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Foreign Private Investment and the Developing Economies: Evidence from Nigeria

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Abstract
This study is on foreign private investment and the developing economies. The study seeks to test the hypothesis that foreign private investment (FDI and FPI) has no impact on Nigeria economy within the periods under review. The secondary data which were obtained from the Central bank of Nigeria Statistical Bulletin (2010) were used. The data was collected for a period of forty years (1970-2010). The sophisticated econometric tools of the vector auto-regressions (VAR), Johansen Co-integration, and Granger causality tests were employed in the analysis of the data. It was found that both FDI and FPI were positive at short-run though statistical insignificant with economic growth in Nigeria. While on long-run there existed a positive significant relationship between FDI, FPI and economic growth in Nigeria. This implies that a continuous increase in both FDI and FPI will propel economic growth of Nigeria. The study recommended that efforts to attract more foreign private investment should be undertaken by the Nigeria government as one of the way of boosting the Nigeria economy.
Keywords: FDI, FPI, VAR, Johansen Co-integration, Nigeria

1. Introduction

Foreign private investment (FPI) is made up of Foreign Direct Investment and Foreign Portfolio Investment, Foreign Direct Investment is often preferred as a means of growing the economy. This is because FDI disseminates advanced technological and entrepreneur managerial practices through the host country and thereby exhibits greater positive externalities compared with Foreign portfolio investment which may not involve positive transfers, just being a change in ownership. Nigeria is one of the few countries that have benefited from the foreign inflow to Africa. Nigeria's share of this investment inflow to Africa averaged around 10%, from 24.19% in 1990 to a low level of 5.88% in 2001 up to 11.65% in 2002 (CBN, 2004). The nominal FPI inflow ranged from #128.6 million in 1970 to #434.1 million in 1985 and #115.952 billion in 2000. This was an increase in real terms from the decline of the 1980s.In 2005, Net Portfolio Investment (NPI) and Net Direct Investment (NDI) went up to #116,035.00 million and #654,193.10 million indicating a growth rate of 127.17 and 464.19 percent respectively, compared with the year 2000 figures. Furthermore, NPI and NDI grew by 202.43 and 22.69 per cent to #350, 919.40 million and #802, 615.70 million in 2008, respectively, as oppose to the figures gotten in year 2005. Foreign inflows form a small percentage of the nation's gross domestic product (GDP), however, making up 2.47% in 1970, 0.81% in 1980, 6.24% in 1989 and 3.93% in 2002. (CBN, 2006).

Despite the increased flow of foreign private investment to developing countries in particular, Sub-Sahara Africa countries are still characterized by low per capita income, high unemployment rates, low quality of education, poor health care and falling growth rates of GDP problems which foreign private investment are theoretically supposed to solve. Nigeria, being one of the top three countries that consistently received FPI in the last decade (Ayanwale 2007, Osinubi and Amaghionyeodiwe, 2010) is not exempted from the above condition. In Nigeria, domestic private investment has proven to be insufficient in giving the economy the required boost to enable her meet its growth target. This is connected with the observed mismatch between the country investment's needs or capital requirements and saving capacity.

The Nigerian Government is putting so much effort into attracting foreign investor and yet the economy is still dwindling. Thus, despite the inflow of both foreign portfolio and foreign direct investments the country still remained under the shackles of the above nominated economic conditions. Can it be concluded therefore that the inflow of foreign private investments have no significant positive effect on the Nigeria economy. This is an empirical question which previous studies have not fully answered. It is therefore the crux of this study to provide further evidence that would help to resolve the facts about the real impact of foreign private investment on the Nigeria economy.

2. Theoretical Framework and Empirical Review

A. Theoretical framework

The theoretical explanations of FPI largely stems from traditional theories of international trade that are based on the theory of comparative advantage that are usually attracted to a particular country by the comparative advantage that the country or region offers. For instance, multinational companies may establish foreign subsidiaries in one country to take advantage of its lower labour costs or its large market size. Thus, in their

basic form, traditional theories of international trade do offer some explanation of FPI. Nonetheless, the traditional trade theories do not provide hill answers as to why multinational companies prefer to operate in a foreign country rather engaging in exporting or licensing, which are alternatives to FPI this has led to the development of alternative explanations of FPI.

The portfolio investment (the neoclassical financial theory of portfolio flows), is one of the earliest explanations of FPI. The basis for this explanation lies in interest rate differentials between countries. According to this explanation, moves in response to changes in interest rate differentials between countries, regions and multinational companies which are simply viewed as arbitrageur of capital from countries where its return is low to countries where it is high. This explanation, however, fails to account for the cross movements of capital between and across countries. In practice, capital moves in both directions between countries. In addition, that capital is only a complementary factor in direct investment. This shortcoming contributed to the criticism of the neoclassical theory of portfolio investment (Harrison et al. 2000).

Vernon's product life cycle theory of 1966 is another explanation of FPI worthy of some discussion. This theory focuses on the role of innovation and economy of scale in determining trade patterns. It states that FPI is a stage in the life of a new product from its invention to maturity. A new product is first manufactured in the home country for the home market when the home market is saturated, the product is exported to other countries. At later stages, when the new product reaches maturity and loses its uniqueness, competition from similar rival products becomes more intense. At this stage, producers would then look for lower cost foreign locations. This theory shows how market seeking and cost reduction motives of companies lead to FPI. It also explains the behaviours of multinational companies and how they take advantage of different countries that are at different levels of development. Additionally, it has been noted that Vernon's theory perceives Foreign Direct Investment as a defensive strategy by firms to protect their existing market position. Amin (1976), following Vernon's theory, argues that there is follow the leader type of defensive FF1 especially in industries characterized by oligopoly. His argument relies on certainty and risk aversion behaviour of oligopolies. This theory suggests that firms go abroad because of oligopolistic reaction, which is "an interactive kind of corporate behaviour by which rivals in industries composed of a few large firms counter one another's moves by making similar moves themselves" (Caves 1971). However, this theory does not explain why FF1 is more efficient than exporting or licensing for expanding abroad. Caves (1971) pioneering study on multinational companies' draws attention to the role of multinational companies as global industrial organizations. Hymen's major contribution was to shift attention away from neoclassical financial theory. He argued that the need to exercise control over operation is the main motive for FPI than the mere flow of capital. Capital is to facilitate establishment of FPI rather than an end itself he stated that for firms to engage in cross-border activities, they must possess some kind of monopolistic advantages. The advantages result from a foreign company's ownership of patents, know-how, managerial skills and so on and these advantages are unavailable to local companies. His argument relied on the existence market imperfections, such as difficulty of marketing and pricing know-how, or in some cases markets may not exist for such product, or if they exist, they may involve huge transaction costs or time lags. In such cases, it would be more efficient for the company to engage in direct investment than exporting or licensing. FPI will allow the companies to control and exploit their monopoly power to the full. Hymer's argument led the way to the development of internationalization theory. The idea of internationalizing a market was first touched upon by Kaldor (1934), fully developed by DeMello (1997), and further discussed by Dunning (1981). A systematic attempt to incorporate this idea theory of Foreign Direct Investment was made by Buckley and Caves (1976). According to this theory, the firm internalizes their activities whenever there are inefficiencies in dealing with the external market and FPI would occur when this internalization involves operation across countries (Hanison et al. 2000).

B. Empirical Review

The contribution of Foreign Private Investment to the economy has been debated extensively over the years. These debate covers both the developed and developing economies. However, this study will focus on developing economies like Nigeria. For developing economies, findings have shown that they do not benefit as much from foreign investment and most times, face crowding out of their domestic investment due to the inflow of foreign capital. The extent of benefits derived from foreign private investment depends on the overall macro-economic stability and policy framework of these economies.

Edozien (1968) stresses the linkages generated by foreign investment and its impact on the economic growth of Nigeria, He contends that FDI induces the inflow of capital, technical know-how and managerial capacity which accelerate the pace of economic growth. He also observed the pains and uncertainties that come with FDI. Specifically, he noted that foreign investment could be counter productive if the linkages it spurs are neither needed nor affordable by the host country; and concluded that a good test of the impact of FDI on Nigerians economic growth is how rapidly and effectively it fosters, innovates or modernizes local enterprises.

Osaghale and Amenkhieman (1987) conducted an investigation to determine whether foreign capital

inflows, oil revenues and foreign borrowing had any positive impact on the economic growth of Nigeria. They found that Nigeria's revenue from oil export increased between 1970 and 1982 and that there was a substantial growth in her total foreign debts and FDI. The study also showed that there was a positive relationship between FDI and Gross Domestic Product (GDP). The study concluded that the economy would perform better with greater inflow of FDI; and recommended that less developed countries (LDCs) should create more conducive environments for FDI.

Todaro (1994) notes that the primary factors which stimulate economic growth are investments that improve the quality of existing physical and human resources, that increase the quantity of these same productive resources and that raise the productivity of all or specific resources through invention, innovation and technological progress. FDI contributes to GDP growth rates and is seen as a vital tool for economic progress.

Aremu (1997) submitted that Foreign Private Investment accelerate the pace of economic development of the LDCs up to a point where a satisfactory rate of growth can be achieved on a self- sustaining basis. He observe that the main responsibility of foreign private investment in LDCs is to raise the standard of living of its people so as to enable them move from economic stagnation to self-sustaining economic growth. He therefore concluded his study by recommending that foreign private investment should continue to rise till a certain level of income is reached in the undeveloped countries.

Ayashagba and Abachi (2002) carried empirical investigation on the effects of foreign direct investment on economic growth in Nigeria from 1980 to 1997. The result presented showed that foreign direct investment had significant impact on economic growth in Nigeria. They therefore concluded that the presence of foreign direct investment in the LDCs particularly in Nigeria is not totally useful.

Akinlo (2004) also investigated the impact of foreign direct investment (FDI) on economic growth in Nigeria, for the period 1970-2001. The ECM results showed that both private capital and lagged foreign capital have small, and not a statistically significant effect, on the economic growth. The results seem to support the argument that extractive FDI might not be growth enhancing as much as manufacturing FDI.

Obadan (2004) addressed the various issues associated with capital flows in both conceptual and empirical contexts. He posits that the desirability or otherwise of foreign capital depends on the use to which such capital is put. Foreign capital, if channelled into productive uses, as against consumption, can be highly desirable, as it will bring about the much needed economic growth and development.

Ayanwale and Bamire (2004) reported a positive and significant effect of FDI on firm's productivity of both domestic and foreign firms in the Nigerian Agro/agro allied sector.

Ajisafe, Nassar, Fatokun, Soile and Gidado, (2006) investigates the causal relationship between external debt and foreign private investment in Nigeria between 1970-2003. The result shows that the variables are not related in the long run using the likelihood ratio as a measure of significance. The result of the cointegration determines the use of vector autoregressive model to test for causality, which resulted in a bi-directional relationship between external debt and foreign private investment in Nigeria.

Ayanwale, (2007) investigated the empirical relationship between non-extractive FDI and economic growth in Nigeria and also examined the determinants of FDI inflows into the Nigeria economy. He used both single-equation and simultaneous equation models to examine the relationship. His results suggest that the determinants of FDI in Nigeria are market size, infrastructure development and stable macroeconomic policy. Openness to trade and human capital were found not to be FDI inducing. Also, he found a positive link between FDI and growth in Nigeria.

Udoh and Egwaikhide, (2008) examines the effect of exchange rate volatility and inflation uncertainty on foreign direct investment in Nigeria. The variables were estimated using the GARCH model. Estimation results indicated that exchange rate volatility and inflation uncertainty exerted significant negative effect on foreign direct investment during the period.

Okpe and Abu (2009) examines the effects of foreign private investment on poverty in Nigeria. Using regression analysis for the period 1975 to 2003, the test demonstrates that the inflow of foreign private investment and foreign loan into Nigeria significantly alleviate poverty. The study recommended that effort should be made to encourage the inflow of foreign resources such as foreign private investment.

Osinubi and Amaghionyeodiwe, (2010) analysed the direction and significance of the effect of foreign private investment on economic growth in Nigeria between the period 1970-2005. Among the findings was that foreign private investment, domestic investment growth and net export growth were positively related to economic growth in Nigeria. More so, the foreign private investment, domestic investment growth, net export growth and the lagged error term were statistically significant in explaining variations in Nigeria's economic growth.

Abu, Ekpebu and Okpe (2011) carried out a study to investigate the effects of FPI on agricultural production in Nigeria with the findings that the inflow of FPI to the Agricultural sector shows a strong positive relationship. Onu, (2012) investigates the impact of foreign direct investment (FDI) on economic growth in Nigeria within the period 1986-2007. The study found that FDI has the potential to positively impact upon the

economy though its contribution to GDP was very low within the period under review, and recommended on the need to maintain a steady economic growth and low inflation, increased investment in human capital development and increased national savings and investments among others.

Adeleke, S.O., (2000) focused at seeing the relevance of exchange rates on foreign private investment in Nigeria. It was discovered that exchange rate is the most important variable that affects private foreign investment in Nigeria of all other macroeconomic variables such as interest rates, inflation rate and gross domestic product in his study. Exchange rate was recommended to be more market responsive, inflation rate should be pursued to single digit and there should be more generous incentives for foreign direct investment in the country.

Abdullahi, Ladan and Bakari, (2012) studied the contemporaneous long-run dynamics of the impact of foreign private investment (FPI), interest rate (INR) and inflation rate (IFR) on economic growth in Nigeria for the period 1970-2009. The results indicates a uni-directional causality relationship between GDP and FDI at 5%, while the result of granger causality shows that some of the variables Granger cause one another. Umoh, Jacob and Chuku, (2012) empirically investigate the relationship between foreign direct investment and economic growth in Nigeria between 1970-2008. The results obtained show that FDI and economic growth are jointly determined in Nigeria and there is positive feedback from FDI to growth and from growth to FDI. Kalu and James, (2012) examines the determinants of private investment in Nigeria's manufacturing sector for 1970-2010. The study adopted the Vector Error Correction Model approach, estimated using the ordinary least square estimator. The results showed that manufacturing output significantly responded to the contemporaneous perturbation in the values of nominal exchange rate, policy lending rate and the corporate income tax.

Erhieyovwe and Jimoh, (2012) asserted that foreign direct investment is key driver of economic growth and development among developing and developed countries. In his study, the findings reveals that economic growth (GDP) does not granger cause foreign direct investment (FDI) in Nigeria. Onuorah and Akujuobi, (2013) examines the impact of macro-economic variables on foreign portfolio investments in Nigeria between the periods of 1980-2010. Co integrations results showed that macroeconomic variables were co integrated with foreign direct investment in Nigeria. The study revealed that among the identified macroeconomic variables, GDP and MS had inverse relationship with FPI while other macroeconomic variables were positively related to FPI. These variables are inversely related to FPI but interest rate, exchange rate and inflation rate were directly related to FPI. Granger causality results revealed that macroeconomic variables do not granger caused FPI. Macroeconomic variables were found to be statistically insignificant to FPI based on F-statistic computed value.

Okoli and Agu (2015), study assesses the impact of foreign direct investment flow on the performance of the manufacturing firms in Nigeria. Using manufacturing value added (MVA) for the performance of manufacturing firms, time series data was compiled from World Bank and Central Bank of Nigeria Statistical Bulletin spanning for a period of 40 years. The researcher used an OLS estimate with FDI modeled as a quadratic function to account for its turning point and the VECM to ascertain both the long run and the short run causalities running from the explanatory variables to dependent variable. The results obtained suggest the need for Government actions to be geared towards strategically maintaining and sustaining policies that will help encourage FDI inflows especially in the long run since a positive effect on the manufacturing value added was only feasible in the long run as well as promoting an efficient and enabling macroeconomic environment on which manufacturing firms can thrive.

3. Methodology

The study employed the econometric tool of the regression analysis model, which include regression analysis for testing the short run relationship between the variables, co-integration for testing the long run relationship between the variables, unit root and granger causality test. Before the estimation proper, we performed a stationarity (unit root) test to ascertain the stationarity of the data use for analysis. The data used for the study is basically secondary in nature. This data is obtained from the publications of the Central Bank of Nigeria Statistical Bulletin (2010). Data were collected on foreign direct investment (FDI), foreign portfolio investment (FPI) and gross domestic product (GDP)

Model Specification

Following Obwona (2001) as cited in Osinubi and Amaghionyeodiwe (2010), we present an impact assessment Model of Foreign Private Investment and Nigeria economy as follows:

$$GDP_t = f(FPI_t, FDI_t) \quad - - - - - - - - \quad (1)$$

Where:

GDP = Nigeria Gross Domestic Product
FDI = Foreign Direct Investment inflow to Nigeria
FPI = Foreign Portfolio Investment inflow to Nigeria Capital Market

Equation 1 can be represented explicitly as:

$$GDP_t = \beta_0 + \beta_1 FPI_t + \beta_2 FDI_t + U_t \quad - \quad - \quad - \quad - \quad - \quad (2)$$

Where: β_0= Constant term

β_1, β_2 = Slope coefficients

μ . = Disturbance term assumed to be purely random

On a priori expectation= $\beta_0>0$, $\beta_1>0$, $\beta_2>0$

The model above relates economic growth proxy by gross domestic product (GDP) to foreign private investment. The foreign private investment is captured by two variables- foreign direct investment (FDI) and foreign portfolio investment (FPI).

4. Empirical Results

Table 1: Unit Root Test

ADF							PHILIPS-PERRON					
LEVEL				DIFFERENCE			LEVEL			DIFFERENCE		
VARIABLE	COEFF	S.E	ADF STAT	COEFF	S.E	ADF STAT	COEFF	S.E	PP STAT	COEFF	S.E	PP STAT
GDP	-1.153	0.248	-4.65***4	-2.005	0.280	-7.162***	-1.071	0.164	-6.517***	-1.502	0.144	-10.418***
FDI	-0.503	0.218	-2.308*	-2.230	0.296	-7.776***	-1.002	0.172	-5.827***	-1.684	0.123	-13.694***
FPI	-0.533	0.201	-2.656	-2.117	0.315	-6.718***	-1.600	0.134	-11.972***	-1.601	0.132	-11.97***

Source: E-view 7.0 software

*, **, *** statistically significant at 10%, 5%, 1% level of probability respectively

Before the estimates, we tested the variables for stationarity conditions. From table 1 and 2 which presents the results of the unit root analysis using Augument Dickey Fuller (ADF) test and Philip Perron (PP) test, the essence of using the two testing procedures is for confirmatory testing (Umoh et al, 2012). The Schwarz Information Criterion (SIC) is used to select the optimal lag length of the models. The tests are conducted with a maximum permissible lag length. The tests were conducted at level and first difference. The results indicates that the variables are 1(1), that is they are fully integrated at first order both at the level and the difference considering the PP and ADF test at difference. The ADF test at level indicates that the variables are integrated at first order I (1) except for FPI. The variables being integrated of the same order may have linear combinations of them that is stationary. Hence, there is likely to be long run equilibrium relationship among the variables (Orji *et al*, 2009).

Table 2: Conclusion of the Unit Root Test

Variable	Conclusion
GDP	I(1)
FDI	I(1)
FPI	I(1)

Source: E-view 7.0 software

Result of the unit root test indicates that the variables are stationary at first order at difference for both ADF and PP test. These results imply that the regression results that would be obtained from the models specified earlier would return spurious results if there is no long-run relationship among the variables in the model. Since not all the variables are stationary at level it necessarily means that we have to investigate the cointegration properties of the variables in the equations (Orji *et al*, 2009).

Table 3: Johansen Cointegration Rank Test (Maximum Eigen value)

Eigenvalue	Likelihood Ratio	5 Percent Critical Value	1 Percent Critical Value	Hypothesized No. of CE(s)
0.567706	86.22922	68.52	76.07	None **
0.470738	53.52187	47.21	54.46	At most 1 *
0.323697	28.70727	29.68	35.65	At most 2
0.270915	13.45379	15.41	20.04	At most 3
0.028587	1.131139	3.76	6.65	At most 4

*(**) denotes rejection of the hypothesis at 5% and 1%, significance level

L.R. test indicates 2 cointegrating equation(s) at 5% significance level

Source: E-view 7.0 software

When linear combinations of variable are integrated at first order I(1), then cointegration becomes

necessary. This implies that a long-run relationship may exist among them which connotes that there may be disparity among them in the short run but in the long run there will be unit among them. To establish whether long run relationship exist amongst the variables or not co integration test using Johansens multivariate method was carried out and the report presented above, using the likelihood ratio, the results points out that there are two co integrating equation at 5 and 1 percent level of significance. This indicates the presences of two co integrating equation at 5 and 1percent level of significance. This indicates the presence of two co integrating equation between the independent variables and dependent variable, which implies the presence of a long run relationship between the variable which is consistent with the findings of (Bakari et al, 2012 &Umoh et al, 2012).

Table 4 Error Correction Model

Error Correction:	D(GDP)	D(FDI)	D(FPI)
CointEq1	-0.556856	7.59E-05	9.14E-05
	(0.33626)	(3.0E-05)	(2.6E-05)
	(-1.65603)	(2.55080)	(3.45347)
D(GDP(-1))	-0.243217	-6.87E-05	-7.82E-05
	(0.30312)	(2.7E-05)	(2.4E-05)
	(-0.80239)	(-2.56141)	(-3.27925)
D(GDP(-2))	-0.106060	-4.12E-05	-4.65E-05
	(0.21334)	(1.9E-05)	(1.7E-05)
	(-0.49713)	(-2.18376)	(-2.77155)
D(FDI(-1))	-4064.403	-1.234405	-0.727667
	(7894.31)	(0.69854)	(0.62136)
	(-0.51485)	(-1.76712)	(-1.17108)
D(FDI(-2))	-8325.803	-0.481210	-0.233090
	(8613.09)	(0.76214)	(0.67794)
	(-0.96665)	(-0.63139)	(-0.34382)
D(FPI(-1))	1667.431	0.528863	0.162425
	(8281.83)	(0.73283)	(0.65187)
	(0.20134)	(0.72167)	(0.24917)
D(FPI(-2))	4259.806	0.336126	0.049340
	(9002.50)	(0.79660)	(0.70859)
	(0.47318)	(0.42195)	(0.06963)
C	8248479.	2414.540	1768.399
	(2.2E+07)	(1970.55)	(1752.84)
	(0.37039)	(1.22531)	(1.00888)
R-squared	0.543535	0.653502	0.658707
Adj. R-squared	0.296284	0.465816	0.473839
Sum sq. resids	4.28E+17	3.35E+09	2.65E+09
S.E. equation	1.33E+08	11810.63	10505.76
F-statistic	2.198307	3.481883	3.563134
Log likelihood	-756.1463	-401.5052	-397.0563
Akaike AIC	40.53401	21.86870	21.63454
Schwarz SC	41.13734	22.47202	22.23787
Mean dependent	650655.1	1345.832	798.1526
S.D. dependent	1.59E+08	16159.48	14483.33
Determinant Residual Covariance		1.13E+42	
Log Likelihood		-2163.327	
Akaike Information Criteria		118.5962	
Schwarz Criteria		122.4746	

Source: E-view 7.0 software

One of the functions of the model is to determine the long run equilibrium relationship between GDP,

FDI and FPI. The error correction estimates are stated thus:
D(GDP) = A(1,1)*(B(1,1)*GDP(-1) + B(1,2)*FDI(-1) + B(1,3)*FPI(-1)+ B(1,4)*D(GDP(-1) +C(1,2)*D(GDP(-2)+C(1,3)*D(FDI(-1)+ C(1,4)*D(FDI(-2) +C(1,5)*D(FPI(-1) +C(1,6)*D(FPI(-2) + C(1,7).

Table 4 above presents the component of the estimated vector error correction model with the restrictions implies by the two co integrating equations imposed. Examination of the F-statistics and adjusted R^2 suggest that the variables in the error correction model significantly explained the short run changes in GDP, FDI and FPI at P<0.001 and P>0.01 accounting for 29.6, 46.6 and 47.4percent of the variation in the three series respectively, correction coefficients in FDI and FPI was statistically significant. This shows that FDI and FPI in Nigeria adjusts significantly to shocks to it equilibrium that are caused by the exogenous changes in the variable past values. The error correction model indicates that about 55.6 percent disequilibrium corrected each month by changes in the economy of Nigeria (GDP). In the long term co-efficient (elasticity) indicate that FDI and FPI have significant and positive long term effect on economic growth.

Table 5: Regression Analysis

General Model: OLS, using observations 1970-2010 (T = 41)
Dependent variable: GDP

	Coefficient	*Std. Error*	*t-ratio*	*p-value*
Const	1.43992e+07	2.08492e+07	0.6906	0.49388
FPI_Inflow	3466.5	3467.3	0.9998	0.32359
FDI_Inflow	-2000.07	2880.11	-0.6944	0.49152

Mean dependent var	21092700	S.D. dependent var	1.07e+08
Sum squared resid	4.49e+17	S.E. of regression	1.07e+08
R-squared	0.039535	Adjusted R-squared	-0.009719
F(2, 39)	0.802668	P-value(F)	0.455396
Log-likelihood	-834.6778	Akaike criterion	1675.356
Schwarz criterion	1680.569	Hannan-Quinn	1677.266
Rho	-0.061573	Durbin-Watson	2.119358

The general model indicates that both the FDI inflow and the FPI inflow have no significant relationship with the GDP. The FPI inflow had positive coefficient which a positive relationship with the GDP while FDI inflow has a negative coefficient which suggest a negative relationship.

Table 6: Regression Analysis for GDP and FDI

OLS, using observations 1970-2010 (T = 41)
Dependent variable: GDP

	Coefficient	*Std. Error*	*t-ratio*	*p-value*
Const	1.14969e+07	2.0646e+07	0.5569	0.58073
FDI_Inflow	724.73	931.128	0.7783	0.44095

Mean dependent var	21092700	S.D. dependent var	1.07e+08
Sum squared resid	4.61e+17	S.E. of regression	1.07e+08
R-squared	0.014919	Adjusted R-squared	-0.009708
F(1, 40)	0.605806	P-value(F)	0.440951
Log-likelihood	-835.2092	Akaike criterion	1674.418
Schwarz criterion	1677.894	Hannan-Quinn	1675.692
Rho	-0.019542	Durbin-Watson	2.037251

From table 6 it is evident that FDI inflow has no significant short run relationship with the GDP though with a positive coefficient, which suggests that FDI inflow leads to the growth in GDP.

Table 7: Regression Analysis for GDP and FPI

OLS, using observations 1970-2010 (T = 41)
Dependent variable: GDP

	Coefficient	*Std. Error*	*t-ratio*	*p-value*
Const	9.7236e+06	1.9604e+07	0.4960	0.62261
FPI Inflow	1187.96	1113.69	1.0667	0.29251

Mean dependent var	21092700	S.D. dependent var	1.07e+08
Sum squared resid	4.55e+17	S.E. of regression	1.07e+08
R-squared	0.027659	Adjusted R-squared	0.003350
F(1, 40)	1.137810	P-value(F)	0.292512
Log-likelihood	-834.9359	Akaike criterion	1673.872
Schwarz criterion	1677.347	Hannan-Quinn	1675.146
Rho	-0.038375	Durbin-Watson	2.076038

It is also evident from table 7 that FPI inflow has no significant relationship with the GDP though with a positive coefficient, which suggests that FPI inflow leads to the growth in GDP.

5. Conclusion

This study was produced on the pedestal of the controversy on whether foreign private investment (FPI) could spur economic growth or have destabilizing effect on the developing economies if not well managed, can only be determined by evidences from well-designed studies carried out with appropriate tools of analysis. This study is part of that attempt to resolve the age-long controversy. It is thus the general objective of the study to examine the effect of foreign private investment on the developing economy using Nigeria data in the bid to contribute to the resolution of the controversy. In view of this, the data analysed involved more sophisticated econometric modelling and estimation. FDI and FPI have been acknowledged as major propellant of economic growth and development on the long run through technology transfer, technological innovations, and other externalities. These factors augment the existing domestic resource base and promote growth and development when they flow into the economy. However, with the up and down movement of foreign private investment, Nigeria needs to put together foreign investment with domestic investment in order to maintain high levels on income and employment. The problem therefore does not lie so much with the magnitude of investment flows to Nigeria as with the form in which it is given. We could be emphasizing that foreign investment cannot contribute much too economic development and growth of Nigeria if it is directed primarily to capital supply than investment project. In order to further improve the climate for foreign private investment in Nigeria, the government must appreciate the fact that, the basic element in any successful development strategy should be to encourage domestic investment first before going after foreign investors, considering the fact that they constitute the bulk of investment activities in the economy. Consequently, the study recommends that proactive steps to attract more foreign private investment should be undertaken by the Nigeria government as one of the way of boosting the Nigeria economy.

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