FDI, REMITTANCE INFLOWS, AND ECONOMIC DEVELOPMENT IN A DEVELOPING ECONOMY: WHAT DO NIGERIAN DATA SHOW?

ANTHONY ORJI

Department of Economics, University of Nigeria, Nsukka;
Email: anthony.orji@unn.edu.ng

JONATHAN E. OGBUABOR

Department of Economics, University of Nigeria, Nsukka;
Email: jonathan.ogbuabor@unn.edu.ng

EMMANUEL NWOSU

Department of Economics, University of Nigeria, Nsukka;
Email: Emmanuel.nwosu@unn.edu.ng

ONYINYE I. ANTHONY-ORJI

Department of Economics, University of Nigeria, Nsukka;
Email: onyinye.anthony-orji@unn.edu.ng* (Correspondence Email)

ADAOBI J. OKPALA

Department of Economics, University of Nigeria, Nsukka;
Email: adaobijudithokpala@gmail.com

Abstract

This study investigated the impact of remittance inflows and Foreign Direct Investment on economic development in Nigeria. The Phillip-Perron unit root test indicated that all the series except domestic investment were stationary at first difference. With the combination of orders of integration 1 and 0, the Autoregressive and Distributed Lag (ARDL) Model was adopted. The results revealed there is a long relationship existing amongst the variables and that Remittance inflow, Gross Fixed Capital Formation, Private Investment and Exchange Rate are significant determinants of economic development. Of these variables, Remittance inflow and Exchange rate were found to negatively influence economic development in the long run while others were positive. A Vector Autoregressive (VAR) model was also used to examine the response to shocks of Income per capita to Remittances and FDI respectively and it was found that Income per capita responds to shocks from both variables. The study recommends there is need for serious policy interventions from government to make foreign direct investment and remittances more development enhancing and not retarding.

Keywords: FDI; Remittances; Economic; Development.
JEL Classification: E22; F21; F24; O11; O15.

1. INTRODUCTION

Globalization is generally regarded as a process through which countries get connected to achieve certain economic, political or technological goals. When countries of the world are interconnected in one or two ways to carry out any economic activity, transfer of capital in the form of inflows and outflows becomes inevitable. Globally, the process of development has been a watchword for every economy, and since no economy is self-sufficient people migrate round the world to acquire skills, knowledge, ideas and wealth to add to their already existing wealth in order to facilitate the process of development.

Foreign direct investment and remittance inflows came about as a result of international migration of human and non- human resources (Comes et al, 2018). Over the past three decades, there has been series of capital inflows to developing countries, including Nigeria. These inflows can be in the form of remittance, foreign direct investment, official development assistance etc. It is generally believed by development economist (like David Ricardo) that these flows towards the developing countries, even though may be concessional, but should not be avoided. Remittance reduces poverty in developing countries through the incomes it supplies to household (MPI 2008) .Many researchers and scholars such as Rosenzweig (2005) and Ratha (2003) have written from different discipline, for and against the developmental impact of migration on both source and host countries. This debate has created two major opposing schools of thought –migration optimist and pessimist, but having gone through some works that studied the impact of remittance and FDI on socio-economic development of some developing countries of the world, such as Bangladesh, Mexico and Philippines, it is evident that remittance and FDI contributed immensely to the development of these countries. China being one of the fastest growing economies of the world, their testimonies still emanates from FDI in their economy. The above mentioned countries adopted some utilization technique that made the effect of FDI and remittance manifest in their economy, some of these manifestations include increase in employment, favourable income per capita, good health care, high literacy rate, and high life expectancy and so on.

Furthermore, the economic environment of an economy is of great influence to the benefit which accrues from remittances, (Migration Policy Institutes, 2008).The perceived benefits which accompany foreign direct investments seems greater than its demerits, this sole reason has compelled the less developed nation like Nigeria to encourage foreign direct investments through income tax holidays, import duties exemption and subsidies to foreign firm. Developing countries are encouraged to embrace foreign direct investment as a source of its external finance, and is seen as a pathway to inclusive growth and development in an economy. The poor state of the Nigeria economy has compelled the government to wake up and device means of improving lifestyles through foreign direct investment into the country. Ajayi (2006) noted that the required capital for investment, which is capable of alleviating poverty in Nigeria is very low, and this impedes its growth and development.