FOREIGN DIRECT INVESTMENT AND MANUFACTURING SECTOR GROWTH IN NIGERIA

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ABSTRACT

Despite consistent increase in inflow of investment to developing countries, there are still strong indications of low per-capita income, high unemployment rates, high rates of inflation and low and falling growth rates in these countries. These are economic instabilities which foreign direct investment is theoretically assumed to be the panacea. This study employed an econometric method to analyze the contributions of foreign direct investment to the growth of manufacturing sector in Nigeria using annual time series data of the choice variables from 1970 to 2011. Among the findings was that Foreign Direct Investment (FDI), Domestic Investment (DINVT), Exchange Rate (EXR) and the Degree of trade Openness (DOPN) were all related to Manufacturing sector Output Growth (MANFQ) in Nigeria. More so, the Foreign Direct Investment, Degree of trade openness, exchange rate and the lagged error term were statistically significant in explaining variations in Nigeria's Manufacturing Output Growth (MANFQ) and Gross Domestic Product as a proxy for economic growth (GDP) in the models adopted in the study. The policy implication is that the economy should diversify the foreign private capital inflow into the economy, as this will lead to higher growth of the aggregate output. It was recommended that there should be concerted support for technological capabilities of indigenous firms, should create favourable conditions for knowledge exchange, improve technical education base to attract the inflow of FDI and intensively support Research & Development.

Keywords: Foreign Direct Investment, Manufacturing Sector, Exchange Rate, Output, Growth, Domestic Investment, Transnational Corporations.

1.0   Background to the Study

One of the most salient features of present day's globalization drive is conscious encouragement of cross-border investments, especially by Transnational Corporations and firms (TNCs). Many developing countries now see attracting Foreign Direct Investment (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. The global economy has been witnessing tremendous increase in Foreign Direct Investment (FDI) especially since the beginning of the 21st century and this has

attracted the attentions of many an analyst. This is mainly because some reasonable number of policy makers viewed FDI as a major stimulus to economic growth in both developed and developing countries. It is perceived that it has the ability to deal with major obstacles such as shortages of financial resources, capital, technology, marketing, skills, know-how and fostering linkages with local firms, which can help jumpstart an economy (Anshu, 2013). UNCTAD (2007) reports that FDI flow to Africa has increased from $9.68 billion in 2000 to $1.3 trillion in 2006 hence African countries are becoming the new destination of FDI. This has made it the center of attention for policy makers in developing countries. Nigeria, after decades of restricting FDI like other developing countries (Marin, 2008), is now falling over to attract external investors and spending large sums of money to attract foreign firms. Yauri (2006) reports that FDI-related foreign economic policies received most significant attention of the Nigerian government in the last decade and a half, which resulted in signing six Bilateral Investment Treaties (BITs) and eleven Double Taxation Treaties (DTTs) aimed at encouraging the inflow of FDI.

Nigerian government laid much emphasis on manufacturing sector because it is envisaged that the modernization of the sector requires a deliberate and sustained application and combination of suitable technology, management techniques and other resources to move the economy from the traditionally low level of productivity to a more automated and efficient system of mass production of goods and services (Malik, Teal and Baptist, 2006). In spite these efforts of the government and the recorded increase of FDI inflows, the performance of the sector in terms of output, capacity utilization and sector contribution to GDP need to be investigated. More so, over-enthusiasm to attract FDI, in some cases has resulted in bilateral treaties being badly negotiated, excessive incentives offered and environmental standards lowered (Ikiara, 2003; Babatunde, 2010).

FDI refers to investment made to acquire a lasting management interest (usually at least 10 % of voting stock) and acquiring at least 10% of equity share in an enterprise operating in a country other than the home country of the investor. FDI can take the form of either "greenfield" investment (also called "mortar and brick" investment) or merger and acquisition (M&A), depending on whether the investment involves mainly newly created assets or just a transfer from local to foreign firms. Most investment has taken the form of acquisition of existing assets rather than investment in new assets ("greenfield"). M&As have become a popular mode of investment of companies wanting to protect, consolidate and advance their positions by acquiring other companies that will enhance their competitiveness. Mergers and acquisitions are defined as the acquisition of more than 10% equity share, involving transfer of ownership from domestic to foreign hands, and do not create new productive facilities. Based on this definition, M&As raise particular concerns for developing countries, such as the extent to which they bring new resources to the economy, the de-nationalization of domestic firms, employment reduction, loss of technological assets, and increased market concentration with implications for the restriction of competition. Historically, the Multinational/Transnational Corporations (MNCs/TNCs) has been the main vehicle for FDI. The MNCs/TNCs is commonly defined as an enterprise which controls and manages assets in at least two countries (Helleiner, 1989:1442). MNCs/TNCs can be divided

into three types. One turns out essentially the same lines of goods or services from each facility in several locations, and is called the horizontally integrated MNCs/TNCs. Another, the vertically integrated MNCs/TNCs produces outputs in some facilities which serve as inputs into other facilities located across national boundaries. The third is the internationally diversified MNCs/TNCs, whose plants' outputs are neither vertically nor horizontally related (Teece, 1985:233; Caves, 1996:2). Thus FDI is a packaged transfer of capital, technology, management and other skills as supported by (Buckley and Brooke, 1992:249), which take place internally within MNCs/TNCs.

The recent surge of FDI inflows to Africa during 2000-2007 followed from positive business environment in the region backed by reform framework for FDI. Most developing African countries have reformed their economic policy, investment laws and also improved their financial system. Market size is also growing in terms of purchasing power in the region with vast population; but political instability, internal conflict and poor governance still pose significant problems to many countries in Africa. It has also been observed that in most African nations, FDI inflow rose mainly in the primary sector because of the existence of vast natural resource. So, the common perception is that the FDI is largely driven by market size and natural resources. This perception is also consistent with the UNCTAD (2009) data – three largest recipients of FDI are respectively South Africa, Nigeria and Angola – all are natural resource rich nations. In term of sectoral growth rate, telecommunication sector recorded the highest real growth rate of 33.74%, manufacturing having 7.31%,, agriculture 5.84% etc. it is opined by Malik, Teal and Baptist (2006) and ADB (2010) that if Nigeria can succeed in strategic transformation of its manufacturing sector as suggested by many experts and recent policy initiatives, growth rate of the manufacturing sector may reach double-digit in the next five years; and this will put Nigeria's growth rate ahead of other emerging economies.

Although there has been some diversification into the manufacturing sector in recent years, FDI in Nigeria has traditionally been concentrated in the extractive industries principally oil and gas. Data reveals a diminishing attention to the mining and quarrying sector, from about 51% in 1970–1974 to 30.7% in 2000/01. On the average, the stock of FDI in manufacturing sector over the period of analysis compares favorably with the mining and quarrying sector, with an average value of 32%. The stock of FDI in trading and business services rose from 16.9% in 1970–1974 to 32.6% in 1985–1989, before nose-diving to 8.3% in 1990–1994, however, it subsequently rose to 25.8% in 2000/01.

It is in view of the above development and against this background therefore, that the study seeks to find plausible answers to the following imposing research questions stated below.

- Does FDI exert any significant impact on manufacturing sector output growth in Nigeria?
- Does FDI inflow into manufacturing sectors significantly affect the economic growth in Nigeria?

2.0   Literature Review

The contribution of Foreign Direct Investment to the economy has been debated extensively over the years. This debate however covers all economies. In addition, a lot more focus has been put into the study of FDI since it is seen to have a larger impact on the economy. Dozens of scholars have explored the causes of the existing relationship between FDI and its contributions to the growth of an economy. Proponents of foreign direct investment such as development institutions, economists, academics and policy makers argued that FDI ensures efficient allocation of resources as compared to other forms of capital inflows. Some literature suggests that the FDI inflows have a positive impact on economic growth of host countries but other literatures suggested otherwise. Although a large volume of econometric literature includes the impacts of FDI on economic growth in developing countries, not enough studies has been carried out on the question of serial correlation between them. 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 recently. 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. The higher growth attained by countries through international trade and FDI as have witnessed in the past few decades has inspired extensive research on the behaviour of Transnational Corporations and major determinants of FDI especially in developing economies. As Faeth (2009) highlights, the first explanations of FDI were based on the models propounded by Heckscher-Ohlin (1933) and MacDougall (1960) and Kemp (1964), referred to as the MacDougall-Kemp model, according to which FDI was motivated by higher profitability in foreign markets enjoying growth and lower labour costs as well as lower exchange risks. Moreover several positive effects, as noted by Caves (1996), like productivity gains, technology transfers, introduction of new processes and products, managerial skills and know-how in the domestic market, employee training, international production networks, access to markets and spillovers are identified as rationale for attracting more FDI. 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 firms. FDI is assumed to augment domestic capital thereby stimulating the productivity of domestic investments (Borensztein et al., 1998; Driffield, 2001).

Notably, Blomstrom et al. (1999) report that FDI though exerts positive effects on economic growth but 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 development and income level could absorb new technologies and benefit from technology diffusion and thus reap the extra advantages that FDI can offer. Previous works like that of Onodugo, Kalu, and Anowor (2013) suggest human capital as one of the reasons for the differential response to FDI at different levels of development and income. This is because it takes a well-educated population to understand

and spread the benefits of new innovations to the whole economy (Onodugo, Kalu, and Anowor, 2013). Borensztein et al. (1998); Balasubramanyan et al. (1996) also found that the interaction of FDI and human capital had important effect on economic growth, and suggest 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.

However, because of diminishing returns to capital, FDI 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. 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). 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 an economy 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.

Other than the 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). On the contrary, MNCs/TNCs can have a negative impact on the direct transfer of technology and thereby reduce the spillover effect from FDI in the host country in several ways. They can provide their affiliate with too few or the wrong kind of technological capabilities, or even limit access to the technology of the parent company. The transfer of technology can be prevented if it is not consistent with the MNCs/TNCs profit maximizing objective and if the cost of preventing the transfer is low.

Previous study was limited in scope in terms of number of years covered by the study and in content. Most empirical studies only concentrated on the impact of FDI on economic growth without much emphasizes on the contributions of FDI inflow into sectoral growth of the manufacturing sector in Nigeria. Such works by Jerome and Ogunkola (2010) only assessed the magnitude, direction and prospects of FDI on economic growth in Nigeria. His empirical findings proved that there are deficiencies in the harmonization of FDI into meaningful economic growth in Nigeria. Also, Odozi (1995) noted that foreign investment in Nigeria is mostly utilized for the establishment of new enterprises which they have failed in its attempt to ensure effective management system. Akinlo (2004) found that foreign capital has a small and not statistically significant effect on economic growth in Nigeria. In all, most of their findings geared towards positive effect of FDI on economic growth but less emphasis was made on the relationship between FDI and manufacturing sector growth. To overcome this short fall on the concept of FDI, the study therefore investigates the contributions of FDI to the manufacturing sector growth in Nigeria.

Table 2.1   Summary of Literature

	Authors /Yr	Location	Nature of study	Nature of Data	Methology	Findings
1	Blomstrom et al (1994)	Japan, China	Cross-country	Panel data	ARDL model	Human capital as one of the differential impact of FDI
2	Odozi (1995)	Nigeria	Country specific	Time series	OLS	Reports factors affecting FDI flow into Nigeria to be pre and post SAP
3	Caves W (1996)	South/Africa	Country specific	Time series	Var model	Increased efforts in attracting FDI
4	Balasurbramyan et al (1996)	Europe	Cross country	Panel data	OLS	FDI is more important for economic growth in export promoting than import substituting countries.
5	Bende-Nabende And Ford (1998)	Taiwan	Country specific	Time series	OLS	Positive effects of externalities, human capital development and openness on FDI
6	Borensetain et al (1998)	Malaysia	Country specific	Time series	2sls model	Technological transfer through FDI contribute more to Economic growth than domestic investments
7	Djankovic and Hoekman (2000)	CzechRepublic	Country specific	Time series	OLS	Using high level data impact of FDI into domestic firms
8	Lensink and Morrissey (2001)	Britain	Country specific	Time series	OLS	Cross-section, panel and instrumental variables Techniques- volatility in FDI- volatility in FDI results to increase in growth
9	Weeks F (2001)	Britain	Country specific	Time series	OLS	FDI increases growth than domestic investment FDI and domestic capital and investment
10	De Gregorio (2003)	Chile	Country specific	Time series	OLS	Average investment will be boosted through manufacturing sector output growth from FDI

11	Obwoma C (2004)	Nigeria	Country specific	Time series	OLS	FDI spillover depends on country's capacity to absorb foreign technological transfer to domestic funs.
12	Ogiogio (2005)	Uganda	Country specific	Time series	OLS	Reports negative effects of FDI on firms productivities
13	Ayanwale and Bamire (2006)	Japan, China	Cross country	Panel data	OLS	Productive ventures attract FDI
14	Botric and Skuflic (2006)	Nigeria	Country specific	Time series	OLS	Used unemployment for economic stability
15	Irandoust and Ericsson (2006)	China	Country specific	Time series	OLS	FDI, foreign aid and domestic savings enhances growth
16	Federks and Romn (2007)	South Africa	Country specific	Time series	OLS	There's long run relationship existing between FDI, domestic capital and investment
17	Akinlo (2008)	Nigeria	Country specific	Time series	OLS	Extractive FDI does not enhance growth as manufacturing FDI inflow.
18	Dunning and Lundan (2008)	USA	Country specific	Time series	OLS	Major determinants of FDI inflow are domestic political climate.
19	Mohey- ud-din (2008)	China	Country specific	Time series	OLS	Used official development Aid (ODA) has greater effect on growth than FDI
20	Obadan (2009)	Venezuela	Country specific	Time series	OLS	Foreign capital when channeled into productive manufacturing sector results to economic growth
21	Gyapong and karikan (2009)	Ghana	Country specific	Time series	OLS	Economic performance enhances FDI inflow
22	Assame and Singleton (2009)	Malaysia	Country specific	Time series	OLS	FDI has positive impact more on middle-income countries than how income countries.
23	Jerome and Ogunkola (2010)	Nigeria	Country specific	Time series	OLS	Defiencies in growth led FDI is attributed to weak

						corporate environment

The Nigerian Manufacturing Sector

After experiencing a boost between the mid 1970s and 1980, the Nigerian manufacturing sector has witnessed stagnation, and for the most part decline, since 1983. This is due in large part to the collapse of the global oil market and consequent plummeting of oil prices. Government revenue and foreign exchange earnings were severely reduced in the wake of the crisis in the oil market, forcing government to institute sweeping austerity measures. Stringent trade controls like the rationing of foreign exchange, import restrictions via import licensing and import tariff hikes, as well as quantitative restrictions, were components of the government. Manufacturing suffered from precipitous cutbacks in raw materials and spare parts induced by these measures. This was translated into widespread industrial closures, extensive retrenchment of the industrial work force and a massive drop in capacity utilization. Real output fell by 25% between 1982 and 1986, contrasting sharply with the annual growth rate of 15% recorded between 1977 and 1981. Correspondingly, Nigeria witnessed structural decline then resulting largely from the substantial decline in gross investment—a feature of virtually all sectors of the Nigerian economy then. The ratio of gross capital formation to gross domestic product (GDP), which was 18.5% in 1981, fell to 11.4% in 1983 and further to 3.7% in 1988. A large proportion of this drop occurred in the manufacturing sector and was reflected in the fall in imports of capital goods, e.g., machinery and transport equipment. The share of manufacturing in GDP rose from about 4% in 1977 (at 1984 constant prices) to a peak of 13% in 1982. It has since fallen to less than 10% today. A number of factors account for this, chief among which is the inadequate access to raw materials and spare parts because of chronic foreign exchange shortages. The lack of vital industrial inputs negatively affected industrial capacity utilization, which fell from 70% between 1977 and 1981 to about 25% in the period 1982–1986. The foregoing provides a sketch of the manufacturing situation when the Structural Adjustment Programme (SAP) was introduced in July 1986. The programme envisaged the enhancement of manufacturing performance through a restructuring process geared at reducing import dependence and promoting manufacturing for export. In particular, capacity utilization rates were expected to reach official targets of 55% by 1986 and 60% by 1989. However, evidence suggests that these expectations were not met. Average capacity utilization remained less than 40% in the period 1988– 1993. Viewed from a sectoral performance distribution, domestic resource based industries phenomenal growth showed higher capacity utilization rates than industries with high import content.

3.0   Model Specification

Models according to Gujarati (2007) are specified according to theoretical postulation and relevant economic theories. Given the likely simultaneity between FDI and manufacturing sector output growth, an Ordinary Least Squares (OLS) method of estimation will be employed in the study. Models of the study are specified below.

Model 1

Here model I is expected to capture objective one of the study, which is to determine the impact of FDI on Nigerian manufacturing sector output growth.
The equation is stated below:

MANFQ=f (FDI, EXR, DOPN, DINVT) ……………………………………………………(4)

Where GDP = Gross domestic product

MANFQ = Manufacturing sector output growth

FDI = FDI into Nigerian manufacturing sector

EXR = Exchange rate

DOPN = Degree of trade openness

DINVT = Domestic investment

 (4) is transformed into (5)

$$MANFQ = \alpha_0 + \alpha_1\ FDI, + \alpha_2\ EXR + \alpha_3\ DOPN + \alpha_4\ DINVT + \mu_t \ …………………………….(5)$$

Where α's are parameters to be estimated and

μ_i = Error term.

Model II

The essence of this model is to capture the objective two of the study, which is to determine empirically the impact of FDI inflow into manufacturing sector on economic growth in Nigeria.
 The equation is stated below:

GDP   =   F(FDI,   EXR,   DINVT,   DOPN)
……………………………………………………..(6)

 (6) is transformed into (7)

GDP=β_0+β_1FDI+β_2EXR+β_3DINVT   + β_3DOPN
+μ_{2t}………………………………….………………(7)

where β's are parameters to be estimated.

4.0   Presentation of Results

4.1. Unit Root test for Stationarity

Before proceeding with the regression results, the stationary status of all variables was tested to determine their order of integration. This is to ensure that the variables are not I(2) or I(0) stationary so as to avoid spurious results.

Table 4.1 Stationarity Table

Variables	Constant	ADF-Statistics		5% Critical value	Assessment	Lag	Order of Integration
		Level	1st diff.				
LOG(FDI)	Constant & trend	3.5116	-9.2258	-3.53	Stationary	0	I(1)
EXR	None	0.9109	-5.0520	-1.949	,,	0	I(1)
LOG(MANFQ)	None	2.7544	-4.2028	-1.9498	,,	1	I(1)
LOG(DOPN)	Constant	-2.1629	-5.6407	-2.94	,,	0	I(1)
LOG(DINVT)	,,	-1.5466	-4.4263	,,	,,	0	I(1)
LOG(GDP)	None	1.97275	-6.0372	-1.949	,,	0	I(1)

Source: Computed by the authors from result of ADF stationarity tests.

From the above table, all the variables under study are all stationary at different order of integration/stationary.

Table 4.2 Estimated long-run equation for model I
       Dependent Variable Log (MANFQ)

VARIABLE	COEFFICIENT	STD.ERROR	T-STAT	PROB.
CONSTANT	7.810507	2.581295	3.025810	0.0046
LOG(FDI)	0.469651	0.174344	2.693823	0.0107
EXR	-4.16E-08	4.19E-08	-0.992491	0.3276
LOG(DOPN)	-0.838145	0.628963	-1.332582	0.1910
LOG(DINVT)	1.059770	0.247685	4.278706	0.0001
R-Squared	0.951162			
R-Squared adjusted	0.945736			
F-Statistics	175.2840			
F-Probability	0.0000			
DW	2.317788			

Source: Computed by the authors from result of estimated long-run equation for model I

4.2. Cointegration Test for Model I

Table 4.3 Cointegration Table for model I

VARIABLES	ADF STAT	5% CRITICAL VALUE	REMARKS
D(RESID01)	--11.17707	-1.949	COINTEGRATED

Source: Computed by the authors from result of cointegration test for Model I

Since the saved residual of model I are integrated at level form then we conclude that the variables are co-integrated implying that there exist a short run stability among the variables under study. As a result, the analysis for the model will be based on the short-run equation as shown below.

Table 4.4 Estimated short-run equation for model I

Dependent Variable Log (MANFQ)

VARIABLE	COEFFICIENT	STD.ERROR	T-STAT	PROB.
CONSTANT	0.118055	0.129057	0.914746	0.3670
$D^1LOG(FDI)$	-0.024498	0.183123	-0.133778	0.8944
D^1EXR	-5.19E-08	1.03E-07	-0.504517	0.6173
$D^1LOG(DOPN)$	-0.222433	0.989530	-0.224787	0.8235
$D^1LOG(DINVT)$	0.616654	0.570560	1.080789	0.2876
ECM(-1)	-0.746536	0.159786	-4.672106	0.0000
R-Squared	0.436321			
R-Squared adjusted	0.350915			
F-Statistics	5.108799			
F-Probability	0.001409			
DW	2.202463			

Source: Computed by the authors from result of estimated short-run equation for model I

4.3   Interpretation of Results of Model I

From the co-integration test as shown in table 4.2 it implies that long-run relationship exist between FDI and manufacturing sector output in Nigeria. Thus, we interpreted the short-run regression results associated with the long-run relationship as given in table 4.3. The empirical result presented above shows that a percentage increase in the foreign direct investment (FDI) will lead to a 0.06 per cent decrease in the dependent variable, manufacturing sector output (MANFQ). This implies that an increase in foreign direct investment decreases the level of manufacturing sector output (MANFQ) in the short-run. This is contrary to the long-run result that has a positive relationship as expected as with a significant impact and conforms to a priori or theoretical postulations and holds ground in

Nigeria economy. In other words, foreign direct investment has a positive relationship with Nigerian manufacturing sector output growth in the long-run but not in the short-run.

In exchange rate (EXR), a unit increase in exchange rate will lead to an infinitesimal decrease in manufacturing sector output (MANFQ). This implies that increase in exchange rate decreases the level of manufacturing sector output (MANFQ) in the economy through foreign direct investment in both the short-run and long-run periods. Exchange rate exhibited a negative relationship with the manufacturing sector output (MANFQ). This also conforms to theoretical postulations.

In the degree of trade openness (DOPN), a unit increase in degree of trade openness will lead to 0.22% decrease in manufacturing sector output (MANFQ). This implies that the rate of degree of trade openness decreases the level of growth in manufacturing sector output (MANFQ) in Nigeria. The level of trade openness has a negative relationship with the manufacturing sector growth. This is not a surprise, since greater part of the manufacturing output in the country are imported goods.

In Domestic Investment (DINVT), a unit increase in the domestic investments will lead to 0.61% percentage increase in the growth of the manufacturing sector (MANFQ) in both the short-run and long-run periods and with a significant impact in the shot-run. This implies that the level of domestic investments increases the level of growth in Nigeria by 0.61 per cent. This is expected and conforms to a priori expectations. The error correction coefficients at -0.746 is statistically significant, with the correct sign and suggest a high speed of adjustment to equilibrium at 74.6% annually. The coefficient of multiple determinants (R-squared) with a moderate value of 0.436 implies that 43.6% of the total variations in the manufacturing sector output indicator are accounted for by all the explanatory variables in the regression model. The significance of the F-value implies that all the explanatory variables jointly exact significance influence on manufacturing sector output.

Table 4.5 Estimated long-run equation for Model II

Dependent Variable Log (GDP)

VARIABLE	COEFFICIENT	STD.ERROR	T-STAT	PROB
CONSTANT	11.34779	0.347426	32.66246	0.0000
LOG(FDI)	-0.063561	0.023466	-2.708707	0.0103
EXR	6.67E-09	5.64E-09	1.183237	0.2445
LOG(DINVT)	0.174647	0.033337	5.238874	0.0000
LOG(DOPN)	0.027707	0.084655	0.327301	0.7453
R-squared	0.914801			
R-squared	0.905335			
F-Statistics	96.63531			
F-Probability	0.000000			
DW	0.965654			

Source: Computed by the authors from result of estimated long-run equation for model II

Table 4.6 Cointegration Table for Model II

VARIABLES	ADF STAT	5% CRITICAL VALUE	REMARKS
D(RESID02)	-7.86414	-1.949	COINTEGRATED

Source: Computed by the authors from result of cointegration test for model II

Also, in this model since the saved residual of model II is integrated at level form then we conclude that the variables are co-integrated implying that there exist a short run stability among the variables under study. As a result, the analysis for the model will be based on the short-run equation as shown below.

Table 4.7 Estimated short-run equation for model II

VARIABLE	COEFFICIENT	STD.ERROR	T-STAT	PROB
CONSTANT	0.004126	0.013243	0.311557	0.7573
$D^1LOG(FDI)$	-0.005515	0.019271	-0.286192	0.7765
$D^1(EXR)$	-1.36E-09	1.08E-08	-0.125799	0.9007
$D^1(LOG(DINVT))$	0.092863	0.051628	1.798693	0.0812
$D^1LOG(DOPN)$	0.058341	0.096482	0.604686	0.5495
ECM(-1)	-0.183444	0.171576	-1.069173	0.2928
R-squared	0.173754			
R-squared Adjusted	0.048565			
F-Statistics	1.387933			
F-Probability	0.254184			
DW	2.124430			

Source: Computed by the authors from result of estimated short-run equation for model II

4.4   Interpretation of Results of Model II

From the co-integration test as shown in table 4.5, it implies that long-run relationship exist between GDP and manufacturing sector FDI in Nigeria. Thus, we interpreted the short-run regression results associated with the long-run relationship as given in table 4.6. The empirical result presented above shows that a percentage increase in the foreign direct investment (FDI) will lead to a 0.005 per cent decrease in the dependent variable GDP (aggregate output). This implies that an increase in foreign direct investment decreases the level of output (GDP) in both the short-run and long-run periods. This is contrary to the expectations of a positive relationship, though there is a significant impact in the long-run. In other words, foreign direct investment has a negative relationship with Nigerian aggregate output in the short and long-run periods.

In exchange rate (EXR), a unit increase in exchange rate will lead to an infinitesimal decrease in output (GDP). This implies that increase in exchange rate, decreases the level of aggregate output (GDP) in the economy through foreign direct investment in the short-run and but has a positive influence in the long-run period. Exchange rate exhibited a negative relationship with aggregate output (GDP) in the short-run. This also conforms to theoretical postulations.

In the degree of trade openness (DOPN), a unit increase in degree of trade openness will lead to 0.058% increase in output (GDP). This implies that the rate of degree of trade openness increases the level of growth in manufacturing output (MANFQ) in Nigeria. The level of trade openness has a positive relationship with the manufacturing sector growth. This is also not a surprise, as the economy has benefited much from trade openness.

In Domestic Investment (DINVT), a unit increase in the domestic investments will lead to 0.61% percentage increase in output (GDP) in both the short-run and long-run periods. This implies that the level of domestic investments increases the level of output growth in Nigeria by 0.61 per cent in the short-run. This is expected and conforms to a priori expectations.

Also, the error correction coefficients at -0.183 is statistically insignificant, but with the correct sign and suggest a low speed of adjustment to equilibrium at 18.3% annually. The coefficient of multiple determinants (R-squared) is 0.183 implies that 18.3% of the total variations in the aggregate output are accounted for by all the explanatory variables in the regression model.

4.5   Discussion of Findings:

The stationarity test - The stationarity test revealed that all the variables are at first difference as shown in the tables. The cointegration test showed that there is evidence of cointegration between the variables in the first and second models.

The model for the first objective - The results show that the FDI and domestic investment exert significant impact on manufactuing sector output in Nigeria in the long-run. This findings is in conformity with existing literature. As a result, the first objective of the study was achieved from these findings, indicating that FDI has a significant impact on the manufacturing sector output in a country. This implies that the country should embrace more policies that will attract manufacturing FDI in the country, as they will boost the manufacturing sector output.

The model for the second objective - The results show that manufacturing sector induced FDI and domestic investment exert significant impact on the aggregate output in Nigeria in the long-run. Although FDI has a negative sign, the reason could be due to dominance of the oil sector in the inflow of capital in Nigeria. This findings is also in conformity with existing literature. As a result, the second objective of the study was achieved from these findings, indicating that FDI has a significant impact on the aggegate output in a country. Thus, the policy implication is that the economy should diversify the foreign private capital inflow into the economy, as this will lead to higher growth of the aggregate output.

4.6   Econometric Test (Second Order Criteria)

The research study only reported the short-run period results due to the presence of co-integration. The following batteries of econometric test were found necessary and vital to this research with normality test, which was employed in this study in order to ascertain if the error term of the regression model follow a normal distribution or not. The result is stated below:

Since x^2 computed =5.99 is greater than the x^2 tabulated = 2.43-JarqueBera value, we therefore conclude that the error term is normally distributed.

Autocorrelation Test

In our study, the Durbin Watson (DW) value for model I is 2.20 and that of model I is 2.124.   dl=1.143 and du=1.739; while DW =1.75

Since du <d<4-d =1.73<1.75<2.25 then we do not reject H_0 of No autocorrelation, both positive and negative.

Model Specification (Ramsey Reset) Test

Table 4.8   Model Specification Results for model I

VARIABLES	F-STATISTIC	P-value (5%)	ASSESSMENT
Dependent variable	9.797	0.0037	Model well specified

Source: Computed by the authors from result of model specification for model I

Table 4.9 Model Specification Results for model II

VARIABLES	F-STATISTIC	P-value (5%)	ASSESSMENT
Dependent variable	4.135	0.0084	Model well specified

Computed by the authors from result of model specification for model II

From the empirical result above, since the p-value for model II is significant we reject the null hypothesis (H_0) of model not well specified and accept the alternative (H_1) of model well specified. This implies that model I is well specified having passed through the criteria for model specification. Also model II is well specified having passed through the criteria for model specification.

Heteroscedastity Test

The model is specified as:

μ_1 = B$_0$ + B$_1$ LOG (FDI) + B$_2$(EXR) + B$_3$(DOPN) + B$_4$(DINVT) + B$_5$(LOG(FDI)^2 + B$_6$(EXR)^2 + B$_7$(DOPN)^2 + B$_8$(DINVT)^2 + B$_9$((LOG(FDI) (EXR) (INT) (DOPN) (DPC)   + V$_t$.

Table 4.11   White Heteroscedasticity Test for model I

VARIABLE	F-STATISTIC	P-Value	ASSESSMENT
Dependent variable	1.078	0.4103	Homoscedasticity

Source: Computed by the authors from result of White Heteroscedasticity test for model I

Table 4.12   White Heteroscedasticity Test for model II

VARIABLE	F-STATISTIC	P-Value	ASSESSMENT
Dependent variable	0.134257	0.998960	Homoscedasticity

Source: Computed by the authors from result of White Heteroscedasticity test for model II

From the empirical results above, since the F-Computed (F*) is less than the tabulated F-value, we accept the null hypothesis (H$_0$) of equal variance (Homoscedasticity) and conclude that there is equal and constant variance of the error term in the regression model. Therefore, we conclude that the error term of the estimated parameters of the model has an equal variance (Homoscedasticity).

5.0 Conclusion

Many studies provide evidence of the existence of Foreign Direct Investment (FDI) effects on the economy, suggesting that Foreign Direct Investment (FDI) can act as a vehicle through which new ideas, technologies, and working practices can be transferred to domestic firms through the manufacturing sector. However, some case studies and empirical research find little evidence of an economic growth arising from FDI inflow. This mixed empirical evidence suggests that Foreign Direct Investment (FDI) benefits cannot be taken for granted, but rather, research needs to identify conditions under which Foreign Direct Investment (FDI) can actually affects economic growth in Nigeria.

Consequently, this research works used rigorous analysis to prove that the FDI have a significant bearing on the magnitude of manufacturing sector growth in Nigeria. It is on this basis that this study recommends to Nigerian government a policy approach that is designed not only to attract better technological resources induced Foreign Direct Investment (FDI) but also to promote innovative and entrepreneurial drive among the technologically active firms in Nigeria manufacturing sector. The recommended framework basically involve creating favourable condition for knowledge exchange, promoting selected technologies & products, supporting technological capabilities of active indigenous firms, and improvement of technical education of potential workforce through Foreign Direct Investment (FDI).Foreign Direct Investment (investment in real sector) augments domestic resources which enhances domestic investment of any economy, thus enhancing economic growth and development of the country. With current increased in-flow of foreign capital, Sub-Sahara African (SSA)

countries including Nigeria are still characterized by low per-capita income, high unemployment rates and falling growth rates of GDP but yet the contributions of Foreign Direct Investment (FDI) cannot be overlooked upon. This has stimulated a lot of arguments in the literature. This study therefore examined the contributions of foreign direct investments to the growth of manufacturing sector in Nigerian Economy.

Based on the above, it can be deduced that though the experience of other developing countries gives contradicting reports on the contributions of Foreign Direct Investment, the Nigerian case is a bit different in that Foreign Direct Investment has a positive significant effect on GDP growth through the Nigerian manufacturing sector output growth. By implication issues on Foreign Direct Investment should not be ignored in policy, a decision which is aimed at promoting the economic development of Nigeria and enhancing manufacturing sector output growth. Consequently, steps to attract more Foreign Direct Investment should be undertaken by the Nigerian government as one of the ways of boosting the Nigerian economy hence revitalizing the manufacturing sector. The research findings reveals that there exist a positive relationship between FDI and manufacturing sector growth implying that more efforts should be geared towards encouraging the inflow of FDI in Nigeria.

The relative progress of the inflow of FDI has been attributed to the country's constant international policy reviews. For instance, from empirical results of our study, it was observed that effective macroeconomic policies such as degree of trade openness and exchange rate policy could greatly influence its level of manufacturing sector growth.

5.2   Recommendations

The following recommendations are proffered to help tackle the problems and challenges that were captured in this study, which militate against the contributions of foreign direct investment to the growth of the manufacturing sector in Nigeria. Although few laudable achievements have been recorded for the Nigerian manufacturing sector growth through FDI inflows, therefore, many areas need to be fine-tuned in order to make the policies and programmes more meaningful to the needs of the benefiting sectors by:

- **Creating favourable condition for Knowledge exchange**
  Nigeria's Ministry of trade, investment and commerce should facilitate coordination among R&D programs by bringing together firms that work in similar areas for better monitoring and evaluation systems focused on selected manufacturing technologies and products. Indigenous firms targeted as active should be supported to acquire vital technology through technology licensing, technology transfer agreement, reverse engineering and adaptation to build their own capabilities.

- **Support technological capabilities of Indigenous firms**
  Investments policies should seek to promote technology-based partnerships between foreign and local enterprises with the view of developing Nigeria as one of global outsourcing and subcontracting base. Alongside, government should sustain the

current promotion of entrepreneurship development programs in the university system for goal directed promotion of business ideas and entrepreneurial skills.

- **Intensively support Research and Development (R&D)**

  Government should restructure public R&D institutes and laboratories to become more demand-driven and services oriented, and also make the resource allocation more performance driven. R&D agencies and centers should be encouraged to acquire international accreditation for granting product certification. They should also be encouraged towards effective technological extension services in order to help Nigerian indigenous firms improve their manufacturing and design capabilities. Government can also subsidize R&D activities of the indigenous firms because of their weakness in such area.

- **Improve technical education base to attract the inflow of FDI**

  Orientation of interest for existing higher technical education towards core engineering profession through the review of outdated curriculum, new curriculum should adopt interdisciplinary approach by increasing the interest of industrial application. Active firms should strive to attract and retain the best engineering potentials.

Nevertheless, it is believed that these recommendations if implemented effectively will go a long way in establishing a good channel through which Foreign Direct Investment will contribute to the growth of the manufacturing sector which could be sustained to enhance the growth of Nigerian economy.

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