

Oil and Nonoil FDI and Economic Growth in Nigeria

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Abstract

Foreign direct investment (FDI) is real investment interaction of the rest of the world with a domestic economy. Whether these interactions mar or make economic growth depends on the area of strength of each country and usage. The relative increased trend of FDI into the extractive industry especially during the present democracy dispensation compared to the non-extractive sectors pose a question if the quantum add the same way to economic growth in the country. The thrust of this paper examines the sectorial impact of oil and non-oil FDI on Nigeria economic growth. The research relied on OLS technique, using data from 1970 to 2008 to empirically illustrate the impact of the extractive (and compared with other sectors) on economic growth. The extractive FDI (OILFDI) sector and non-extractive (NONOILFDI) sector effect on the Nigerian economy showed substantiates valid and statistically significant values as both probabilities of t and the f statistic are statistically significant and the coefficient of determination (R²) proves 78 percent. However, there was positive autocorrelation of the variables. Findings revealed that NONOILFDI is more statistically significant and has more positive effect on the Nigerian economy on the average compared to OILFDI. Contrary, the extractive sector that has higher FDI in the Nigeria economy has less impact to economic growth. This research work strongly advise government and all stakeholders to encourage FDI into the non-oil sectors that has more economic returns in the form of human capital, employment, local contents that the extractive sector dominated by expatriates. The local content policy should be strengthened more in the extractive industry to annex the gains of that sector to economic growth.

Keywords: foreign direct investment, economic growth, extractive industry, Nigeria

INTRODUCTION

Foreign direct investment (FDI) is an investment made to acquire a lasting management interest (normally 10% of voting stock) in a business enterprise operating in a country other than that of the investor defined according to residency (World Bank, 1996). Such investments may take the form of either “greenfield” investment (also called “mortar and brick” investment) or merger and acquisition (M&A), which entails the acquisition of existing interest rather than new investment.

One of the most noticeable features of today’s globalization drive is conscious encouragement of cross-border investments, especially by transnational corporations and firms (TNCs). Many countries (especially developing) now see attracting FDI as an important element in their strategy for economic development. This is most probably because FDI is seen as an amalgamation of capital, technology, marketing and management. Africa as a region now has to depend very much on FDI for so many reasons, some of which are amplified by Asiedu (2001). The preference for FDI stems from its acknowledged advantages (Sjoholm, 1999; Obwona, 2001, 2004). The effort by several African countries to improve their business climate stems from the desire to attract FDI. In fact, one of the pillars on

which the New Partnership for Africa’s Development (NEPAD) was launched was to increase available capital to US\$64 billion through a combination of reforms, resource mobilization and an environment conducive for FDI (Funke and Nsouli, 2003). Unfortunately, the efforts of most countries in Africa to attract FDI have been futile. This is in spite of the perceived and obvious need for FDI in the continent. The development is disturbing, sending very little hope of economic development and growth for these countries. Further, the pattern of the FDI that does exist is often skewed towards extractive industries, meaning that the differential rate of FDI inflow into sub-Saharan African countries has been adduced to be due to natural resources, although the size of the local market may also be a consideration (Morriset 2000; Asiedu, 2001).

Nigeria as a country, given her natural resource base and large market size, qualifies to be a major recipient of FDI in Africa and indeed is one of the top three leading African countries that consistently received FDI in the past decade. However, the level of FDI attracted by Nigeria is mediocre (Asiedu, 2003) compared with the resource base and potential need. Further, the empirical linkage between FDI and economic growth in Nigeria is yet unclear, despite

numerous studies that have examined the influence of FDI on Nigeria's economic growth with varying outcomes (Oseghale and Amonkhienan, 1987; Odozi, 1995; Oyinlola, 1995; Adelegan, 2000; Akinlo, 2004). Most of the previous influential studies on FDI and growth in sub-Saharan Africa are multi country studies. However, recent evidence affirms that the relationship between FDI and growth may be country and period specific. Asiedu (2001) submits that the determinants of FDI in one region may not be the same for other regions. In the same vein, the determinants of FDI in countries within a region may be different from one another and from one period to another (Kolawole and Henry, 2009).

Studies on FDI and economic growth in Nigeria are not complete in agreement in their submissions. A closer examination of these previous studies reveals that conscious effort was not made to take care of the fact that more than 60% of the FDI inflows into Nigeria is made into the extractive (oil) industry. Hence, these studies actually modeled the influence of natural resources on Nigeria's economic growth. In addition, the impact of FDI on economic growth is more contentious in empirical than theoretical studies, hence the need to examine the relationship between FDI and growth in different economic dispensations. There is the further problem of endogeneity, which has not been consciously tackled in previous studies in Nigeria. FDI may have a positive impact on economic growth leading to an enlarged market size, which in-turn attracts further FDI.

There is an increasing resistance to further liberalization within the economy. This limits the options available to the government to source funds for development purposes and makes the option of seeking FDI much more critical. This study is handy by examining the relationship between FDI inflows and Nigeria's economic growth, hence addressing the country's specific dimension to the FDI growth debate. The study is different from previous studies in that attention was given to sectoral attraction of FDI into the country, considering her peculiarity to natural endowment, thereby seeking to make vivid the impact of major components of FDI on economic growth in the country. This further assesses the differential impact of oil FDI and non-oil FDI on Nigeria's economic growth.

The study made conscious effort to address the endogeneity issue, and provide justification for the unrelenting efforts of the government to attract FDI, which are being misunderstood and resisted by the Nigerian populace. The Nigerian government over the years has over concentrated on indigenous industrialization neglecting the positive impact of foreign direct investment in the economy. This resulted in a decline in both private and foreign

investment and has therefore slowed down growth in all sectors of the economy. This paper deal on how do sectoral foreign direct investments impact on economic growth and the overall effect of FDI on the Nigerian economy. Foreign Private Investment (FDI) no doubt has positive contributions to the economy. Nevertheless, it has its own constraints to its free flow. This research work concerns itself with; to what extent has foreign private investment flowed into the economy as relates to its constraints?

The study is to examine the factors (especially oil sector) that influence Foreign Private Investment and see to what extent it has aid or restricted Foreign Private Investment in Nigeria between 1970 and 2009

LITERATURE REVIEW

FDI and Economic Growth Nexus

Renewed research interest in FDI stems from the change of perspectives among policy makers from "hostility" to "conscious encouragement", especially among developing countries. FDI had been seen as "parasitic" and retarding the development of domestic industries for export promotion until the 1990s in Nigeria. However, Bende-Nabende and Ford (1998) submit that the wide externalities in respect of technology transfer, the development of human capital and the opening up of the economy to international forces, among other factors, have served to change the former image.

Laura (2003) examined the benefits of FDI vary greatly across sectors by examining the effect of foreign direct investment on growth in the primary, manufacturing, and services sectors between 1981 to 1999. An empirical analysis using cross-country data suggests that total FDI exerts an ambiguous effect on growth. Foreign direct investments in the primary sector, however, tend to have a negative effect on growth, while investment in manufacturing a positive one. Evidence from the service sector is ambiguous. Caves (1996) observed that the rationale for increased efforts to attract more FDI where premised from the belief that FDI has several positive effects. Among these are productivity gains, technology transfers, introduction of new processes, managerial skills and know-how in the domestic market, employee training, international production networks, and access to market.

Borensztein et al. (1998) see FDI as an important vehicle for the transfer of technology, contributing to growth in larger measure than domestic investment. Findlay (1978) postulates that FDI increases the rate of technical progress in the host country through a "contagion" effect from the more advanced technology, management practices, etc. used by foreign multinational firms. On the basis of these assertions, government of various countries has often provided special incentives to foreign firms to set up companies in their countries. Carkovic and Levine

(2002) noted that the economic rationale for offering special incentives to attract FDI frequently derives from the belief that foreign investment produces externalities in the form of technology transfers and spillovers. The empirical evidence of these benefits, both at the firm level and at the national level remains ambiguous. De Gregorio (2003), while contributing to the debate on the importance of FDI, notes that FDI may allow a country to bring in technologies and knowledge that are not readily available to domestic investors, and in this way increases productivity growth throughout the economy. FDI may also bring in expertise that the country does not possess, and foreign investors may have access to global markets. In fact, he found that increasing aggregate investment by 1 percentage point of GDP increased economic growth of Latin American countries by 0.1% to 0.2% a year, but increasing FDI by the same amount increased growth by approximately 0.6% a year during the period 1950–1985, thus indicating that FDI is three times more efficient than domestic investment.

Blomstrom et al. (1994) report that FDI exerts a positive effect on economic growth, but that there seems to be a threshold level of income above which FDI has positive effect on economic growth and below which it does not. The explanation was that only those countries that have reached a certain income level can absorb new technologies and benefit from technology diffusion, and thus reap the extra advantages that FDI can offer. Previous works suggest human capital as one of the reasons for the differential response to FDI at different levels of income. This is because it takes a well-educated population to understand and spread the benefits of new innovations to the whole economy. The interaction of FDI and human capital had important effect on economic growth, and suggests that the differences in the technological absorptive ability may explain the variation in growth effects of FDI across countries. They suggest further that countries may need a minimum threshold stock of human capital in order to experience positive effects of FDI. Balasubramanyan et al. (1996) reported positive interaction between human capital and FDI. They had earlier found significant results supporting the assumption that FDI is more important for economic growth in export-promoting than import-substituting countries. This implies that the impact of FDI varies across countries and that trade policy can affect the role of FDI in economic growth. In summary, UNCTAD (1999) submits that FDI has either a positive or negative impact on output depending on the variables that are entered alongside it in the test equation. These variables include the initial per capita GDP, education attainment, domestic investment ratio, political instability, terms of trade, black market exchange rate premiums, and the state of financial development. Examining other variables that could

explain the interaction between FDI and growth, Olofsdotter (1998) submits that the beneficiary effects of FDI are stronger in those countries with a higher level of institutional capability. He therefore emphasized the importance of bureaucratic efficiency in enabling FDI effects. The neoclassical economists argue that FDI influences economic growth by increasing the amount of capital per person. However, because of diminishing returns to capital, it does not influence long-run economic growth. Bengos and Sanchez-Robles (2003) assert that even though FDI is positively correlated with economic growth, host countries require minimum human capital, economic stability and liberalized markets in order to benefit from long-term FDI inflows. Interestingly, Bende-Nabende et al. (2002) found that direct long-term impact of FDI on output is significant and positive for comparatively economically less advanced Philippines and Thailand, but negative in the more economically advanced Japan and Taiwan. Hence, the level of economic development may not be the main enabling factor in FDI growth nexus. On the other hand, the endogenous school of thought opines that FDI also influences long-run variables such as research and development (R&D) and human capital (Romer, 1986; Lucas, 1988). FDI could be beneficial in the short term but not in the long term. Durham (2004), for example, failed to establish a positive relationship between FDI and growth, but instead suggests that the effects of FDI are contingent on the “absorptive capability” of host countries. Obwona (2001) notes in his study of the determinants of FDI and their impact on growth in Uganda that macroeconomic and political stability and policy consistency are important parameters determining the flow of FDI into Uganda and that FDI affects growth positively but insignificantly. Ekpo (1995) reports that political regime, real income per capita, rate of inflation, world interest rate, credit rating and debt service explain the variance of FDI in Nigeria. For non-oil FDI, however, Nigeria’s credit rating is very important in drawing the needed FDI into the country.

Furthermore, spillover effects could be observed in the labour markets through learning and its impact on the productivity of domestic investment (Sjoholm, 1999). Sjoholm suggests that through technology transfer to their affiliates and technological spillovers to unaffiliated firms in host economy, transnational corporations (TNCs) can speed up development of new intermediate product varieties, raise the quality of the product, facilitate international collaboration on R&D, and introduce new forms of human capital. FDI also contributes to economic growth via technology transfer. TNCs can transfer technology either directly (internally) to their foreign owned enterprises (FOE) or indirectly (externally) to domestically owned and controlled firms in the host

country (Blomstrom et al., 2000; UNCTAD, 2000). Spillovers of advanced technology from foreign owned enterprises to domestically owned enterprises is of four ways; vertical linkages between affiliates and domestic suppliers and consumers, horizontal linkages between the affiliates and firms in the same industry in the host country (Lim, 2001; Smarzynska, 2002), labour turnover from affiliates to domestic firms, and internationalization of R&D (Hanson, 2001; Blomstrom and Kokko, 1998). The pace of technological change in the economy as a whole will depend on the innovative and social capabilities of the host country, together with the absorptive capacity of other enterprises in the country (Carkovic and Levine, 2002). Beside capital augmenting element, some economists see FDI as having a direct impact on trade in goods and services (Markussen and Vernables, 1998). Trade theory expects FDI inflows to result in improved competitiveness of host countries' exports (Blomstrom and Kokko, 1998).

Ambiguity of FDI's Impact on Economic Growth

The consensus in the literature seems to be that FDI increases 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 (Globeram, 1979; Imbriani and Reganeti, 1997). The results for developing countries are not so clear, with some finding positive spillovers (Blomstrom, 1986; Kokko, 1994; Blomstrom and Sjöholm, 1999) and others such as Aitken et al. (1997) reporting limited evidence. Still others find no evidence of positive short-run spillover from foreign firms. Some of the reasons adduced for these mixed results are that the envisaged forward and backward linkages may not necessarily be there (Aitken et al. 1997) and that arguments of TNCs encouraging increased productivity due to competition may not be true in practice Aitken et al. (1999). Other reasons include the fact that TNCs tend to locate in high productivity industries and, therefore, could force less productive firms to exit (Smarzynska, 2002). Cobham (2001) also postulates the crowding out of domestic firms and possible contraction in total industry size and/or employment. However, crowding out is a more rare event and the benefit of FDI tends to be prevalent (Cotton and Ramachandran, 2001).

The role of FDI in export promotion remains controversial and depends crucially on the motive for such investment (World Bank, 1998). The consensus in the literature appears to be that FDI spillovers depend on the host country's capacity to absorb the foreign technology and the type of investment climate (Obwona, 2004). The review shows that the debate on the impact of FDI on economic growth is far from being conclusive. The role of FDI seems to

be country specific, and can be positive, 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 can be country specific. Further, only a few of the country specific studies actually took conscious note of the endogenous nature of the relationship between FDI and growth in their analyses, thereby raising some questions on the robustness of their findings. Finally, the relationship between FDI and growth is conditional on the macroeconomic 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, and as such there is the need for country specific studies.

Sectoral Impact of FDI on Economic Growth in Nigeria

The studies on investment and economic growth in Nigeria have been with varying results and submissions. For example, Odozi (1995) reports on the factors affecting FDI flow into Nigeria in both the pre and post structural adjustment programme (SAP) eras and found that the macro policies in place before the SAP were discouraging foreign investors. This policy environment led to the proliferation and growth of parallel markets and sustained capital flight. Examining the contributions of foreign capital to the prosperity or poverty of LDCs, Oyinlola (1995) conceptualized foreign capital to include foreign loans, direct foreign investments and export earnings. Using Chenery and Stout's two-gap model (Chenery and Stout, 1966), he concluded that FDI has a negative effect on economic development in Nigeria. Ekpo (1995) stated that political regime, real income per capita, rate of inflation, world interest rate, credit rating and debt service were the key factors explaining the variability of FDI into Nigeria.

Adelegan (2000) explored the seemingly unrelated regression model to examine the impact of FDI on economic growth in Nigeria and found that FDI is pro-consumption and pro-import and negatively related to gross domestic investment. Akinlo (2004) found that foreign capital has a small and not statistically significant effect on economic growth in Nigeria. However, these studies did not control for the fact that most of the FDI was concentrated in the extractive industry. In other words, it could be put that these works assessed the impact of investment in extractive industry (oil and natural resources) on Nigeria's economic growth. On firm level productivity spillover, Ayanwale and Bamire (2001) assess the influence of FDI on firm level productivity

in Nigeria and report a positive spillover of foreign firms on domestic firm's productivity. Much of the other empirical work on FDI in Nigeria centered on examination of the nature, determinants and potentials. For example, Odozi (1995) notes that foreign investment in Nigeria was made up of mostly "greenfield" investment, that is, it is mostly utilized for the establishment of new enterprises and some through the existing enterprises. Aremu (1997) categorized the various types of foreign investment in Nigeria into five:

Wholly foreign owned; Joint ventures; Special contract arrangements; Technology management and marketing arrangements, and Subcontract co-production and specialization.

In his study of the determinants of FDI in Nigeria, Anyanwu (1998) identified change in domestic investment, change in domestic output or market size, indigenization policy, and change in openness of the economy as major determinants of FDI. He further noted that the abrogation of the indigenization policy in 1995 encouraged FDI inflow into Nigeria and that effort must be made to raise the nation's economic growth so as to be able to attract more FDI. Jerome and Ogunkola (2004) assessed the magnitude, direction and prospects of FDI in Nigeria. They noted that while the FDI regime in Nigeria was generally improving, some serious deficiencies remain. These deficiencies are mainly in the area of the corporate environment (such as corporate law, bankruptcy, labour law, etc.) and institutional uncertainty, as well as the rule of law. The establishment and the activities of the Economic and Financial Crimes Commission, the Independent Corrupt Practices Commission, and the Nigerian Investment Promotion Commission are efforts to improve the corporate environment and uphold the rule of law. Has there been any discernible change in the relationship between FDI and economic growth in Nigeria in spite of these policy interventions? This is the focus of this study.

Origin and Distribution Foreign Direct Investment in Nigeria

There is little information on the geographic origin of foreign investors in Nigeria. Most FDI inflows into Nigeria are reinvested earnings from the oil multinationals (Kolawole and Henry, 2009). Reinvested earnings have averaged two-thirds of overall FDI inflows in recent years, with the bulk directed towards the energy sector. There has been a modest surge in non-oil sector foreign investment in Nigeria in recent years, after it became clear that the previous regime, of Olusegun Obasanjo, was firmly established and that economic growth was picking up. Although much of the investment was by large multinational companies that were already operating in the country, there have been some new European entrants since the beginning of this decade, and South African companies have also strongly increased their presence in recent years, particularly in the mobile-phone sector. Nigeria the second largest FDI recipient has more of it concentrated in the extractive industry but a veritable non-oil sector, manufacturing sector—that recorded 47% of FDI stock in 1992 has been a great source of FDI to the country. The recent banking consolidation exercise also boosted FDI (and portfolio inflows) into Nigeria as existing foreign banks increased the capitalization of their subsidiaries to meet the new minimum capital requirements.

Graphical Analysis of FDI Inflow to Nigeria

Figure 1 illustrates the trend of FDI inflows into Nigeria from 1969 to 2009. The figure clearly shows the upward spiral of the FDI inflow in the country. This showed that the country FDI is bias toward oil FDI than non-oil FDI. The crash of world oil prices in 1980 caused a massive divestment from the nation and the low level of inflow obtained until 1986. Other government legislation such as the Companies Tax Act 1961, Exchange Control Act 1962 and Immigration Act 1963 had also served to discourage FDI during the early period. But it is evident that the 1990s witness a huge FDI into the country

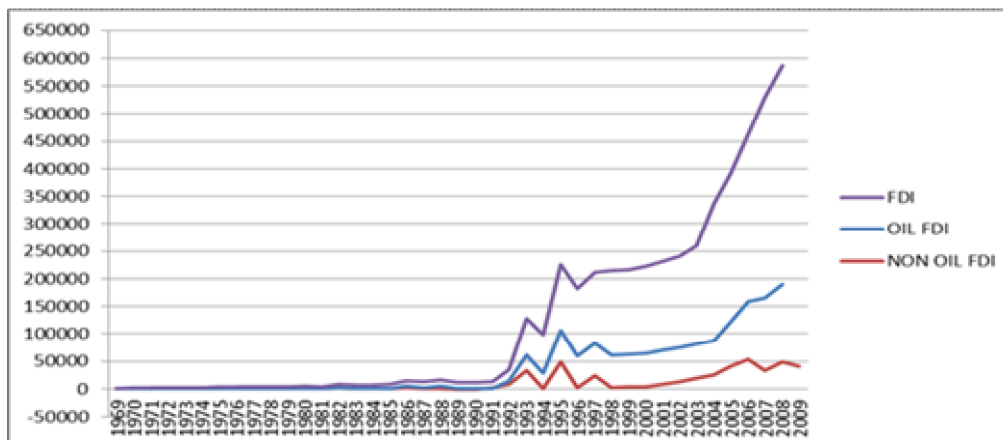


Figure 1: Trend of Nigeria FDI (1969-2009)

Source: Plotted by author with figures from CBN (2009)

FDI and Economic Growth: Empirical Evidence

Abel and Nikki (2011) examined the relative impact of macroeconomic and institutional factors on foreign direct investments to 30 Sub-Sahara African (SSA) countries from 1995 to 2008. They found that financial development, the size of market, infrastructural development and urban accumulations are important factors that influence the flows of FDI to the SSA region. However, corruption was found to positively impacting on FDI flow to the region. The positive impact of corruption is ironically found to be higher in resource endowed countries, a situation that can be attributed to the weak law enforcement, government bureaucracy, and inefficient regulatory structures that characterize most African economies. Dinda (2009) empirically examined the determinants of foreign direct investment inflows to Nigeria during 1970-2006. Using vector error correction model, the study found that the natural resources, openness, inflation and exchange rates are significant determinants of FDI inflow to Nigeria. He revealed that the bulk of FDI inflows to Nigeria economy are explained by resource-seeking FDI. Trading partner the US economy has strong influence on Nigeria FDI inflows and its exchange rate. However, emerging economies like China and India influence including South Africa.

In 1995, in order to liberalize the investment climate in the country, the government promulgated the Nigerian Investment Promotion Commission (NIPC). The commission took over from the IDCC as a one-step agency to facilitate and encourage foreign investors into the country. The aftermath of the promulgation of the commission was a momentous increase in the FDI inflow into the country especially into the non-oil sectors. Additional policy measures included guided deregulation, Foreign Exchange (Monitoring and Miscellaneous Provisions) Decree 1999, and the establishment of export processing zones (EPZ), all aimed at improving the business environment of the country.

The current sustained upward trend in the FDI inflow is due largely to the privatization and commercialization exercise of the government whereby public enterprises are put up for sale to the investing public. This exercise has attracted considerable inflows since 1999. For example, the deregulation of the telecommunication sector by granting licences for global system for mobile communications (GSM) operators in 1999 caused the FDI in the telecommunications sector to increase from a mere US\$50 million at the end of 1999 to about US\$2.1 billion by the end of 2002. The NIPC attributed over 75% of this increase to mobile telephone network investors. Overall, the linear trend line shows an increasing trend of FDI inflows during the period under consideration.

The breakdown of FDI inflow into the various sectors during the period under consideration is shown in Figure 1. As expected, inflow of FDI into the oil sector held the dominant position in the early 1970s. The low level of inflow into all the sectors, however, took an upward turn in 1986 following the adoption of the SAP. The story of the manufacturing FDI is similar to that of the oil industry in that the FDI inflow took an upward trend in 1986 as a result of the adoption of the SAP. The increase in manufacturing FDI actually started before 1986. This may be traced to the government's new industrial policy of 1981, which was policy step to encourage manufacturers. Further efforts by the government to create a favourable business environment through the provision of infrastructure facilities, restriction of imports, and the privatization and commercialization programme encouraged FDI inflow into the sector. As with the oil sector, the inflow into manufacturing witnessed a dramatic upsurge as a result of the NIPC decree of 1995. The subsequent sustained increase in FDI inflow may be attributed to further commercialization and privatization efforts of the government and the creation of the EPZs.

The inflow into the communications sector remained very low until 1995 when the NIPC decree came into operation. As part of the privatization/deregulation exercise the Federal Government established the Nigerian Communications Commission in 1993 to encourage private sector participation and issue licenses to private companies wishing to undertake telecommunication services. In 1999, the government began the complete deregulation of the telecommunication sector by licensing GSM service providers.

Research Material and Data

This chapter adopted a simplified procedure that comprises of crucial descriptive and empirical analysis in providing for the aforementioned objectives of this research work of sectoral impact of FDI on the Nigerian economy.

This study used secondary data from the period 1970 to 2009, from Central Bank of Nigerian (CBN) Statistical Bulletin 2009 edition in obtaining the values of the variables in the model. Other sources of data used were the internet and National Bureau of Statistics (NBS). The CBN statistical bulletin provided the sectorial FDI and the overall FDI data including the GDP data but the NBS data was used to check the GDP data if they are similar.

Real Gross Domestic Product (RGDP) is used as our dependent variable and is the constant output from all sectors of the economy over a given period of time usually yearly. FDI is separated into oil and non-oil FDI because of the special case of Nigerian economy as it is perceived that more of her imports are into the

extractive sector (Adeolu, 2007). Nigeria has estimated reserve of 32 billion barrels of oil with production capacity close to 3million bbl/d in Nigeria 2003. This is a good attraction of FDI. Oil FDI is the foreign direct investment into the extractive industry in the country. This is a peculiar case in that much of her imports and foreigners' activities on the average, into the country are on this sector to develop the exploration of her natural endowment (oil). Our apriori believe here is that the more oil FDI comes, the more it will add to economic growth in the country and even greater than FDI from other sectors put together.

Non-oil FDI comprises of all other FDI except the oil sector in the country, e.g. manufacturing, service etc. Our apriori is that the non-oil FDI variable will positively relate to economic growth but not as much as in the extractive sector.

Given the foregoing discussion, the model is specified in order to determine the impact of FDI on economic growth in Nigeria. The functional relation starts with the Keynes macroeconomic model form;

$$Y = F(\text{OILFDI}, \text{NONOILFDI}) \quad 1$$

Here, Y is output of the economy, oil and nonoil FDI are crucial foreign sector variables that affect Nigerian economic growth. Linearizing equation (1) in a more statistically representing model;

$$Y = C + \beta_1(\text{oilFDI}) + \beta_2(\text{nonoilFDI}) + U \quad 2$$

$\beta_1 > 0, \beta_2 > 0$,

Eq (2) is our crucial model for estimation. This study used econometric Ordinary Least Square (OLS) technique to investigate the effect of sectoral FDI on the Nigerian economy.

RESULT PRESENTATION AND ANALYSIS

This section presents and analyzes the estimate of sectoral impact of FDI on economic growth in Nigeria. The results relevant to addressing the research objectives on the effect of OILFDI and NONOILFDI on the Nigerian economy between the periods of 1970 to 2009 are presented and analyzed. The presentation of regression result of oil and nonoil sector FDI effect on economic growth in Nigeria is showed below in table (1) and its analysis is done below the table

$$RGDP = 109429.4 + 3.45(\text{NONOILFDI}) + 3.24(\text{OILFDI})$$

(t) (6.3950) (2.9044) (5.9556)

The coefficient of determination is 78%

From the above result,

From table 1, the effect of extractive FDI (OILFDI) sector and non-extractive (NONOILFDI) sector effect on the Nigerian economy from 1970 to 2008 substantiates valid and statistically significant as both probability of t and the f statistic are zero and the coefficient of determination (R²) which is how much of the dependent variable explained by the

independent variable proves 78 percent. However, there was positive autocorrelation of the variables. In terms of the individual significant effect of each independent variable on the Nigerian economy, show that both OILFDI and NONOILFDI are statistically significant at 5 percent degree of freedom and a unit change in OILFDI will cause a 3.24 increase in the nation's economic growth and one unit change in NONOILFDI cause 3.5 units increase in GDP. From the above paragraph NONOILFDI is more statistically significant and has more positive effect on the Nigerian economy on the average compared to OILFDI contrary to our apriori. This conforms to the suggestion of Jimmy and Christopher (2010) that more FDI should come from the non-extractive industry into the country to protect oil exploitation.

SUMMARY

FDI has been seen in summary as the interaction of the rest of the world with a domestic economy. Whether these interactions mar or make economic growth depends on a number of determinants like; foreign trade policy, corruption, security, type and system of government, exchange rate, monetary and fiscal policies, economic endowment (e.g oil as in the case of Nigeria), infrastructure and availability of human capital etc. The rate individual sector or variable's FDI affects economic growth differs as the way economic endowment will attract FDI from the rest of the Globe will be different from how the service, manufacturing etc. sectors will attract FDI.

The amount of FDI a sector attracts is empirically determined and its importance to the nation will go a long way to determine the attention such country will give it for further economic growth. The study looked into the background introduction into Nigerian foreign direct investment with distinct performance of oil and non-oil sectors and review of some literature of FDI ambiguity impact on economic growth.

This project conceptualized FDI into oil and non-oil FDI. FDI into the extractive industry consisted of natural endowment was proxied by Oil FDI, while FDI from other sectors were proxied by non-oil FDI to make vivid if as oil contribute so much of the nation's revenue is the same with the international deals Nigerian has been having. In Nigeria, FDI into the extractive sector is dominated by the nation's leading natural endowment oil and the hunch of this project is to examine if this sector attracts more FDI into the country and if this has contribute more.

CONCLUSION

Foreign direct investment (FDI) has been seen attractive to underdeveloped countries in the process of development. Nigeria interest in FDI is not different, but from the 1970s the Nigeria economy has been mono economy- oil dependent.

Finding from the paper revealed that FDI into the extractive industry as OILFDI and the NONOILFDI contributes positively to economic growth of the country. While FDI into other sectors (NONOILFDI) contributes more to economic growth than contribution from the oil sector in the country. This call for deliberate policy action to encourage the performance of non-oil sectors in the economy to diversify the economic options for economic development.

RECOMMENDATION

The impact of the NONOIL FDI into the country is evident from our findings and calls for deliberate action to make these areas more additive to economic growth. The effect of FDI to economic growth in Nigeria has been positive but that foreign direct investment has not contributed much to the growth and development of Nigeria. This is evident in reality of enormous repatriation of profits, dividends, contract fees, and interest payments on foreign loans. This study thus suggest that in order to further improve the economic climate for foreign direct investments in Nigeria, appropriate foreign policy has to be put in place like good technology transfer policy to enable Nigeria benefit fully from international knowledge to develop her economy even the extractive industry as Malaysia did in the 1960s in her oil palm production.

Furthermore, the government must appreciate the fact that the basic element in any successful development strategy should be the encouragement of domestic investors first before going after foreign investors. The Nigeria government should also carry out the liberalization of all the sector of the economy so as to attract foreign investors, so that the current efficiency and growth noticed in the telecommunication sector can also be enjoyed in other sectors. There are four basic requirements for economic development namely; (1) Investment capital, (2) Technical skills, (3) Enterprise and (4) Natural resources. Without these components, economic and social development of the country will be impeded. The provisions of these first three necessary components present problems for developing countries like Nigeria. Human capital investment is a crucial determinant of economic growth so funds from the Nigerian oil sector should be directed to other real sectors of the economy.

Efforts should continue, this time with more vigor at ensuring consistency in policy objectives and instruments through a good implementation strategy as well as good sense of discipline, understanding and cooperation among the policy makers. In evaluating foreign direct investment, the screening process should be simplified and improved upon. For example, export investment projects that consistently generate positive contribution to national income can

be screened separately and swiftly, while projects in import competing industries should be screened separately.

Efforts should be made to engage in joint ventures that are beneficial to the economy. Joint ventures provide for a set of complementary or reciprocating matching undertakings, which may include a variety of packages ranging from providing the capital to technical cooperation. The government should intensify the policy to acquire, adopt, generate and use the acquired technology to develop its industrial sectors and extractive sector.

The Nigerian government needs to come up with more friendly economic policies and business environment, which will, attract FDI into virtually all the sectors of the economy.

The Nigerian government needs to embark on capital project, which will enhance the infrastructural facilities with which foreign investors can build on. The current local content policy should be pursued to the letter as a way of preventing absolute foreign dominants and ownerships in the key sector of the economy to make more indigenous participation and human capital development out of the foreign sector participation in the country.

For Nigeria to generate more foreign direct investments, efforts should be made to attract FDI into the NONOILFDI area. This is because from the empirical finding, beside the oil sector having higher trend in the economy its contribution to economic growth is small compared to non-oil sector. This could be because of more indigene and economic interactions take place in these areas than the oil sector dominated by foreigners

Exchange rate was recommended to be more market responsive, inflation rate should be pursued to single digit and there should be more generous incentives for foreign direct investment in the country.

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APPENDIX

Dependent Variable: RGDP

Method: Least Squares

Sample: 1970 2008

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	109429.4	17111.74	6.394988	0.0000
OILFDI	3.240925	0.544178	5.955629	0.0000
NONOILFDI	3.445656	1.186377	2.904351	0.0063
R-squared	0.782576	Mean dependent var		226426.5
Adjusted R-squared	0.770497	S.D. dependent var		178166.5
S.E. of regression	85353.28	Akaike info criterion		25.62079
Sum squared resid	2.62E+11	Schwarz criterion		25.74876
Log likelihood	-496.6054	F-statistic		64.78758
Durbin-Watson stat	0.388282	Prob(F-statistic)		0.000000