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   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

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THE EFFECT OF FDI INFLOWS ON NIGERIA'S BALANCE OF PAYMENT FOR THE PERIOD 1980-2009

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ABSTRACT

This research study deals with the effect of Foreign Direct Investment inflows on Nigerian's Balance of payment over the period 1980-2009.It helped examined empirically if Foreign Direct Investment inflows have any effect on the nation's BOP. Econometric model was developed to investigate the relationships between the BOP and foreign direct investment. Based on the data analysis it was discovered that foreign direct investments have positive and significant impact on current account balance in the Balance of payment. While Gross fixed capital formation is inelastic to Balance on current account. Therefore it is recommended that for Nigeria to attract the desired level of FDI, and have improved Balance of payment position, it must introduce sound economic policies and make the country investor friendly. Also its economy must be open to foreign trade, there must be political stability, sound economic management and well developed infrastructure.

KEYWORDS
Foreign direct investment, gross fixed capital formation, government expenditure, Nigeria, BOP.

INTRODUCTION
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 not nationality (World Bank, 1996) as cited by Adebgite and Ayadi (2010). Given the Nigerian economy resource base, the country's foreign investment policy should move towards attracting and encouraging more inflow of foreign capital. The need for foreign direct investment (FDI) is born out of the under developed nature of the country's economy that essentially hindered the pace of her economic development. Generally, policy strategies of the Nigerian government towards foreign investments are shaped by two principal objectives of the desire for economic independence and the demand for economic development.

An analysis of foreign flow into the country so far have revealed that only a limited number of multinationals or their subsidiaries have made Foreign Direct Investment in the country. Added to this problem of insufficient inflow of FDI is the inability to retain the Foreign Direct Investment which has already come into the country. Also what effect have foreign direct investment have on such variables as- Gross Domestic Product (GDP) and Balance of Payment(BOP).Moreover, Carkovic and Levine (2002) in their study concluded that exogenous component of FDI does not exert a robust positive influence on economic growth.

The hypothesis to be tested in this study is stated below:

$H_{O.}$ FDI does not contribute to Nigeria's Balance of Payment (BOP).

$H_{1.}$ FDI contribute to Nigeria's Balance of Payment (BOP).

This paper is divided into five parts. Part one above is the introduction. Part two reviews the relevant literature, part three discusses the methodology employed in this study, and part four is data presentation and analysis while part five discusses the findings and recommendation.

This study will evaluate the effect of FDI inflows on Nigeria's Balance of payment. The period 1980-2009 will be investigated in the study. Only FDI, Government Expenditure and Gross Capital formation will be used as the explanatory variables. While the balance on Balance of payment current account will be used as the dependent variable.

LITERATURE REVIEW
The balance of payments is obviously affected by FDI in a variety of ways. Letto-Gillies (1992) assert that there are the direct effects of capital outflows and inflows destined to finance the outward and inward FDI. However, outward FDI does not necessarily involve outflow of funds from the home country, since there are other ways of funding direct investment, such as borrowing on international markets and using profits from such subsidiaries. Other direct effects are connected with the outflow and inflow of profits and dividend related respectively to past inward and outward FDI. For countries with long traditions of FDI these income are extreme of the spectrum. The net inflows of income from capital invested abroad have in many years outstripped the inflows of new inward FDI. Magdoff (1992) illustrates this with reference to United States investment during the period 1950-65. The outward investment in Latin America was US $3.8b while the related income flowing from Latin America to the USA in the same period was $11.3billion. This net inflow of funds was achieved in spite of the growing amount of foreign asset being acquired.

However, the balance of payments effects can have profound effects on the real sector of the economy that is not always beneficial. Rowthorn and Wells (1987) as cited by Alderson (1997) refer to such effects in relation to net income from foreign investment as the wealth trap. The manipulation of transfer prices also has effects on the balance of payment accounts. Indeed, very often the manipulation of transfer prices is motivated by the desire to take advantage of actual or expected changes in exchange rates or by the wish to transfer profits where legal impediments exist to such transfers (Letto-Gillies, 1992).

Foreign direct investment improves the balance of payments and current account substantially if it is directed towards the production for exports or import replacement (Hess and Ross, 1991). The government budget balance can also improve through high tax revenue from corporate profits, salaries of employees, and daily tax on finished goods and services. According to Adegbite and Ayadi (2010) FDI helps fill the domestic revenue-generation gap in a developing economy, given that most developing countries' governments do not seem to be able to generate sufficient revenue to meet their expenditure needs. Other benefits are in the form of externalities and the adoption of foreign technology. Externalities here can be in the form of licencing, imitation, employee training and the introduction of new processes by the foreign firms (Alfaro, Chanda, Kalemli- Ozean and Sayek 2006).

Foreign direct investment consists of external resources including technology, managerial and marketing expertise and capital. All these generate a considerable impact on host nation's productive capabilities. The success of government policies of stimulating the productive base of the economy depend largely on her ability to control adequate amount of FDI comprising of managerial, capital and technological resources to boast the existing production capacity. Although the Nigerian government has being trying to provide conducive investment climate for foreign investment, the inflow of foreign investments into the country have not been encouraging. The economic impact of FDI on the level of economic activity has been widely investigated in recent years across different countries. See (Jenkins and Thomas 2002; Adelegan 2000, Akinlo 2006, Johnson 2006 e.t.c.).Although FDI has a positive impact on economic growth but the magnitude of the effect depends on the availability of complementary resources, especially on the domestic stock of human capital.

The inflow of FDI plays an important role in determining the surplus/deficit in the capital and current account of the BOP statement. The initial impact of an inflow of FDI on any nation's BOP is positive but the medium term effect could become either positive or negative as the investors increase their imports of intermediate goods and services, and begin to repatriate their profit.

According to Hossain (2008) Empirical research in several countries suggests that the initial inflow of FDI tends to increase the host country's imports. One reason for this is that primarily FDI companies have high propensities to import capital and intermediate goods and services that are not readily available in the

host country. However, if FDI is concentrated in import substituting industries, then it is expected to affect imports negatively because the goods that were imported earlier would now be produced in the host country by foreign investors.

In addition Hossain (2008) show that FDI contributes positively to increasing imports and exports and can either improve or deteriorate the country's trade balance depending on the relative magnitude of the two forces. However, with a. positive effect of FDI inflows on the financial account, it is more likely that the first round effect of FDI is positive on the Balance of payment (BOP) of Bangladesh which he studied.

METHODOLOGY

MODEL SPECIFICATION

This study is based on the assumption that the inflow of FDI affects Nigeria's Balance of Payment (BOP). In other-words, BOP is dependent on FDI, hence the model:

BCA = f (FDI) (1)

Where:

BCA = Current Account Balance

FDI = inflow of Foreign Direct Investment

Considering the fact that the BOP of an economy is not determined by FDI alone, the inclusion of two more growth determining variables is made so as to get a more realistic model: Hence, equation (1) is extended thus:

BCA = f (FDI, GOV, GCF) (2)

Where:

GOV = Government expenditure

GCF = Gross fixed capital formation.

Equation (2) show that BCA is dependent on FDI, GOV and GCF.

The statistical form of the model is thus:

$BCA = \alpha_o + \alpha_I FDI - \alpha_2 GOV + \alpha_3 GCF + e$ (3)

Where:

α_0 = the intercept for equations (1)

α_I = the parameter estimate of FDI.

α_2 = the parameter estimate of GOV.

α_3 = the parameter estimate of GCF.

e = the random variable or error term.

TECHNIQUES TO ADOPT IN THE ANALYSIS OF DATA

Scientific or empirical research can be carried out by four possible alternative methods, namely, the comparative method, the econometric method, the experimental method, and the case history method. The nature of the problem under investigation and the objectives of the research will determine which of these alternatives will be adopted. They may be adopted singly or in combination.

The econometric method is the approach employed for the research. There is no doubt that the method will facilitate the model specification, parameter estimation and appropriate econometric tests.

SOURCES OF DATA FOR THE STUDY

Annual time-series data on the variables under study covering thirty year period 1980-2009 are used in this study for estimation of functions. Foreign Direct Investment inflow (FDI), Government Expenditure (GE) and Gross fixed Capital Formation (GCF) are the relevant explanatory variables. Equally, the Balance on Current Account is the dependent variable. The Balance on Current Account was used to measure Balance of payment (BOP).

Data were collected from various editions of the various issues of Central Bank of Nigeria Economic and Financial Review.

DATA ANALYSIS AND RESULT PRESENTATION

PRESENTATION OF RESULTS

This part focuses on the analysis of, and interpretation of the results generated from the regression analyses. It helped in providing the set of data used a practical meaning, the result, serving as a yard-stick/benchmark for the measurements of the various impacts which the different variables have on BOP of the country. The regression analysis and test of hypothesis are conducted at 5% significance level. After running the relevant regressions, the following results were obtained and are presented below:

ESTIMATED RESULTS

MODEL

BCA	=	$\alpha_o + \alpha_I FDI - \alpha_2 GOV + \alpha_3 GCF + e$			
BCA	=	-1.3500	+ 7.0662FDI	+ -0.49248GOV.	+ 0.42403GFC
S.E.	=	(1.1447)	(21.5046)	(0.35404)	(0.29101)
t	=	-1.179	4.696	-1.391	1.457
R^2	=	0.919443	F-Statistic = 98.917		D.W. = 1.72

N.B: The regression result is presented in Appendix 1. Note: Numbers in parenthesis are t-values.

"SE" is the Standard Error of the Estimates. "FS" is the ratio used in the statistical test of significance. "DW" is the Durbin-Watson statistic used in the test of auto correlation.

INTERPRETATION OF THE MODEL

From the regressions result of model, the R-squared (R^2) value of 0.919443 shows that at 91.94% the explanatory variables explain changes in the dependent variable. This means that at 91.94% the independent variables explain changes on Current Account Balance (BCA). This simply means that the explanatory variables explain the behaviour of the dependent variable at 91.94%. The calculated F-statistics of 98.917 which is greater than the value in the F-table (2.9751) implies that all the variables' coefficients in the regression result are all statistically significant.

The Durbin-Watson (DW) as shown in the regression analysis is 1.72 which shows that there is the presence of autocorrelation.

The above model tested the effect of three different variables namely – Foreign Direct Investment (FDI), Government Expenditure (GOV) and Gross fixed Capital Formation (GCF) on Current account Balance (BCA). In order to obtain the regression result, the OLS technique with the help of the PC Give software was used.

The result obtained from the regression shows that there is positive and significant impact of Foreign Direct Investment (FDI) on Current Account Balance (BCA) with a coefficient of 7.0662. This coefficient is statistically significant as revealed by its corresponding standard error and t-values. Hence, FDI is elastic to BCA. This positivity in the coefficient of Foreign Direct Investment is in conformity to the economic a priori expectation of a positive impact of Foreign Direct Investment on Current Account Balance of the nation.

Also, the regression result shows that the Government Expenditure has a negative impact on BCA with a coefficient of -0.49248. The standard error and t-values showed that this parameter is not statistically significant. Thus, the Government Expenditure is inelastic to Current Account Balance. This negativity of the coefficient of GOV conforms to the economic a priori expectation of a negative impact of Government Expenditure on BCA.

Furthermore, the result obtained from the regression shows that Gross Fixed Capital Formation has a positive impact on BCA. This is indicated in its positive coefficient of 0.42403. However, this coefficient is revealed not to be statistically significant by the standard error and t-values. Thus, from this it implies that Gross fixed Capital Formation is inelastic to Balance on Current Account (BCA). The coefficient of Gross fixed Capital Formation being positive conforms to the economic a priori expectation of a positive impact of GCF on Balance of Payment vis-à-vis Balance on Current Account (BCA).

TEST OF HYPOTHESES

This section of study implies testing the significance of the numerical values of the parameter estimates of the OLS regression. It is needed to examine the relationship between the data collected and the stated hypothesis. Here, the t-statistics and values are required.

HYPOTHESIS

Recall: Ho: $\alpha_1 = 0$: There is no significant relationship between BCA and FDI

H_1: $\alpha_1 \neq 0$: There is significant relationship between BCA and FDI

Decision: Accept H_0 if $t_{0.05} > t_{Statistics}$ and

Reject H_o and accept H_1 if $t_{0.05} < t_{Statistics}$

Where $t_{0.05} = 1.703$, and

$t_{Statistics} = 4.696$

$1.703 < 4.696$

Therefore, we reject H_0 implying that the inflow of Foreign Direct Investment into the Nigerian economy within the period of 1980 - 2009 was significant to Balance of Payment through Current Account Balance of the country.

DISCUSSION OF FINDINGS

The OLS regression analysis is carried out to determine the impact of FDI, Government expenditure and Gross fixed Capital Formation on Balance of Payment through Balance on Current Account (BCA), . Hence, BCA is regressed on FDI, GOV and GCF. Though the impact of FDI is of primary concern here, the other two economic variables were included to serve as "control variables" to check the overstating of the estimated coefficient of FDI.

The results of the findings show that FDI has positive and significant impact on BOP through current account balance during the period of analysis (1980-2009).

In addition Gross fixed capital formation is inelastic to Balance on current account.

CONCLUSION

In conclusion after the OLS regression analysis had been carried out and with the study about the effect of FDI on BOP, it is seen that the Governments direct involvement in the provision of goods and services by establishing and controlling corporations, for example, has contributed little to economic growth in Nigeria. This justifies the privatization policy of the various administrations in our government to allow for the possible takeover by investors (both foreign and domestic) of the government corporations.

Foreign direct investment (FDI) has contributed significantly to Balance of Payment (BOP) through the nation's current account balance. Thus it is clear that FDI can be used as an effective measure of correcting balance of payment disequilibrium in our economy.

RECOMMENDATIONS

The most significant factors that make Nigeria a good host for FDI are her abundance in natural resources and large population, indicating a large market.

The outcome of this study shows that though FDI was not found to have significantly contributed to the nation's economic growth, if well harnessed it can contribute to economic growth in Nigeria. To increase the inflow of FDI and its performance, the following recommendations from this study are enunciated:

Policy measures should be put in place to encourage improved inflow of foreign direct investment to Nigeria. This is expected to result in Nigeria's exports competitiveness, thereby leading to increased exports and investment, which will further increase the foreign exchange earnings, the Balance of payment position and improve the Gross domestic product (GDP) of the nation.

The country should be more open to foreign trade. Balasubramanyam et al (1996) showed that most economies benefit best from FDI when they are open to foreign trade. Hence, the Nigerian government should reduce the bureaucratic bottlenecks in foreign trade especially the one constituted by the customs and port authorities.

Every effort should be used to improve the level of education in the nation. Broensztein et al (1998) proved that there is a high positive relationship between FDI and the level of educational standard in the host economy. Based on this, the country's education should be in favour of management, science and technology which would provide the economy with the required skills that FDI require.

Competitiveness should be encouraged, and as a result, the existing and 'yet-to-exist' export processing and free trade zones should be equipped with state-of-the-art infrastructures and technologies.

The infrastructures in the country need to be improved to reduce the cost of doing business in Nigeria. For example, electricity should be provided at an uninterrupted level to reduce the extra cost that investors incur in the procurement of power generating sets coupled with the health hazards associated with its use, especially the fumes it generates to the environment.

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APPENDIX

REGRESSION RESULT

---- PcGive 8.00, copy for meuller ----
---- session started at 13:39:56 on 24th December 2010 ----
Data loaded from: alexpr~1.wks
EQ(1) Modelling BCA by OLS
The present sample is: 1 to 30

Variable	Coefficient	Std.Error	t-value	t-prob	PartR2
Constant	-1.3500e+005	1.1447e+005	-1.179	0.2489	0.0508
FDI	7.0662	1.5046	4.696	0.0001	0.4590
GOV._EXP.	-0.49248	0.35404	-1.391	0.1760	0.0693
GFC	0.42403	0.29101	1.457	0.1571	0.0755

R2 = 0.919443 F(3, 26) = 98.917 [0.0000] s = 472972 DW = 1.72
RSS = 5.816258697e+012 for 4 variables and 30 observations

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