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Manufacturing Output and Foreign Direct Investment in Nigeria: A New Evidence

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ABSTRACT
The study examined the impact of foreign direct investment on the Nigerian manufacturing sector over the period of 1970 to 2010. In evaluating the objectives, the study employed the classical linear regression model and discovered that within the period under review, FDI impacted negatively on the manufacturing sector. Although the paper found FDI to be negatively related to manufacturing output in Nigeria, this unhealthy relationship can be reversed if the country receives increased FDI inflows into critical sectors that support the necessary inputs and raw materials needed by the local industries. The study therefore recommends that competitive policies should be enacted by the government that will ensure proper functioning of the markets necessary to attract well targeted foreign investors in Nigeria. Also, foreign companies that kill local productive and manufacturing efforts should not be allowed to operate in Nigeria's local business environment.
Key Words: FDI, MANUFACTURING SECTOR, OUTPUT, NIGERIA, EVIDENCE
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1. Introduction

During the past two decades, foreign direct investment (FDI) has become increasingly important in the developing world, with a growing number of developing countries succeeding

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in attracting substantial and rising amounts of inward FDI. Economic theory has identified a number of channels through which FDI inflows may be beneficial to the host economy. Yet, the empirical literature has lagged behind and has had more trouble identifying these advantages in practice. Most prominently, a large number of applied papers have looked at the FDI-GDP growth nexus, but their results have been far from conclusive. Notwithstanding this absence of any robust conclusions, and somewhat surprisingly, most countries continue to vigorously pursue policies aimed at encouraging more FDI inflows.

Through FDI, foreign investors benefit from utilizing their assets and resources efficiently, while FDI recipients benefit from acquiring technologies and from getting involved in international production and trade networks. However, FDI provides much needed resources to developing countries such as capital, technology, managerial skills, entrepreneurial ability, brands, and access to markets. These are essential for developing countries to industrialize, develop, and create jobs attacking the poverty situation in their countries. As a result, most developing countries recognize the potential value of FDI and have liberalized their investment regimes and engaged in investment promotion activities to attract various countries.

The success stories of India and China's economic development has highlighted the benefits that accrue to a country that optimally utilizes every strategy that will attract and gain value from foreign investment. While it has been echoed from many quarters that Nigerian has the largest economy in sub-Saharan because of its rich human and natural resources, it (Nigeria) has been considered one of the 20 poorest countries of the world; about 70% of her population live below poverty line and with an investment rate of barely 10% of her GDP, thus is below the minimum investment rate of about 30% of GDP required to reduce poverty (World Bank 2011).

The impact of FDI on development of Recipient Country has been at the core of macroeconomic as well as development literature over the past two decades. Apart from its contribution to manufacturing output through technological transfer and human capital development, it has other spillover effects. The Neo- liberal economists argued that international capital flows alleviate the financial constraints of less developed economies by providing access to the superior managerial techniques and business practices (Anyanwu, 1999 and Oilson 2007). It is therefore evident that Foreign Direct Investment is one of the basic requirements necessary for achieving greater manufacturing output in developing economies.

Nigeria as one of the economies with great demand for goods and services and has attracted some FDI over the years. The Foreign direct investment; net inflows (% of GDP) in Nigeria was reported at 3.07 in 2010, according to a World Bank report published in 2012. Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. Figure 1 below shows net inflows (new investment inflows less disinvestment) in Nigeria from foreign investors, and is divided by GDP.