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Analysis of the influx of foreign direct investment in Nigeria and its impact on economic growth

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Abstract

Influx of Foreign Direct Investment and its impact on economic growth in emerging economies evidence from Nigeria between 1981 and 2020 has attracted various perspectives thoughts even though with no clear empirically prove evidences. Therefore, the objective of this study is to ascertain the effect of Foreign Direct Investment and its impact on economic growth in Nigeria. The study adopted the theoretical Research design where the use of secondary data was employed to evaluate the effects of Foreign Direct Investment on growth of the Nigeria economy. The analytical tool used in the study was descriptive. Findings from the study revealed that, Foreign Direct Investment impact on growth of economy in Nigeria was not very clear because over the years and even currently it is poorly managed and the financial framework is not well developed logically to record the full benefits. The study recommending among other things that; Government should improve the financial framework operations and encourage citizens to invest locally so as to attract FDI collaboration that will impact the local economy and quality of material and Human Resource growth in Nigeria.

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Introduction

It is public knowledge that there has been an increase in economic activities around the world with the advent of globalization which is expected to increase the range of innovation, investment and also narrow gap of various kinds in the aspect of development and growth and especially in the way business is conducted. This above line of thought is strengthening by the mechanism created by the World Bank group ease of conducting or doing business term (EDB) index which measures various parameters in as many as 190 nations and its suggested that it should be graded on a scale of 1 to 20 in terms of level of simplicity and friendliness (Chia, Chukwu and Igwe, 2023) [6]. This emerging trend has motivated many nations in the world to innovatively engage in actions that would maximize inflow of capital into their economy and reduce unnecessary bureaucratic bottlenecks. The innovative frame among others include: liberation of home financial structure; modification of home laws and regulations to favour foreign direct investment (FDI). The external flow of capital and investment is a desire of all emerging economies because it is expected to bring about human capital development and technological knowledge transfer and advancement. A developing country like Nigeria is no exceptions to this anticipation. The theoretical performance of FDI is very attractive especially when it is believed to be more stable and potential for advancement of very wide range of national life (Giwa *et al*. 2019: Giwa *et al*, 2020) [9, 8].

The increasing inquiry into FDI is built on the perspective advanced by Mello (1997) [15] study about FDI and development in developing nation which observed that the-inquire of the impact of FDI as an instigator of external development, capital acquisition and advancement in technology is less paradoxical theoretically than in empirical terms.

The subject matter thus in empirical literature shows very conflicting outcome both in linking FDI and development rate of the host nation and evidence of the association as well (Awe, 2013) [5]. This dynamics have created so much curiosity from researches, governments and scholars with focus in comprehending the real and empirical impact of FDI on economic growth. Thus perhaps individual nation's internal realities are a great factor that influence rate of effect (Abu, 2013) [1].

In Nigeria, there are numerous works on the impact of FDI and on various themes. However, the nature and impact of FDI as it relates to the exact position of economic growth essential for human and resource development is not known with absolute credence and perhaps has been largely ignored. Therefore, capturing the influx of FDI in Nigerian the current wave of modern discussion and as it relates economic growth would give a more coherent insight into the dynamics of FDI and benefits to host countries. It is also important to understand and appreciate the overflow effects of economic growth to other sectors of the country. There are scanty evidences on the link between FDI and Nigerian economic growth yet none of these has given a clear result on the effect of FDI where as there are growing interests seeking to know the exact position of FDI as more multiple national enterprises keep showing interest in investing in the country. More so, there are various school of thoughts propagated for and against FDI. The pro-foreign investment believes there are benefits in numerous facets (Obamuyi, 2000) [18] and the anti-foreign investment advocate the negative influence, cost and suppression of local entrepreneurs, industries and exploitative tendency and discrimination (Oloyede and Obamuyi, 2000; Giwa *et al*, 2020) [8, 20].

Whatever position that is been advocated, it is evident that FDI provides avenue to shared interest in areas of technological exchanges, production and creativity with intention to broaden the economic frontier of the host country which has benefit to the investing enterprise as well as the host country (Olasehinde and Ajayi, 2022) [19]. This in simple terms is expanding economic fronts with economic growth.

Economic growth thus promotes better means of mobility, communication, leisure, skills acquisition housing construction and health management (Loto, 2011) [14] and it is an igniter of sustainable economic growth in a nation (Taiwo, Achugamonu, Okoye and Agwu, 2017) [24]. Even though, according to Taiwo *et al*, (2017) [24] in the last forty years, FDI in many parts of Africa is evaluated as undefined and illogical in nature even though it has never reduced over the years. It is strongly believed to have some hidden advantages which needs to be logically extracted and opinioned because Nigeria as a nation has never stopped investing in oil propelled by FDI which has slowly witness her diversify into other sectors like agriculture, production and infrastructural development which increases national income and savings (Oyegoke and Aras, 2021) [21]. This simple led is that nations with improved financial framework stand to benefit much more from FDI (Kalemli-Ozcan, Alfaro, Sayek and Chanda, 2002) [13]. This implies that as the FDI increases in the local system, it is improving or adapting to the changes in the economy because the foreign investor is part of the control of the physical firms in a FDI (Adeyuma and Oga, 2019) [2]. As Oloyede and Obanuyi (2000) asserted the investing firm has control over the investment as expressed as branches and subsidiaries throughout the host country. The influence exerted by the foreign investors is identified to promote inferiority complex among home and foreign firms (Nwauba, 2016) [16]. Nevertheless, this and among other challenges do not negate the total package that comes with FDI in countries and much more, a developing country like Nigeria.

The researchers analyze the influx of Foreign Direct Investment and its impact on economic growth of an emerging economy like Nigeria between 1981 and 2020. They investigate the effects of FDI on the economy and delineate all undefined positions in an effort to knowing the exact point that Nigeria economy is and the influence that such level of benefits accrue. This will give direction to the right policy decision to developing the needed systems to drive the maximum benefits of FDI in the short and long term.

Statement of the Problem

The population of Nigeria makes it an attractive destination for foreign direct investment. The firms are interested in the benefits they could derive and the nation is attracted to the mutual benefit of such partnership which entails employment generation by such firms, technological transfer and spinoff benefits. These and other reasons improve the quality of life of the people. It is a known fact that when citizens are employed, quality of living is enhanced, income improves, and this translate to improved standard of living.

However, the influx of FDI in Nigeria has occurred over the years, about four decades yet, almost all studies give undefined and incoherent benefit of FDI. Perhaps until Nigeria attains a certain level of financial system or developmental threshold before the benefits of FDI would clearly become conspicuous; FDI in Nigeria has shown blatant disregard to our laws and undermining of Nigeria's' sovereignty. This is in line with Sebel and Marx (1987) [23] postulation that to clearly isolate benefits of economic investment, then indices that clearly defined quality of material and human resources must be impressive otherwise it is near impossible. This thus, instigates an inquiry to the exact state of Nigerian economy in respect to growth in human and material wellbeing as regard the level of FDI in Nigeria.

Objectives of study

The overall objective of the study is it to analysis the influx of foreign investment to Nigeria and its impact on economic growth. The specific objectives are to:

1. Examine the effect of Multinational Enterprises on growth in the Nigeria economy.
2. Determine the relationship between FDI and quality of Human Resource growth in Nigeria

Research Questions

1. What is the effect of Multinational Enterprises on growth in the Nigeria economy?
2. What is the relationship between FDI and quality of Human Resource growth in Nigeria?

Hypotheses of the Study

In view of the research objectives, the researchers formulate the following hypotheses in their null form to guide the study.

$_{Ho:}$ Multinational Enterprises have no significant effect on growth in the Nigeria economy.

$_{Ho:}$ There is no relationship between FDI and quality of Human Resource growth in Nigeria.

Review of Related Literature

Conceptual Clarification

Foreign direct investment connotes multinational corporation portfolio that is transnational in nature and its investment span across its subsidiaries with major strategic decisions taken at the headquarters. This implies that its operations are outside the parent company's country but its value adding activities are in more than one country through the use of capital flows.

There is an increasing dependence of developing countries on private capital flows as a source of funding investment despite the consensus on the impact of foreign direct investment and remittances on economic growth which has remained elusive on policy debate (Agbola, 2013; Hammed & Okunoye, 2020) [3, 10]. However, the fact still remains that the flow of capital into any developing country will play a bigger role in easing the businesses both at various sectors of the economy. As such, the growing importance of FDI as a form of external finance to developing countries reflects not only the fact that firms increasingly find benefits in expanding their production globally but also that host developing countries see latent advantages in FDI over other forms of investments like foreign portfolio investment, in their economies (Jugurnath *et al*., 2016) [12].

To comprehend the subject of discourse, other scholars' views and perspectives would be logically examined.

John (2016) undertook a study on FDI in Nigeria economy between (1981-2015), a period of three decades and half using multiple regression technique for analysis. The result shows a positive and significant effect on Nigeria whereas exchange rate showed no significant impact on growth Domestic product with the time lag.

Sayef, Mohamed and Abdelhafidh (2018) [22] investigated the relationship between FDI and Nigerian Economy starting from year 1981 to 2015 while engaging the VECM and the finding showed no relationship existed among the variable engaged. Therefore, no clear relation.

Giwa, George, Okodua and Adeniran (2020) [8] carried out a study to ascertain the impact of FDI on Nigerian real domestic products (RGDP) range from 1981 to 2002 by employing GMM technique. The results that labour quality had significant impact on RGDP. The investment into the economy could aid in growth because use of capital had negative impact on RGDP in Nigeria.

Darazo and Adaramola (2021) [7] engage a study to determine how international trade and Nigerian economy, ranging from 1981 to 2018 engaging ARDL determinant technique and it was discovered that exports indicated no significant impact on economic growth and other variables such as FDI, exchange rate and imports. The conclusion was that FDI had no significant impact in Nigeria economy.

Olasehinde and Agayi (2022) [19] study examine the relationship between FDI and Nigeria economic growth ranging from 1981 to 2020 using ADLB technique. The findings show that some time along the duration of interest. There was significant relationship which includes FDI and real exchange rate which had positive significant effect. In specific terms the relation between FDI and economic growth is undefined and therefore, insignificant.

Theoretical Review

For most developing countries, investments come in different forms either foreign or local investment, one of the foreign means is the FDI which is a form of direct investment by foreign multinational companies (MNC) with presence in many countries. This study is supported by the Harrod-Domar theory of growth which states that for any economy to grow, a proportion of its GDP must be saved and invested. In other words, the capital-output ratio and savings available to a country determine the economic growth level. Though the study is anchored on Arthur Lewis Structural transformation model that posits that a process of transforming the economy in such a way that the contribution of manufacturing sector to the national income eventually surpasses the contribution of the agricultural sector, of a primarily subsistence economy. Harrod Domar Economic Growth Model (1939) According to Harrod Domar Model, the rate of economic growth depends on two things, that is, the level of savings, and the capital-output ratio. The model said that the rate of economic growth equals the Level of output upon Capital output ratio. The level of savings is the Average Propensity to save, which is the ratio of national savings to national income. The capital-output ratio is the amount of capital needed to increase the output. The Harrod–Domar model is a Keynesian model of economic growth. It is used in development economics to explain an economy's growth rate in terms of the level of saving and of capital. It suggests that there is no natural reason for an economy to have balanced growth. The model was developed independently by Roy F. Harrod in 1939, and Evsey Domar in 1946, although a similar model had been proposed by Gustav Cassel in 1924. The Harrod–Domar model was the precursor to the exogenous growth model. Neoclassical economists claimed shortcomings in the Harrod–Domar model in particular the instability of its solution and, by the late 1950s, started an academic dialogue that led to the development of the Solow–Swan model. According to the Harrod–Domar model there are three kinds of growth: warranted growth, actual growth and natural rate of growth. Warranted growth rate is the rate of growth at which the economy does not expand indefinitely or go into recession. Actual growth is the real rate increase in a country's GDP per year. Natural growth is the growth an economy requires to maintain full employment. For example, If the labor force grows at 3 percent per year, then to maintain full employment, the economy's annual growth rate must be 3 percent. Warranted Growth Rate – As a part of his growth model, Roy Harrod introduced the concept. He explained it to be the growth rate at which investment absorbs all the savings. Further, it is the growth rate at which the ratio of capital to output would stay constant at four. The Natural Growth Rate is the rate of economic growth required to maintain full employment. And this assumes that there is no change in the productivity of labor. But, this assumption is unrealistic.

Structural transformation model (Arthur Lewis, 1954) William Arthur Lewis was an economist well known for his contributions in the field of economic development. In 1979 he was awarded the Nobel Memorial Prize in Economic Sciences. He had dual Saint Lucian and British citizenships and later formalized and extended by John Fei and Gustav Ranis is one of the best-known theoretical models of development that focused on structural transformation, a process of transforming the economy in such a way that the contribution of manufacturing sector to the national income eventually surpasses the contribution of the agricultural sector, of a primarily subsistence economy.

Methodology Research Design

This study adopts a theoretical Research design. Research design is an arrangement of inquiry which specifies the resources and types of information appropriate to the research problem.

Evaluation of the research quality

This research has its major strength from the fact that Data for the research was collected through secondary sources that are from public documents. The research employed content investigation of library materials, journal periodical, internet resources and other standard materials relevant to the subject of interest. Very qualitative papers on the subject matter were identified and the needed information was extracted and inference drawn from the materials and conclusion made.

Presentation of Results and Interpretation

Table 1: Analysis of the influx of FDI on economic growth table

S/No	Authors/year	Duration covered (years)	Analysis technique	Paper Title	Effect of MNEs on Growth in Nigeria	Effect of FDI on Material and HM Growth in Nigeria	Conclusion	Remark Positive =1 Negative=0
1.	John (2016)	1981-2015	multiple regression	Effect of Foreign Direct Investment on Economic Growth in Nigeria	Not so clear	FDI in Nigeria had positive significant effect on Nigerian economy	FDI is positive	1
2	Sayef, Mohamed and Abdelhafidh (2018) [22]	1981-2015	VECM	The Six Linkages between Foreign Direct Investment, Domestic Investment, Exports, Imports, Labour Force and Economic Growth: New Empirical and Policy Analysis from Nigeria.	Not so clear	Not so clear	FDI is negative	0
3.	Giwa, George, Okodua and Adeniran (2020) [8]	1981 - 2002	GMM	Empirical analysis of the effects of foreign direct investment inflows on Nigerian real economic growth: Implications for sustainable development goal-17	Progressive and provides employment	Intensive FDI will result in Negative effect	Balanced management of FDI is important	1
4.	Darazo and Adaramola (2021) [7]	1981 to 2018	ARDL determinant	Impact of International Trade and Foreign Direct Investment on Economic Growth: The Nigerian Perspective.	Not so clear	Not so clear	More framework needed to actual feel impact because with current framework undefined	0
5.	Olasehinde and Agayi (2022) [19]	1981 to 2020	ADLB	Foreign Direct Investment and Nigerian growth	Not so clear	Not so clear	The FDI approach in Nigeria is faulty and needs to be corrected	0

Source: researches tabulation, 2023.

From the above simple table. It can be observed that serial number 1 and 2, John (2016) and Sayef, Mohamed and Abdelhafidh (2018) [22] covered 1981 to 2015 but each had different results about the effect of Foreign Direct Investment on Nigerian economic growth. John (2016) used multiple regression for analysis and Sayef, Mohamed and Abdelhafidh (2018) [22] engaged vector error correction model (VECM). Effect of influx of MNEs on economic growth is both not really clear and each concluded in the opposite view against each other about the effect of Foreign Direct Investment on Nigerian economic growth. From serial number 3, Giwa, George, Okodua and Adeniran (2020) [8] covered 1981 to 2002 and they used generalized method moments (GMM) to analysis the data. The result showed that MNEs is progressive and provides employment and Foreign Direct Investment on Nigerian economic growth is progressive as well but when it becomes intensive at a point it would have negative effects. The study concludes that a balance management of the Foreign Direct Investment is very important. From the results it means that individual perspective and interpretation based on method of analysis has effect. From serial number 4 and 5, Darazo and Adaramola (2021) [7] and Olasehinde and Agayi (2022) [19] which covered durations from 1981 to 2018 and 1981 to 2020 respectively. Both studies faulted the approach to Foreign Direct Investment in Nigeria because in empirical terms the impact of MNEs and Foreign Direct Investment is clearly undefined. Darazo and Adaramola (2021) [7] engaged autoregressive distributed lag ARDL to analysis data while Olasehinde and Agayi (2022) [19] engaged analysis dataset laboratory asynchronous dynamic load balancing ADLB. The analysis both still showed that Foreign Direct Investment has negative impact as managed today in Nigeria.

Discussion of Findings

The findings of this study are discussed under the various objectives of the study as presented in table above. However, some of the findings here are the inference the researchers have drawn from available data and the findings of previous works. The researchers have tried to balance the findings of the study with other studies of similar nature conducted by other scholars to achieve the position on findings in this study. Therefore, the results observed in this research aligns with Taiwo *et al*, (2017) [24] findings which stated that in the last forty years, FDI in many parts of Africa is found to be undefined and illogical in nature even as it is on the increase over the years. The may be some hidden advantages but issues of pollution, environmental degradation, bad working conditions for local workers and others unfair issues may have erode any benefits that may have been recorded. The simple observation is that FDI is more beneficial to the MNEs than Nigeria as a nation. This may perhaps explain the reason that they have continue to increase in their investments which slowly influence development agriculture, production and infrastructural development which increases national income and savings (Oyegoke and Aras, 2021) [21] theoretically. However, in empirical terms all research shows negative impact.

Conclusion and Recommendations

This study is very timely and crucial to Nigeria as a country as it starts a transition into a new government. The study also contributes to knowledge by using information from various authors to develop an important postulation which would be useful to the current economic planning, policy development and decision making. This study supports a need for new policy changes since the current management of Foreign Direct Investment does not give Nigeria the possible economic growth guaranties. To this end, emphasis is laid on making sure that there are improved financial framework such as proper cntrol of Real Exchange rates (REXCR) by monetary powers that be for economic strength to maintain its significant impacts in future on Nigerian economy. Hence, according to Kalemli-Ozcan *et al*, (2002) [13] only nations with improved financial framework stands to benefit much more from FDI. This is because every aspect of their dealings is observed and documented. A new approach in policy will guaranty growth and sustainability of the quality of material and Human Resource growth in Nigeria. Importantly, government should inspire Nigerians to be involved in domestic investment so that the effect of foreign direct investment would be much deeper since the local economy will be more strong to support MNEs collaborating to get opportunities for soft loan, zero interest loan and grants for diverse business ventures which is capable of promoting and enhancing foreign investment to grow the economy.

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