Foreign Private Investments and Real Gross Domestic Product in Nigeria

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ABSTRACT

The study which covered the period spanning from 1981 to 2020 (40 years) examined the impact of foreign private sector investment on Nigerian economy. The study specifically explored the impacts of foreign private sector real investment (FPSRI) and foreign private sector portfolio investment (FPSPI) on the Real Gross Domestic Product (RGDP) of the Real Gross Domestic Product (RGDP) of Nigeria. The data for the study were sourced and obtained from the Central Bank of Nigeria (CBN) Statistical Bulletin and World Bank Database from 1981 to 2020. Econometric techniques of unit root, integration, ARDL regression, error correction model were employed in analyzing the data. The results showed that foreign private sector real investment (FPSRI) exerted significant positive impact on real gross domestic product (RGDP) growth during the period studied where as foreign private sector portfolio investment (FPSPI) exerted significant negative impact on RGDP growth both short and long runs. The study recommended that monetary and fiscal policies should be geared toward improving foreign private sector investment most especially, foreign real investment to boast economic growth in Nigeria.

KEYWORDS: Domestic, Foreign, Impact, Investment, Private, Nigeria

INTRODUCTION

The growth of any economy depends mainly on the efficient performance of the private sector though the public sector remains indispensable, especially in developing economies such as Nigeria. The private sector provides the impetus for enhancing aggregate output thereby leading to greater employment of labour and improved welfare. With critical sectors such as agriculture, industry, trade and services, the private sector ensures that goods and services are produced to meet both local and foreign needs. It is against this background that government policies are continually targeted at enhancing the efficiency of the private sector.

In Nigeria, it is apparent that the lack of effective development of critical economic sectors is the main cause of the sluggish economic growth. The oil boom of the 1970s led to the neglect of the agricultural sector (which was the main foreign exchange earner of the Nigerian economy in the 1960s) to the extent that Nigeria began to import agricultural products such as palm oil, which were previously exported. According to Ijeh (2010), the celebrated 'boom' of the 1970s became a 'doom' for the country. The over dependence on crude oil exports as the main source of revenue and foreign exchange earner has placed the economy at great risk because of the vulnerability and volatilities of oil prices in the international market. The country remains largely underdeveloped and ravaged by poverty. Nigeria's domestic economic problems include, rising unemployment, high inflation rate, fiscal deficits. Externally, Nigeria is faced with problems of deficit in the balance of payment, high level of debt stock and unsustainable debt servicing burden to mention but a few. However, Nigerian government has been embarking on various economic reforms to address the aforementioned challenges.

During the oil boom era, Nigerian government openly encouraged foreign direct investment but in practice there were series of policies and pronouncements that served as disincentives to foreign direct investment. For instance, the Indigenization Decree of 1972 reserved exclusively certain businesses (ventures) for Nigerians. More importantly, regulated interest rate and fixed exchange rate regimes as well as restricted trade policy during the period provided wrong signals to potential investors. In July 1986, the Structural Adjustment Programme (SAP) was introduced, which led to the deregulation of the economy. It was aimed at addressing the inherent weakness of the Nigerian economy in order to set it on the path of sustainable growth. It consisted of the stabilization policies of international monetary fund to reduce budget and balance of payment deficits, reduce inflation and the structural adjustment policies of the World Bank.

In 1995, the Nigerian government established the Nigerian Investment Promotion Commission (NIPC) with a view to stimulating Foreign Direct Investment. Contrary to expectations the economy was still characterized by declining productivity, high rates of inflation and unemployment, a volatile exchange rate regime and balance of payments disequilibrium. The above mentioned industrial policy measures failed to exert significant impact on the Nigerian economy as expected because of myriads of factors ranging from the poor and haphazard implementation of the industrial policies; lack of set up mechanism to monitor the operation of the foreign and domestic enterprises to ensure compliance with the industrial policy objectives of Nigeria.

The care-free attitude towards the implementation of the industrial policies for the purpose of achieving sustained economic growth and development also contributed to the failure of those industrial policies. Just recently, in April 2014, the Nigerian GDP was rebased which was a departure from the 1990 base year for the country to a new one pegging in 2010. The rebasing exercise was aimed at realigning the economy to the present day realities for better appreciation on the nation's economic performance with likely policy implications. According to Yesufu (1996) the rebasing brought about large economic growth GDP increase by 89%, from $270 billion to $510 billion in 2014. The entertainment and communication industries contributed to the phenomenal growth but yet there was growth without development. This study therefore seeks to investigate the extent of contribution to the growth of Nigerian economy by the private sector.

RESEARCH OBJECTIVES

The aim of this study is to explore the impact of Foreign Private Sector Investment on Real Gross Domestic Product of Nigeria. Specifically, the objectives are as follows:

1. To explore the impact of foreign Private Sector real investment on real gross domestic product of Nigeria.
2. To explore the impact of Foreign Private Sector Portfolio Investment on real gross domestic product of Nigeria.

RESEARCH QUESTIONS

The study sought answers to the following research questions:

1. To what extent has Foreign Private Sector Real Investment impacted on real gross domestic product of Nigeria?

2. To what extent has Foreign Private Sector Portfolio Investment impacted on real gross domestic product of Nigeria?

LITERATURE REVIEW

Foreign Private Sector Real Investment

In Nelson (2016), this is conceptualized as an investment which involves the injection of foreign capital by foreign investors into a company that domiciles and operates in a country or nation other than that of the investors. Foreign private sector real investment is also referred to as foreign direct investment which involves the transfer of the complete productive and organizational complex, embracing a set of factors of production such as capital, technology, knowledge, and marketing and management skills. It may also be referred to as a direct investment into production in a country other than that of the investor's origin, which could be in the form of acquisition of an existing company in a foreign country or by expansion of operations of the existing business in the foreign country. Sodersten (2004) opine that foreign real investment occurs when there is a transmission of a perceptible and imperceptible asset from a business entity which has bulk of its shares directly and indirectly in the custody of another business entity of foreign nationality into the host country with full or fractional control of the owner of the assets. That it is normally done with the intention of creating wealth in the host country.

FOREIGN PRIVATE SECTOR PORTFOLIO INVESTMENT

This entails an investment in money market instruments comprising treasury bills, treasury certificates, government bonds to mention but a few, and the investors are predominantly foreign investors whose countries of origin are other than that of the domestic economy. Portfolio investment is also referred to as indirect or rentier investment. In the portfolio investment, ownership and use of capital remain separated from each other. A foreign portfolio investor has only a dejure control over the invested capital without being a defacto or having an effective control over the management, policies and other decision-making processes of the firm in which investment has been made.

THEORETICAL REVIEW

This study anchors on the Harrod-Domar Economic Growth Theory which was developed independently by Roy F. Harrod in 1939 and Evsey Domar in 1946. The theory is a Keynesian model of economic growth, used in development economics to explain an economy's growth rate

in terms of the level of savings and capital. It suggests that there is no natural reason for an economy to have balanced growth. The theory notes that there are three kinds of growth such as warranted growth, actual growth and natural rate growth. Warranted growth rate is described as 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 labour force grows at 4 percent per year, then to maintain full employment, the economy's annual growth rate must be 4 percent.

Although, the Harrod-Domar model was initially created to help analyse the business cycle, it was later adapted to explain economic growth. Its assumptions are that of labour and capital, more investment leads to capital accumulation, which generates economic growth. The Harrod-Domar economic growth theory is mainly associated with less economically developed countries, where labour is in abundant supply in these less developed countries but physical capital is not, therefore, slowing down economic progress. Less developed countries do not have sufficiently high incomes to enable sufficient rate of saving, therefore, accumulation of physical – capital stock through investment is low.

EMPIRICAL REVIEW

Several studies have been conducted in a bid to determine the impact of foreign investments on economic growth. One of such studies is the one by Adegbite and Ayadi (2010), which investigated the relationship between Foreign Direct Investment flows and economic growth in Nigeria. The study utilized simple OLS regression analysis and conducted various econometric tests such as Autocorrelation, Heteroscedasticity, Multicollinearity, Normality text etc. to obtain the best linear unbiased estimators. The study found that the role of FDI on growth could be limited by human capital. The study concluded that FDI promotes economic growth and hence the need for more infrastructural development, sound macroeconomic environment and human capital development which are essential for attracting and boosting FDI.Adejumo (2013), investigated the relationship between FDI and the value-added to the manufacturing sector in Nigeria. The study employed the autoregressive lag distribution technique to examine the relationship between foreign direct investment and manufacturing value added. It established that in the long run, FDI had a negative effect on the manufacturing sub-sector in Nigeria.

Anochie, Kalu and Mgbemena (2015) examined Foreign Direct Investment (FDI) flows and economic growth in Nigeria. The work covered a period of 1981 to 2009 using an annual data

from CBN statistical bulletin. A growth model via the OLS method was used to ascertain the relationship between FDI and economic growth in Nigeria. The study also added Gross Fixed Capital Formation with a view to capturing the effect of domestic investment on the growth of the economy for the period under review. Interest rate and exchange rate were added as control variables in the model. Granger causality test was also employed to determine the direction of the causality between FDI and economic growth in Nigeria. The result of the OLS techniques indicated that FDI has a positive and significant impact on the growth of Nigerian economy for the period under study. GFCF which was used as a proxy for domestic investment has a positive and significant impact on economic growth in Nigeria. Interest rate was found to be positive and insignificantly affected the growth of Nigeria economy.

Egbo (2010) studied Foreign Direct Investment (FDI) inflow and economic growth in Nigeria. The study used annual time series variables computed from natural logarithms of GDP at current price, net inflow of FDI, inflation rate and exchange rates, covering a period of 27 years from 1981 to 2007. The study utilized data from secondary sources, which were analysed using the OLS technique. The findings showed that there is positive relationship between FDI and GDP which implies that FDI stimulates economic growth in Nigeria. Oni *et al*(2014) carried out a study on the impact of foreign private investment on Nigeria economic growth from 1980 to 2010. The variables used were GDP growth rate, foreign private investment, inflation rate, gross fixed capital formation, Net Export. Multiple regression technique was deployed.

The multiple regression technique results showed that foreign private investment, gross fixed capital formation and net export are positively related with economic growth while inflation rate has a negative. Osuji (2015) in his study on FDI and Economic growth investigated the relationship between FDI and Economic growth in Nigeria. Bounds testing approach and Autoregressive Distributed Lags (ADRL) model were used in model estimation for the period covering 1981-2013. Findings indicated that a long run (cointegrating) relationship existed between FDI and Economic growth. In the short run, FDI has a small positive but insignificant effect on growth while in the long run, it has a small negative and insignificant effect. The study also examined the effect of international trade and governments macroeconomic policies on the model and found that while economic policy had no significant effect, international trade had a strong impact on the growth.

METHODOLOGY

This study adopted the ex post facto review design which employs past data documented already by relevant statutory bodies namely the Central Bank of Nigeria (CBN) and World Bank. Time series data was employed to estimate and analyze data relating to the impacts of foreign private sector investment on the Real GDP of Nigeria spanning the period 1981 to 2020.The specified multivariate regression model expresses real GDP growth as follows:

$RGDP = f(FPSRI, FPSP, GCEXP, POPGR, INF)$ (1)

This is further stated econometrically as:

$RGDP_t = a_1 + b_1FPSRI_t + b_2FPSP_t + b_3GCEXP_t + b_4POPGR_t + b_5INF_t + \varepsilon_t$ (2)

apriori expectations: $b_1, b_2 \ldots\ldots b_8 > 0$ and positively signed/and

Where: RGDP, FPSRI, FPSPI, GCEXP, POPGR and INF are Real Gross Domestic Product, Foreign Private Sector Real Investment, Foreign Private Sector Portfolio Investment, Government capital Expenditure, Population Growth and Inflation Rate, respectively. a_1 and b_1-b_5 are the parameters in the models, stochastic disturbance terms (ε)

RESULTS AND DISCUSSION OF FINDINGS

Table 1: Augmented Dickey-Fuller (ADF) Unit Root Test

Variables		t-statistic	Critical value (0.05)	Probability	Order of Integration
FPSRI	Level	-2.207415	-2.938987	0.2070	*I*(1)
	1st Difference	-8.087368	-2.941145	0.0000	
FPSP	Level	-4.222694	-2.938987	0.0019	*I*(0)
GCEXP	Level	-1.437870	-2.941145	0.5536	*I*(1)
	1st Difference	-9.255819	-2.941145	0.0000	
POPGR	Level	-1.502565	-2.943427	0.5212	*I*(1)
	1st Difference	-5.174121	-2.941145	0.0001	
INF	Level	-2.986330	-2.938987	0.0450	*I*(0)
RGDP	Level	-3.686961	-2.938987	0.0082	*I*(0)

Source: Researcher's Computation using E-views

Table 4.3 shows the results of the stationarity test of the variables employed in the research model, using the ADF unit root test technique. From the result, FPSRI, GCEXP and INF are stationary at their first differences, *I* (1), whereas FPSP, INF and RGDP are stationary at level. Consequently,

none of the variables have unit roots and thus the results can be relied upon for meaningful interpretation, decision making and economic forecasting.

Table 2: ARDL Long Run and Bounds (Co-integration) Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FPSRI	4.580150	0.820222	5.584035	0.0005
FPSP	-9.745488	2.151960	-4.528656	0.0019
GCEXP	-2.760204	0.916307	-3.012314	0.0168
POPGR	20.86664	8.589233	2.429395	0.0412
INF	-0.316575	0.055878	-5.665451	0.0005

EC = RGDP - (4.5802*FPSRI -9.7455*FPSP -2.7602*GCEXP + 20.8666 *POPGR -0.3166*INF)

F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
			Asymptotic:	n=1000
F-statistic	20.91757	10%	2.26	3.35
K	5	5%	2.62	3.79
		1%	3.41	4.68

Source: Researcher's Computation using E-views

Table 3: ARDL Short Run Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
RGDP2(-1)	-0.338503	0.236282	-1.432622	0.1899
RGDP2(-2)	-0.070019	0.144264	-0.485357	0.6404
RGDP2(-3)	0.035394	0.191203	0.185114	0.8577
RGDP2(-4)	-0.300676	0.160444	-1.874031	0.0978
FPSRI	0.568222	1.360837	0.417554	0.6873
FPSRI(-1)	0.608494	1.121647	0.542501	0.6023
FPSRI(-2)	0.551983	1.300633	0.424396	0.6825
FPSRI(-3)	9.271427	1.322289	7.011649	0.0001
FPSRI(-4)	-3.333852	0.979934	-3.402120	0.0093
FPSP	-4.118720	0.860755	-4.785011	0.0014
FPSP(-1)	-1.970646	0.719277	-2.739759	0.0255
FPSP(-2)	-3.043901	0.552592	-5.508406	0.0006
FPSP(-3)	-1.842536	0.845687	-2.178746	0.0610
FPSP(-4)	-5.336236	0.767924	-6.948915	0.0001
GCEXP	-0.445683	0.837418	-0.532211	0.6090

GCEXP(-1)	-1.913085	0.678975	-2.817608	0.0226
GCEXP(-2)	-2.261273	0.601583	-3.758872	0.0056
POPGR	126.5845	78.41536	1.614282	0.1451
POPGR(-1)	-286.1736	120.1474	-2.381854	0.0444
POPGR(-2)	144.7798	79.21748	1.827624	0.1050
POPGR(-3)	129.9846	90.42266	1.437523	0.1885
POPGR(-4)	-80.24864	45.44904	-1.765684	0.1154
INF	-0.022029	0.056882	-0.387273	0.7087
INF(-1)	-0.108578	0.068834	-1.577391	0.1534
INF(-2)	-0.017729	0.054401	-0.325888	0.7529
INF(-3)	-0.256778	0.060859	-4.219216	0.0029
INF(-4)	-0.124771	0.092254	-1.352469	0.2132
C	-60.74833	37.01638	-1.641121	0.1394

R-squared	0.977072	Mean dependent var	4.348316
Adjusted R-squared	0.899692	S.D. dependent var	4.611026
S.E. of regression	1.460379	Akaike info criterion	3.646747
Sum squared resid	17.06166	Schwarz criterion	4.878373
Log likelihood	-37.64145	Hannan-Quinn criter.	4.076618
F-statistic	12.62685	Durbin-Watson stat	2.390321
Prob(F-statistic)	0.000458		

Source: Researcher's Computation using E-views

Since the variables were all found to be stationary, the ARDL long run and Bounds Test were performed as shown in Table 2. Given the differences in the order of integration of the variables, the Bounds Test was employed to determine whether or not the variables are co-integrated; since the conventional Granger (1981) and Engle and Granger (1987) co-integration analysis cannot be applied (Nkoro & Uko, 2016). From the results, the F-statistic of 20.92 is greater than both the 2.62 and 3.79 critical values at the *I*(0) and *I*(1) levels. Thus, the null hypothesis is rejected, implying that a dynamic long run relationship exists between the variables employed in the research model. The result also indicates that all the variables significantly influence RGDP in the long run but only FPSRI and POPGR positively influence RGDP.

ARDL Error Correction Regression Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-60.74833	4.263786	-14.24751	0.0000
D(RGDP2(-1))	0.335301	0.083481	4.016487	0.0039
D(RGDP2(-2))	0.265282	0.089344	2.969227	0.0179
D(RGDP2(-3))	0.300676	0.088302	3.405092	0.0093

D(FPSRI)	0.568222	0.489774	1.160173	0.2794
D(FPSRI(-1))	-6.489558	0.669835	-9.688287	0.0000
D(FPSRI(-2))	-5.937575	0.594763	-9.983091	0.0000
D(FPSRI(-3))	3.333852	0.404296	8.246063	0.0000
D(FPSP)	-4.118720	0.380809	-10.81570	0.0000
D(FPSP(-1))	10.22267	0.690766	14.79904	0.0000
D(FPSP(-2))	7.178773	0.634382	11.31617	0.0000
D(FPSP(-3))	5.336236	0.405968	13.14446	0.0000
D(GCEXP)	-0.445683	0.221351	-2.013468	0.0789
D(GCEXP(-1))	2.261273	0.307232	7.360144	0.0001
D(POPGR)	126.5845	27.74729	4.562051	0.0018
D(POPGR(-1))	-194.5158	34.97406	-5.561716	0.0005
D(POPGR(-2))	-49.73600	33.33504	-1.492003	0.1740
D(POPGR(-3))	80.24864	18.64780	4.303384	0.0026
D(INF)	-0.022029	0.027269	-0.807832	0.4425
D(INF(-1))	0.399278	0.038538	10.36064	0.0000
D(INF(-2))	0.381549	0.034997	10.90241	0.0000
D(INF(-3))	0.124771	0.027515	4.534727	0.0019
CointEq(-1)*	-1.673804	0.117205	-14.28098	0.0000

R-squared	0.981758	Mean dependent var	-0.039203
Adjusted R-squared	0.950888	S.D. dependent var	5.169443
S.E. of regression	1.145616	Akaike info criterion	3.368970
Sum squared resid	17.06166	Schwarz criterion	4.380662
Log likelihood	-37.64145	Hannan-Quinn criter.	3.722077
F-statistic	31.80237	Durbin-Watson stat	2.390321
Prob(F-statistic)	0.000000		

Source: Researcher's Computation using E-views

In the ARDL short run regression result in Table 3, the baseline explanatory variables explained about 90% (adjusted) of the changes in RGDP during the period as a result of the variations in the quantities of the explanatory variables. The high adjusted R^2 is an indication that foreign private investment is critical to economic growth in Nigeria, especially since the deregulation of the economy in 1986. The F-statistic of 12.63 as well as its p-value of 0.0005 show that the model has a very goodness of fit. Similar to the long run results, only FPSRI and POPGR positively influence RGDP in the short run but all the variables are insignificant except FPSP.

From the ARDL ECM regression result in Table 4, 95% of the variations in RGDP are determined by the explanatory variables. The F-statistic of 31.8 and p-value of 0.0000 are also stronger indicating very high goodness of fit of the model. Furthermore, the model adjusts itself backwards with an adjustment speed of 167.4% to its long run equilibrium. The Table also reveals that all the variables maintain the same signs but only FPSP and POPGR are significant at 5%

level of significance; although the lags of all the variables are equally significant except the two-period lag of POPGR. The results of the normality, serial correlation, heteroskedasticity and stability tests are presented in appendix.

DISCUSSION OF FINDINGS

From the results in Tables 2 and 3, FPSRI positively influences RGDP but is insignificant in the short run (as also reported in Osuji (2015)). However, the ECM regression result in Table 4 shows that an insignificant positive relationship exists between FPSRI and RGDP in Nigeria, though its one to three period lags are all significant and negative except that of its three-period lag (FPSRI (-3)). The significant positive effect of FPSRI on RGDP is in consonance with the results of Agbanike, Chukwu and Ololo (2018), Anochie, Kalu and Mgbemena (2015), Anochiwa, Enyoghasim, Uwajumogu, Oni, Imolehin, Adelowo and Adejumo (2014), Ugwuegbe, Amah and Onoh (2013)as well as Adegbite and Ayadi (2010), who found that foreign investments positively influences economic growth.

Also, from the ARDL ECM result, a 1% increase in FPSRI enhances RGDP growth by about 0.6%. This stems from the fact that an increase in foreign private real investments leads to an increase in the real capital stock of the country which enhances productivity. However, the negatively signed coefficients and t-statistics established by the one and two period lags of FPSRI (FPSRI (-1)) and FPSRI (-2))) can be attributed to the recentcapital divestments by many international oil companies (IOCs) due to increasing overhead costs brought about by the worsening economy in the country, which caused a big shift from the normal behavioural patterns of RGDP, hence the negative relationship.

On the other hand, FPSP has a significant negative impact on RGDP in both the short and long run as well as in the ECM result in Table 4, although all its lags in the ECM are positive and significant. The implication of the above result is that increasing levels of foreign portfolio investments leads to a reduction in RGDP growth, which is inconsistent with theoretical proposition. This is probably because the returns earned on such investments goes back to the investing economy thereby constituting a leakage in the economy and thus reduces real economic growth.

CONCLUSION

Based on findings of this study, we conclude that foreign private sector real investment has significant positive impact on real GDP growth (although not significant in the short run) whereas foreign private sector portfolio investment has significant negative impact on real GDP growth in both long and short runs. More so, short run economic disequilibrium can be corrected within a little over seven months to realign the economy on the path of growth.

Consequently, we recommend that:

- Monetary and fiscal policies should be geared towards improving foreign private sector investment, especially foreign direct investments, in order to boost economic growth in Nigeria. This also means that fiscal incentives and monetary policy actions should be put in place to bolster the existence of both domestic and foreign private sector investments in Nigeria.
- The government should also, as urgently as possible, reappraise its infrastructural investment policy, especially in the area of power and energy in order to improve the operating environment of businesses in the country, which is capable of stimulating greater output growth.

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