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Foreign Direct Investment and Development of Manufacturing Sector in Nigeria (1990 – 2014)

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Abstract: *This study is centered on foreign direct investment and development of manufacturing sector from 1990-2014. Political unrest, epileptic power supply, militancy of Niger Delta region, unstable exchange rate and insurgency of the North east of Nigeria was identified as the hindrances to manufacturing sector. The work is anchored on mercantilist trade theory of Jean baptiste Colbert and Thomas hobbes. Secondary data was sourced from Central bank of Nigeria Statistical bulletin, CBN occasional paper number 32 on the dynamics of inflation in Nigeria. Diagnostic survey research pattern was applied for this study. Data obtained were analyzed using an ordinary least square method by the use of time series and seasonal variations. The results shows that FDI is growth enhancing and it equips and stabilizes exchange rate and reduces dependency on imported finished products, enhances profitability thus leads to survival of manufacturing sector. Recommendations include; policy makers should realize the essence of stable exchange rate so as to drive maximum benefit from investment. Government expenditure should encourage and promote investment to boost the manufacturing industries.*

Keywords: *foreign direct investment, Political unrest, manufacturing sector, exchange rate and investment*

I. Introduction

The inflow of foreign direct investment (FDI) into developing countries varies greatly across countries and over time. One of the most salient features of today's globalization drive is conscious encouragement of cross-border investments, especially by trans-national co-operations and firm (NICS). Many countries and continents (especially developing), now see FDI as an amalgamation of capital, technology, marketing and management. Many African countries have been working very hard to ensure the smooth flow of Foreign Direct Investment (FDI) in their countries, as it is believed that FDI is a major key for development. Following this fact, developing countries have been looking for better policies to lives for their people. It is suggested that in order to attract greater inflows of foreign direct investment in the future, Nigeria as a nation need to accelerate progress towards more open economic, greater economic freedom, more effort in fighting corruption and a legal environment that guarantees property right(Rutherford 1992).

The image of Africa as a location for foreign direct investment (FDI) has not been favourable. Too often Nigeria has been associated only with pictures of civil unrest, unstable exchange rate , starvation, insecurity, militancy 0f Niger Delta, Boko haram of North East Nigeria, deadly diseases and economic disorder, and this has given many investors a negative picture of Nigeria as a whole.

In the economic area, the continent as a whole has not fared as well as other developing regions in the past 20 years or so. Economic growth in Nigeria has been low, as real gross domestic product (GDP) per capita increased by an average of only 1.5 per cent a year during the 1980s and by 0.4 per cent a year between1990 and 1994 (UNCTAD, 1997),Growth for the whole of Africa has lagged behind that for other developing regions, with economic stagnation or even decline of output characterizing the experience of a number of African countries; from 1990 to 2004, for example, 15 African countries had negative average rates of growth. Since, 2005, however, this trend has been reversed; per capita income rose for several consecutive years, including in sub-Saharan Africa. and Africa did not benefit from the FDI boom that began in the mid1980s, Weak economic performance over a long period of time was also reflected in the poor record of the continent as regards foreign direct investment inflows. Despite a certain stabilization of inflows since 1994 at a higher level than at the beginning of the 1990s, the continent is still struggling to make up for the ground it lost during much of the 1970s and the 1980s.

For most of the time since 1970, FDI inflows into Africa have increased only modestly, from an annual average of almost \$1.9 billion in 1983–1987 to \$3.1 billion in 1988–1992 and \$6.0 billion in 1993–1997. While inflows to developing countries as a group almost quadrupled, from less than \$20 billionin 1981–1985 to an average of $75 billion in the years 1991–1995, inflows into Africa only two folded during that period. As a result, Africa's share in total inflows to developing countries dropped significantly from more than 11 per cent in 1976–1980 to 9 per cent in 1981–1985, 5 per cent in 1991–1995 and to 4 per cent in 1996-1997.(UNCTAD, 1998).

The broad objective of this study is to examine the relationship between foreign direct investment and development of manufacturing sector in Nigeria (1990-2014). The specific objective is to determine the extent to which exchange rates volatility influences the profitability of manufacturing sector in Nigeria.
Research question; Does exchange rate volatility influences the profitability of manufacturing sector?

Research hypothesis
Ho: exchange rate volatility do not influence the profitability of manufacturing sector
H1: exchange rate volatility influences the profitability of manufacturing sector

II. Review of Related Literature

According to the International Monetary Fund, Foreign direct investment, commonly known as FDI, refers to an investment made to acquire lasting or long-term interest in enterprises operating outside of the economy of the investor." The investment is direct because the investor, which could be a foreign person, company or group of entities, is seeking to control, manage, or have significant influence over the foreign enterprise.

A foreign direct investment (FDI) is a controlling ownership in a business enterprise in one country by another country.

Foreign direct investment is distinguished from portfolio foreign investment a passive investment in the securities of another country such as public stocks and bonds by the element of control. According to the financial times standard definitions of control use the internationally agreed 10 percent threshold of voting shares, but this is a grey area as often a smaller block of shares will give control in widely held companies. The origin of the investment does not impact the definition of FDI, ie, the investment may be either inorganically by buying a company in the target country or organically by expanding operations of an existing business in that country. Broadly, foreign direct investment includes mergers and acquisitions, building new facilities, reinvesting profits from oversea operation and Intra Company loans. In a narrow sense, foreign direct investment refers just to building new facilities. The numerical FDI figures based on varied definitions are not easily comparable. As a part of the national accounts of a country and regard to the GDP equation Y = C+I+G(X-M). Where C= consumption. I =gross investment ie (domestic and foreign investment), G= government spending.(X export- M= import). FDI is defined as the net inflows of investment (inflow minus outflow) to acquire a lasting management interest (10 percent of more of voting stock) in an enterprise operating in an economy other than that of the investor. FDI is the sum total of equity capital, other long-term capital and short term capital as shown the balance of payments.

This study is anchored on Mercantilist trade theory which was an economic theory and practice, dominant in Europe from the 16th to the 18th century that promoted governmental regulation of a nation's economy for the purpose of augmenting state power at the expense of rival national powers. It is the economic counterpart of political absolutism. Mercantilism includes a national economic policy aimed at accumulating monetary reserves through a positive balance of trade, especially finished goods. The theory identifies the fact that a country can only be rich and be powerful if it ensures that its export is more than its import. Some of the propagandist of this theory is Jean Baptiste Colbert and Thomas Hobbes. It was understood then, that, the most important way in which a country could be rich was by acquiring precious metals such as gold. This was achieved by ensuring that the volume of export was better than the volume of import.

III. Methods

Diagnostic survey research pattern is used for this work. This approach is justified of because the method will facilitate the model specifications. The study employed SPSS analysis and examine the extent of relationship between dependent and independence variables. The study used secondary data sourced from central bank of Nigeria statistical bulletin, bureau of statistics and the Nigeria stock exchange bulletin. The ordinary least square method was employed in analyzing this statistical tool which seeks to establish the strength or degree of association between the dependent variables and independent variables. The software used for the analysis is SPSS.

IV. Model Specification

Model estimation for effect of exchange rate volatility on the growth of foreign direct investment in Nigeria manufacturing industries is as follows.
Fdi=F(Exchr,Profit,Impt-L,Expt-L,M2,Gdp,Cpi,Bop)E_t………………….-(1)

FDI=ao + a1EXCHR +a2LPROFIT + a3LIMPt + a4LEXPt + a5LM2 + a6GDP +a7LINTR +a8LBOP et…………….(11)
Where:
ao –a6 =parameter estimates / parameter structure
et = stochastic or error term
L FDI =log of foreign direct investment
L EXCHR =log of Exchange rate
L GDP =log of gross domestic product
L PROFIT =log of profitabilty
L IMPt-l =log of import at a particular time
L EXPt-l = log of export at a particular time
LM2 =log of current level of money supply at a time
LINTR =log of interest rate
LBOP =log of balance of payment
Method of estimation =ordinary least squares
Dependent variable: LFDI
Current sample: 1990-2014
Number of observations: 25

Result of the regression

Model	R	R square	Adjusted R square	Df	Sig F change	Durbin Watson
1	.855	.801	.702	8	.000	1.817

Regression analysis SPSS

Variable	Estimated	Std error	T value	P value
C	1088365788.453	1459785398.822	.746	.467
BOP	-453.483	299,222	-.1.516	.149
EXPT	-10.663	17.869	-.597	.559
IMPT	-16.601	13.292	-1.249	.230
GDP	-17.277	10.119	-1.707	.004
EXCH	14907619.352	8052892.841	1.851	.083
M2	-10966493.73	26776278.367	-.410	.688
PROFIT	4319.426	3006.155	1.437	.170
CPI	262278335.785	88270076.041	2.971	.009

The regression equation show that
FDI==F(1088365788-453.483(BOP)-10.663(EXPT)-16.601(IMP)-17.277(GDP)+41907619.35(EXH)10966493.73(M2)+4319.426(PROHT)+262278335.8(CPI)

Findings

From the regression equation the estimated coefficient of the constant term is statistically significant at beta 0.05 the coefficient of exchange rate has a negative sign and is statistically not significant at beta 0.05 this simply means that unstable exchange rate has a negative implication to Nigeria economy and it influences the profit as well as the market share of manufacturing industries in Nigeria. The coefiicient of GDP has a negative sign and it is statistically significant at beta 0.5. the coefficient of M2 is statistically not significant at beta 0.5

V. Conclusion

>Generally, foreign direct investment (FDI) can play an important role in developing countries. At the macroeconomic level, it brings new capital for investment; contribute to the balance of payments, and potentially siding to future economic growth. Evidence suggests that FDI also can contribute to raising exports and integrating countries into global economic networks. Therefore, the developing country governments should continue considering FDI as being desirable, due to the fact that, it provides much-needed capital and brings new technology as well as training for workers and managers to the country, and thus may contribute to economic growth.

>Multinational corporations are often wary of investing in developing countries due to some related risks such as political instability and nationalization policy. Developing countries should make commitments to liberal economic policies more credible via international institutions, thus reassure foreign investors and thereby increase inward FDI. It was **recommended th**at Nigeria government should improve the general macroeconomic and institutional frameworks, including stable and high economic growth rate, liberal exchange rates, convertible currency, low inflation, minimal current account deficit and external indebtedness, low interest

rates and access to capital, efficient banking system and capital markets, and competitive corporate tax rates. Government of Nigeria should provide infrastructure, technology, and human and other competencies to levels that facilitate full realization of FDI benefits by establishing focused programmed of reducing the cost of doing business, with such elements as improving the quality and reducing the cost of infrastructure (transportation, roads, electricity, and telecommunications, among others).

>Manufacturing activities should be encouraged by government by giving incentives and subsidies to local manufacturers and improving the technological and infrastructure development so as to increase the sector's contribution to Gross Domestic product and employment within the country.

>Change in exchange rate management strategy should be allowed to run a reasonable course of time. Jettisoning strategies at will and on frequent basis has implication for exchange rate and obvious consequence for a sector that depends on foreign inputs. The monetary authority (the Central Bank of Nigeria) should monitor the unethical practices of some commercial bank which have resulted in much fluctuation in the rate of exchange. More stringent punitive measures have to be taken against the culprit banks.

>Finally, Nigeria's policy makers should formulate and implement effective investment promotion policies, including national marketing initiatives, but only after the fundamental determinants of business are in place.

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