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FOREIGN DIRECT INVESTMENT AND ECONOMIC DEVELOPMENT IN SOUTH EAST GEOPOLITICAL ZONE OF NIGERIA

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ABSTRACT: The present study examined empirically Direct Foreign Investment and Economic Development in South East Geopolitical Zone of Nigeria. The specific objectives of the study are to; determine the extent foreign direct investment (FDI) have contributed on human capital in South East Geopolitical Zone of Nigeria, examine the extent foreign direct investment (FDI) have contributed on infrastructure in South East Geopolitical Zone of Nigeria. Ordinary Least Square (OLS) research design was adopted for the study. The findings of the study revealed that there is significant positive relationship between foreign direct (FDI) and human capital in South East Geopolitical Zone of Nigeria, as foreign investment led to increased economic activities in the area which on the long run led to social and economic development of the human capacity in the study areas. On the same vein, the study also revealed a positive correlation between foreign direct investments (FDI) on infrastructural development in the sense that continuous flow of foreign investment has necessitated the development of infrastructures in the study areas. Based on the findings the following recommendations were proposed; The Nigerian government should endeavour to establish favourable economic and political policies that will attract foreign investors for enhanced economic activities and diversification of the economy to ensure sustainable development across the nation, the government should provide incentive for indigenous industries to engage in international trade, as this will help create a formidable base for foreign investors looking for indigenous links.

Keywords: Foreign Investment, Economic Development, Human Capital Infrastructure

INTRODUCTION

Economic development forms an important component of sustainable development. Economic development is the maintenance and sustenance of a high real growth rate of the economy to achieve the development or economic objective. Economic development implies an increase in the per capital income of every citizen. Economic development can also be referred to as the quantitative and qualitative changes in the economy (Christoffersen, 2013). Economic development is sustained, concerted actions of policy makers and communities that promote the standard of living.

Despite the huge resources in Nigeria, the country ranks low in economic performance. Nigeria has not been able to maintain the growth rate necessary to reduce poverty. Nigeria suffers from lack of balanced development where economic, social and environmental dimensions are given due consideration for long term sustainable development. Measuring and managing Nigeria’s sustainable economic development is key to achieving post 2015 Development Agenda. The multiple challenges to economic development in Nigeria necessitate the sue of holistic

approach that integrate trade, social, political and environmental dimension most especially in this era of economic and political globalization.

Owing to the increasing globalization of the world economy and the liberalization of exchange rates and market access, there is a large amount of capital that moves across borders. Often, this is facilitated by most countries that encourage the free flow of capitals between countries. The rational for such encouragements, as opined by Grossman and Helpman (2015) premised on the assertion that free flow of capital also assists in diversification of assets and reduction of the risk faced by capital owners. To Akujuobi and Ejitagha (2021), global mobility of capital encourages the transfer of investment, especially countries that are regarded as developing countries. The perceived opportunities derivable from utilizing this form of foreign capital injection into the economy to augment domestic saving and further promote economic development in most developing economics is known as Foreign Direct Investment (FDI).

Foreign direct investment (FDI) is an investment made to acquire a lasting management interest in a business enterprise operating in a country other than that of the investor (World Bank, 1996). According to Thirwall (1944), Foreign Direct Investment (FDI) refers to investment by multinational corporations (MNCs) with headquarters in developed countries. This investment involves not only transfer of funds but also a whole package of physical, techniques of production, managerial and marketing expertise, products advertising and business practices for the maximization of global profits. Foreign Direct Investment (FDI) comprises not only merger and acquisition and new investment, but also reinvested earning and loans and similar capital transfer between parent companies and their affiliates. Foreign Direct Investment (FDI) is also seen as an investment made by an individual with the aim of exercising long term ownership and controlling interest (at least one-tenth of the equity) in the host country (World Bank, 2014). Altogether, Foreign Direct Investment simply implies that an investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Mostly, when the deciding factors are available and functional, the ownership of businesses and other operations of reign investors, unarguably enhances the propensities of economic growth and development of a country through increased employment opportunities, boost export and adequate transfer of products, technology and knowledge (Oyin, 2014).

In the 1970's and 1980s, several countries in the Sub-Sahara Africa, especially Nigeria imposed trade restrictions and capital controls as part of a policy of import substitution industrialization aimed at protecting domestic industries and conserving foreign exchange reserve. Therefore, improvements in economic policies are needed to enhance macroeconomic performance and attain the minimum growth rate required to meet the Millennium Development Goals set by the United Nations. An increase in investment is crucial to the attainment of sustained growth and development. This requires the mobilization of both domestic and international financial resources, and given the unpredictable economic circumstances, the high volatility of short tem capital flows and low savings rate of Nigeria, the desired increase in investments has to be achieved through an increase in FDI flows at least in the short run.

The huge debt and financial rises faced by Nigeria have constituted much burden to the economy making it difficult to improve domestic saving and for a country to be able to have a high investment to gross domestic product ration, it must be able to increase its savings rate. Given the low level of saving in Nigeria, it therefore becomes necessary that the appropriate policy to pursue is to increase Foreign Direct Investment to supplement the low level of domestic saving for economic growth. And in reference to these problems, Ajayi (2003) said

that all of the capital inflow into the Nigeria economy from other countries, increase in FDI is the most promising policy due to its potential in dealing with the problems of saving gap, shortage of technology and needed skills.

Consequently, the level of economic growth achieved over the years in Nigeria, most especially in South East Geopolitical Zone of Nigeria has been largely constrained by lack of adequate capital to finance government projects. It is based on the foregoing background that the researchers wish to investigate Foreign Direct Investment and economic development in South East Nigeria. The specific objectives of the study are to; determine the extent foreign direct investment (FDI) have contributed on human capital in South East Geopolitical Zone of Nigeria, examine the extent foreign direct investment (FDI) have contributed on infrastructure in South East Geopolitical Zone of Nigeria.

RELATED LITERATURE REVIEW

Conceptual Review

Overview of FDI

Inflows of FDI to Nigeria have been marked with fluctuations in the past three decades. Statistically, the ratio of FDI to gross domestic product (GDP) which was as high as 20 percent during the 1970-72 period fell to 7 percent in 1980. The ratio averaged 7.04 percent over the period 1986 - 1993. This declined to about 4.1 percent in the period of 1999 - 2004. The gradual decline in the inflow from the 1980s seem to confirm the position of developing countries' economists that the flow of capital in general (foreign direct or otherwise) to developing countries has been skewed in favour of the middle-income developing countries and against the poor developing countries of which Sub-Saharan Africa is key (Adegbite, 2003). Table 1 presents mean, standard deviation, skewness, kurtosis, coefficient of variation (volatility) of Nigeria's ratio of FDI to GDP between 1970 and 2004. Prior to the 1980s, FDI was largely concentrated in import-substitution industries. From the mid-1980s, particularly during the structural adjustment programme, Nigerian government introduced a number of incentives and measures to stimulate FDI into export-oriented activities. A cursory look at the cumulative foreign investment by type of economic activity in the last two decades reveals that FDI was predominant in mining and quarrying, manufacturing and processing, and trading and business services sectors.

Economic Development

Economic activities are disrupted on days the sit-at-home orders are observed in the Eastern part of Nigeria owing to the fact that productive assets and resources are placed on hold (Okeoma, 2021). This is accompanied by loss of lives and properties especially those who share contrary opinions with the IPOB hierarchy. Vaskov, Pienknagura, and Ricci (2021) revealed in their study that restrictions of people’s movement cripple economic activities especially countries with low economic growth. Okafor (2022) submitted that social unrest in Nigeria has resulted to cumulative decline in GDP from 2011 to 2015. Odili (2021) remarked that the sit-at-home order has caused the economy of the Southeast a massive decline in GDP relative to other geopolitical zones in the country. Also, Azeez (2022) quoted Simon Ekpa that the sit-at-home order has made Nigeria governments lose estimated revenue worth more than $1 billion on weekly basis.

Generally, social unrest is inimical to economic growth in any economy of the world. In Nigeria for example, the recent EndSARs demonstration caused series of economic downturn in major states of Nigeria. The Lagos Chamber of Commerce and Industry (LCCI) (2020) highlighted that the EndSARs demonstration which lasted for twelve days resulted to the loss of N700 billion in revenue to the Nigerian government. In the same vein, the Lekki toll gate closure during the days of the EndSARs forced the government of Lagos State lose N234 million in revenue (Emenike, 2020). SB Morgan surveyed 180 business owners after the EndSARs demonstration, 91% of business owners accepted that their businesses were grossly affected, 98% agreed that they lost both customers and revenue, 43% of respondents agreed to be looted to the tune of more than N1 million worth of resources and 26% agreed to lose between N500,000 to N1,000,000 during the protest (Odutola, 2021). The conclusion from the report revealed that business owners were subjected to inability of settling debts, destruction and looting of resources, and the fear of business activities picking due to business slowdown.

Onime (2018) submitted that social unrest in Nigeria such as the activities of Boko-Haram, IPOB, Niger-Delta Militants, Herdsmen and Kidnapping have at various times crumbled the economy of Nigeria. He further noted that, violent agitation of these groups for both human and non-human resource control have resulted to loss of lives, oil theft and bunkering, pipe vandalism, displacement of people from their ancestral homes and nation-wide hunger among others.

Economic development is the increase in the amount of goods and services produced by an economy overtime. It is conventionally measured as the percent rate of increase in real gross domestic product, or real GDP. Growth is usually calculated in real terms, that is, inflation adjusted terms, in order to net out the effect of inflation on the price of the goods and service produced. FDI comprises not only merger and acquisition and new investment, but also reinvested earnings and loans and similar capital transfer between parent companies and their affiliates. FDI flows have grown in importance relative to other firms of international capital flows, and the resulting production has increased as a share of world output, but it was still only about 8% at the end of the 20th century. The United States began its role as foreign direct investors in the late 19th century. It became the dominant supplier of direct investment to the rest of the world, accounting for about half of the world's stock in 1966. Since then, other countries have become major direct investors. The United States share is now less than a quarter of the world total and the United States has become a major recipient of FDI from other countries.

Lipsey and Chrystal (2003) noted that FDI is always undertaken by domestic firms which have accumulated some benefits in the local market such benefits include patents and know-how that bestowed on them when they enter into foreign markets. Foreign direct investment generates investments that may not be possible with the local resources only. Working with large firms linked to the global market, FDI promotes workers and management training; provide advanced technology that is not easily transferable outside the firms and already in use by foreign firms. Finally, it generates higher paying jobs and links the recipient economy into the world economy in a way that would be difficult to achieve by new firms of a local origin (Lipsey & Chrystal, 2003).

Theoretic Framework

Foreign direct investments consist of external resources, including technology, managerial and marketing expertise and capital. All these generate a considerable impact on host nation's production capabilities. Kumar (2007), described FDI in several ways, first and most likely it may involve parent enterprise injecting equity capital by purchasing shares in foreign affiliates. According to World Trade Organization New (WTON, 2001) foreign direct investment occurs when an investor based in one country, home country, acquire an asset in another country the host country with the intent to manage the asset. Foreign direct investment is described as investment made to acquire a lasting interest (usually at voting stock) and acquiring at least 10% of equity share in an enterprise operating in a country other than the home country of investors (Mwilima, 2003).

According to Ayanwale (2007) that ownership of at least 10% of the ordinary shares or voting stock is the criterion for the existence of a direct investment relationship. The United Nations defined FDI as investment in enterprise located in one country but effectively control by residents of another country. This definition not only considers foreign direct investment from an investment point of view, but also defines the status of corporate control.

Economic growth is the increase in the amount of goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product, or real GDP. Growth is usually calculated in real terms, that is, inflation adjusted terms, in order to net out the effect of inflation on the price of the goods and service produced. FDI comprises not only merger and acquisition and new investment, but also reinvested earnings and loans and similar capital transfer between parent companies and their affiliates. FDI flows have grown in importance relative to other firms of international capital flows, and the resulting production has increased as a share of world output, but it was still only about 8% at the end of the 20th century. The United States began its role as foreign direct investors in the late 19th century. It became the dominant supplier of direct investment to the rest of the world, accounting for about half of the world's stock in 1966. Since then, other countries have become major direct investors.

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Empirical Review

Sunday (2023) examined the industrial output growth and foreign direct investment in Nigeria. This research study investigated the nexus between industrial output growth and foreign direct investment in Nigeria. It is a common belief that no nation is an island on its own; hence countries around the globe interchange economic activities across borders via various mutual

business indentures. Notably, despite Nigeria's foreign direct investment level in Africa, the country's industrial output growth still falls short in recent years. Therefore, it is pertinent in this study to unravel why increasing Foreign Direct Investment inflow brings about slow industrial output growth in Nigeria.

Interestingly, Autoregressive Distributed Lags (ARDL) and Cointegration and Error Correction Mechanisms (ECM) techniques and diagnostics checks were adopted to investigate whether there is long-run interaction between industrial output growth and foreign direct investments in Nigeria. Notably, post estimations tests were carried out to ascertain the validity of the models adopted in the study. The study showed a short-term and long-term relationship between Foreign Direct Investment and Industrial Output Growth in Nigeria. Therefore, FDI disclosed a negative time-path link with industrial output growth in Nigeria. This asserts that Nigeria's current slow output growth contradicts expected economic intuitions due to a negative link between FDI and industrial output growth, all things being equal. Consequently, the study recommended that a proactive policy framework could be used to promote industrialization via localization of industry across Nigeria. Also, policymakers should adopt protectionist international trade laws to expand the local productivity base.

Aliyu, Olalekan and Olusegun (2022) empirically examined the long-run nexus between foreign direct investment (FDI) inflows and exchange rate (EXC) in Nigeria using the Gregory-Hansen, and Bayer-Hanck cointegration approaches from 1980M01 to 2019M12. The result showed that there is presence of long-run association between FDI and exchange rate in Nigeria. The Dynamic Ordinary Least Square (DOLS) technique was employed to establish the impact of FDI on the exchange rate. A negative nexus was found between the two variables. This implies that an increase in FDI brings about an appreciation of the Naira and vice versa. The study recommended that the Nigerian Government should strive to engage in activities that will minimise the outward leakages of Naira by attracting foreign investors into businesses, primarily in the oil sector. This action could lead to massive dollar injection, like setting oil refineries against crude oil extraction and exportation, which gives lesser USD inflows into the economy.

Ugwuegbe, Okore and John (2016), conducted research on the impact of foreign direct investment on the Nigerian economy. This study investigates the empirical relationship between Foreign Direct Investment and economic growth in Nigeria. The work covered a period of 1981-2009 using an annual data from Central Bank of Nigeria statistical bulletin. A growth model via the Ordinary Least Square 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 capture the effect of domestic investment on the growth of the economy for the period under review. Interest Rate and exchange rate were also added as control variables in the model. Granger causality test was also employed to determine the direction of causality between FDI and economic growth in Nigeria. The result of the OLS techniques indicates that FDI has a positive and insignificant 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. Interest rate was found to be positive and insignificant while exchange rate positively and significantly affects the growth of Nigeria economy. Therefore, government should provide an enabling environment that will encourage foreign investors to invest in Nigeria economy by addressing the security challenges in the country, providing investment friendly environment by improved regulatory framework as well as encourage domestic investment.

Okonkwo, Egbunike and Udeh (2015), wrote on the Foreign Direct Investment and Economic Growth in Nigeria. This work empirically investigates the effect of foreign direct investment on Nigeria's economic growth over the period 1990 to 2012. The study made use of ordinary least squares (OLS) estimation techniques in analyzing the secondary data. The secondary data were mainly sourced from Central Bank of Nigeria statistical bulletin (CBN), Annual report and Statement of accounts. The result shows that Export assumes a positive sign which implies that there is a positive relationship between Economic growth and Export; in conclusion FDI has led to increase in Export in Nigeria.

METHODOLOGY

The estimation method adopted in this study is the Ordinary Least Square (OLS). Time series data over the period 2015 to 2023 were used. The data used were secondary in nature sourced from CBN statistical bulletin, CBN annual report and Statement of accounts from 2015 – 2023.

MODEL SPECIFICATION

FDI = F (HC, INF) e_t---------------- (1)

This can be econometrically modeled thus:

LFDI = $a_0 + a_1$LHC + a_2LINF + e_t-- (2)

Where:

e_t-- represents stochastic term

$a_1 - a_2$ = Parameter Estimate

LFDI = Log of Foreign Direct Investment

LHC = Log of human capital

LINF = Log of Infrastructure

As stated in this study, economic development i.e. FDI, has a functional relationship with human capital (HC) and Infrastructure (INF)

DATA PRESENTATION AND DISCUSSION OF FINDINGS

Method: Least Squares

Date: 29/09/23 Time: 22:58

Sample (adjusted): 2015 – 2023

Included observations: 22 after adjusting endpoints

Variables	Co-efficient	Std. Erro	t-Statistic	Prob.
C	13.07545	3.641763	3.590417	0.0030
LFDI	-0.3590047	0.225180	-1.594489	0.1331
LHC	-1.429438	0.679593	-2.103373	0.0540
LINF	0.135748	0.233911	0.580339	0.5709

R-squared	0.655873	Mean dependent var	6.068384
Adjusted R-squared	0.483809	S.D. dependent var	0.499886
S.E. of regression	0.359150	Akaike info criterion	1.065137
Sum squared resid	1.805847	Schwarz criterion	1.4618805
Log likelihood	-3.716507	F-statistic	3.811805
Durbin-Watson stat	1.149481	Prob(F-statistic)	0.015878

Source: E-views 7

From the result presented above the following facts emerged prominently. The equation has FDI, human capital (HC), Infrastructure (INF), as independent variables. The coefficient of the constant term is 13.07545 and assumes a positive sign. It is statistically significant at 0.0003 levels. FDI has a negative sign and shows an inverse relationship between and HC. Infrastructure has a negative sign and shows an inverse relationship between FDI and INF. It is statistically significant at 0.0540.

The F statistics tell us if the model will be accepted or not. Decision rule: For the model to be accepted the F statistics must be relatively high and positive. For this model the F statistic is 3.811805, therefore it is accepted.

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Conclusion

The study draws the conclusion that there is significant positive relationship between foreign direct (FDI) and human capital in South East Geopolitical Zone of Nigeria, as foreign investment led to increased economic activities in the area which on the long run led to social and economic development of the human capacity in the study areas. On the same vein, the study also revealed a positive correlation between foreign direct investments (FD) on infrastructural development in the sense that continuous flow of foreign investment has necessitated the development of infrastructures in the study areas.

Recommendations

i. The Nigerian government should endeavour to establish favourable economic and political policies that will attract foreign investors for enhanced economic activities and diversification of the economy to ensure sustainable development across the nation.
ii. The government should provide incentive for indigenous industries to engage in international trade, as this will help create a formidable base for foreign investors looking for indigenous links.

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