INF	RER	LGDP	LFDI
RIR	1.000				
INF	-0.8615	1.000			
RER	-0.1687	-0.1165	1.000		
LGDP	0.4020	-0.1472	-0.6763	1.000	
LFDI	0.3648	-0.09196	-0.6453	0.9706	1.000

Form the above table, the pair-wise LFDI and LGDP has a correlation in excess of 0.8; therefore we conclude that multicollinearity exists between the pair-wise.

D HETEROSCDASTICITY TEST:

This test is carried out to evaluate the levels of distribution of the error term. It is used to test the variance of error term is constant. It follows chi-square distribution with degrees of freedom equal to the number of regression in the auxiliary regression in excluding the constant.

Test hypothesis:

Ho: Homoscedasticity (The variance of the error term is constant)

Hi: Heteroscedasticity (The variance of the error is not constant)

@ 0.05 (5% significance level)

The decision rule is to reject Ho if x^2-cal > x^2-tab.

From the Heteroscedasticity test result, x^2-cal = 5.2808 (@ 6 degrees of freedom), while from the x^2-tab (@ 0.05 degrees of freedom) = 15.507.

Since x^2-cal < x^2-tab, we accept Ho and conclude that the variance of the error term is constant.

4.3. HYPOTHESIS TESTING:

H_0: There is no significant relationship between foreign direct investment and economic growth.

H_0: Foreign direct investment and economic growth are not endogenously determined in Nigeria.

CONCLUSION: The obtained results revealed that foreign direct investment has a positive significant impact on the gross domestic product in Nigeria. Also, other variables excluding foreign direct investment have an insignificant impact on the gross domestic product in Nigeria.

Therefore, we reject the first null hypothesis and accept the second null hypothesis, concluding that there is a significant relationship between foreign direct investment and economic growth, and also, that foreign direct investment and economic growth are not endogenously determined in Nigeria.

CHAPTER FIVE

SUMMARY OF THE FINDINGS, P OLICY RECOMMENDATION AND CONCLUTION.

5.1 SUMMARY.

One of the most important changes that has taken place in economic policies in Nigeria in the last few years was the shift to the analysis of the impact of foreign direct investment with the environment of domestic and foreign policies, narrowing toward a common international economic order and induced globalization. Foreign Direct Investment now represents a major for cross border resource flow among counties.

More than ever the multitude of FDI within the past years has compelled discussion as to the desirability of multilateral investment agreement. Foreign Direct Investment contributes to the economy in various ways;

1. TECHNOLOGY; Technology transfer is one of the most vital benefits of FDI. In order to grow effectively, developing countries especially Nigeria needs to develop new skills. Knowledge, institutional and organisational structures and to master the technological process imported.
2. TRADE; the promotion of export is an important contribution made by multinational corporations. Export by MNCs affiliates have been one of the fastest growing components of the world trade in recent years. MNCs increases host countries competitiveness in many ways by giving affiliates privilage access to a flow of goods, services and information within the corporate system of raising skills and capabilities in the host countries.

5.2 POLICY RECOMMENDATION.

In the light of the above findings the following policy recommendations are proposed to encourage and improve the inflow of FDI in Nigeria.

1. Government should provide adequate infrastructure and policy framework that will be conducive for doing business in Nigeria so as to attract inflow of FDI.

2. There is need for government to formulate policies that will be favourable to local investors in order to complement the inflow of investment from abroad and also a favourable interest rate.
3. Given the causal link among exchange rate and export growth economically. The Nigerian economy should have favourable exchange policies.

5.3 CONCLUSION

The study examines the analysis of the impact of foreign direct investment on Nigeria's economic growth over the period of 1980- 2010. The findings revealed that economic growth is directly related to inflow of FDI and it is also statistically significant implying that a good performance of the economy is a positive signal for the inflow of FDI.

Also the result show that FDI significant because the t- calculated was greater than the t- tabulated value at 5% level of significance. This findings conforms the Granger causality result which shows that foreign direct investment has an impact on the Nigerian economy. The real interest rate and real exchange rate were not statistically significant from the findings.

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