

**ÇANKAYA UNIVERSITY  
GRADUATE SCHOOL OF SOCIAL SCIENCES  
DEPARTMENT OF INTERNATIONAL TRADE AND FINANCE**

**MASTER THESIS**

**THE IMPACT OF FOREIGN DIRECT INVESTMENT ON ECONOMIC  
GROWTH. A COMPARATIVE ANALYSIS BETWEEN NIGERIA AND  
TURKEY**

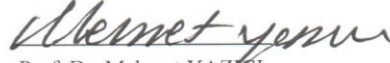
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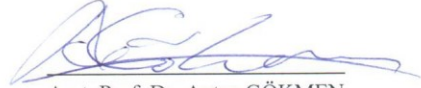
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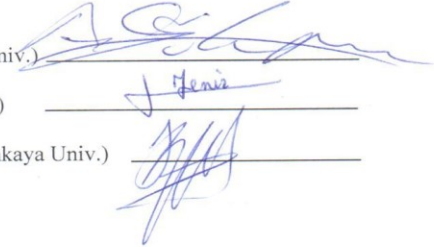
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## ABSTRACT

### THE IMPACT OF FOREIGN DIRECT INVESTMENT ON ECONOMIC GROWTH. A COMPARATIVE ANALYSIS BETWEEN NIGERIA AND TURKEY

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The impact of foreign direct investment (FDI) on economic growth has become a topic a great concern among researchers. The importance of this trend has surged owing to globalization process. There is enormous lacuna of stock of capital and technology between developed and developing countries. Hence, many countries try to attract huge FDI inflow to enhance their economic growth and development as it appears suitable means to fill the gap. This study investigated empirically the impact of FDI on economic growth between Nigeria and Turkey over the period of 1970-2012. To analyze the relationship between FDI and economic growth, Johansen co-integration, Granger causality, VAR impulse response and variance decomposition tests were carried out. It is concluded that, there is no long run relationship between FDI and GDP in Nigeria, there is no evidence of causality between FDI and economic growth (GDP) in Nigeria. For Turkey, our model provides no evidence of causal relationship between FDI and GDP.

**Keywords:** Economic Growth, FDI, Granger Causality, Impulse Response Functions, Variance Decomposition.

## ÖZET

### DOĞRUDAN YABANCI SERMAYE YATIRIMLARININ EKONOMİK BÜYÜME ÜZERİNE ETKİSİ: NİJERYA VE TÜRKİYE ÖRNEKLERİNİN MUKAYESELİ ÇÖZÜMLEMESİ

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Doğrudan Yabancı Sermaye (DYS) yatırımlarının ekonomik büyüme üzerindeki etkisi birçok araştırmacı için önemli bir konu olmuştur. Bu akımın önemi küreselleşme ile daha da artmıştır. Gelişmiş ve gelişmekte olan ülkeler arasında sermaye ve teknoloji birikimi bakımından önemli farklılıklar vardır. Bu nedenle, ülkeler, ekonomik gelişimlerini hızlandırmak ve de sermaye ve teknolojinin açığını kapatmak için DYS yatırımlarını çekmeye çalışırlar. Bu çalışmanın amacı DYS yatırımlarının ekonomik büyüme üzerine olan etkisini 1970-2012 döneminde ampirik olarak Nijerya ve Türkiye üzerine incelemektir. DYS yatırımları ve ekonomik büyüme arasındaki ilişkiyi nedensellik bakımından incelemek için Johansen eşbütünleştirme, Granger nedensellik ve VAR etki – tepki analizleri kullanılmıştır. Sonuç olarak, Nijerya’da uzun dönemde DYS girişi ve ekonomik büyüme (GSYH) arasında bir ilişki bulunamamıştır. Bu anlamda, DYS girişi ve GSYH gelişimi arasında bir nedensellik bulunamamıştır. Türkiye açısından ise, DYS girişi ve ekonomik gelişme arasında bir nedensellik yoktur.

**Anahtar Kelimeler:** Ekonomik Gelişme, DYS, Granger Nedensellik, Etki – Tepki Fonksiyonu.

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## LIST OF ABBREVIATIONS

ADF	African Development Bank
CBN	Central Bank of Nigeria
FDI	Foreign Direct Investment
FPI	Foreign Portfolio Investment
FPI	Foreign Private Investment
GDP	Gross Domestic Product
IMF	International Monetary Fund
ISPAT	Investment Support and Promotion Agency of Turkey
MNC	Multinational Corporation
MNE	Multinational Enterprise
NBS	National Bureau of Statistics
NIPC	Nigeria Investment Promotion Commission
OECD	Organization for Economic Cooperation and Development
TCMB	Turkiye Cumhuriyeti Merkez Bankasi (Central Bank of the Republic of Turkey)
TNC	Transnational Corporation
UNESCO	United Nations Education Scientific and Cultural Organization
UNCTAD	United Nations Conference on Trade and Development
USAID	United States Agency for International Development
WTO	World Trade Organization

# **CHAPTER ONE**

## **THEORY OF FOREIGN DIRECT INVESTMENT AND INTERNATIONALIZATION**

### **1.1 Introduction**

The rise of international business coincides with the global phenomenon of globalization i.e. ongoing economic integration and interconnectedness of countries. Globalization has changed the pattern of international business than couple of decades ago that led to greater internationalization of businesses. This is obvious when the surged in cross border movements of goods and services are considered (Enderwick, 2006). Increasing beyond border activities is expedited by decreasing trade and investments hindrances, the expansion of regionalization, free trade agreements and advances in technology, communication and transport. The parties to this trend could be individuals, firms, groups of companies, and/ or governmental agencies. Internationalization refers to the process of increasing involvement in global operations. This requires adapting a company's resources, strategy, organization and structure of international environments. The process of carrying out value added activities across national borders by multinational corporations (MNCs) is referred to as international business (Cavusgil et al, 2012:40; Enderwick, 2006). MNCs organize their factors of production, procure, produce, market and manage additional business activities on an international scale. Cross border production activities has been existing for centuries. It has gained much momentum and complexity more than couple of decades ago. Firms seek to internationalize more than hitherto in order to expand their sales, to take advantage of new opportunities and to have access to cheaper means of production and follow customers abroad in exchange of value. Considerable improvements in transportation, information and communication technologies and knowledge generation facilitate globalization of businesses and also foster intense competition. Hence, firms strive hard to make good use of every sort of opportunity to produce

and invest abroad via licensing, franchising, exportation, consortiums, strategic alliances, co-branding, brownfield and greenfield investments. International business enables consumers worldwide to get whatever products they desire (Alenka et al, 1990; Bora, 2002; Cavusgil et al, 2012:40; Gokmen 2013:6; Grosse, Behrman, 1992; Risky, Michael, 1998:1).

Globalization is the leading figure toward internationalization. It has led to widespread diffusion of products, technology, knowledge and development of highly sophisticated global financial systems. Globalization both compels and facilitates firms to expand abroad. Yet government has played a key role in expediting these activities in terms of policies and conflict resolution in both home and host countries. Globalization brought about a greater degree of collaboration among countries. Nowadays, with the recent development, international business have created an avenue that enables all types of firms to benefit from active participation than couple of decades ago where it is a domain for huge MNCs (Asiedu, 2002; Cavusgil et al 2012:40; Gedik, 2013; Enderwick, P. 2006; Grosse, Behrman, 1992).

## **1.2 International Business Activities**

International business comprises of a number of activities and the entry strategies differ in the extent of control and commitment of resources they require, the risk involved, as well the return on investment they promise (Twarowska, Kąkol, 2013). Below are some of the activities of business abroad;

1.2.1. International trade; this concept refers to the exchange of goods and services beyond national borders in return of something of value. Trade involves both tangibles (physical) and intangibles (services) (Cavusgil et al, 2012:41; Risky, Michael, 1998:1).

1.2.2. Exporting; this entry strategy involves selling of products produced in one country for use or resale in other countries. That is, the sale of goods or services to consumers situated overseas (Cavusgil et al, 2012: 41; Risky, Michael, 1998:1).

1.2.3. Importing or global sourcing; refers to the process of purchasing products manufactured in other countries for use or resale in one's own country. In other

words, importing is the procurement of goods and services from suppliers located across the border for consumption in the home country (Cavusgil et al, 2012:41; Risky, Michael, 1998:1).

1.2.4. International investments: refers to the transfer of capital and other valuable assets such as machine, managerial acumen, superior technology, labour, etc, from one county to the other. This is divided into two; FDI which is an investment made by a foreign investor for the purpose of controlling the activities of a firm located abroad. Portfolio Investment (PFI) refers to an investment made in a financial market and claims no active participation of the investor as per as the management of the firm is concerned. Other important forms of internationalization activities are: (i) licensing (ii) franchising (iii) management contracts (iv) turnkey projects (iv) strategic alliances and (v) joint ventures etc (Cavusgil et al, 2012:41; Risky, Michael, 1998:2; Twarowska, Kąkol, 2013).

The proliferation in the volume of international trade and investment after 1950s lead to intensifying rivalry in international market. This made the firms concentrate on global business issues completely so as to withstand the rivalry pressure as well as to take the advantage of investment opportunities instantaneously. MNCs set up production networks abroad that are beyond the technological capabilities of a host country in order to serve the needs of international customers. International business is associated with its own hardships and risks such as legal, political, economic, cultural and demographic issues especially when the firm internationalizes for a first time or if an experienced firm enters a new market. These issues are inevitable as per as international business is concerned. Some nations may consider foreign business as a threats to the domestic firms, hence unwelcome them. Despite these hurdles, international business contains lots of opportunities and benefits for the firms, host nations, as well as the consumers (Blomström, 1992; Blomstrom, Kokko, 2003; Gedik, 2013; Gokmen, 2013:6-7).

### **1.3 Reasons for the Internationalization of Businesses**

There are many reasons that stimulate firms toward partaking in international business. Firms do consider so many factors before making a decision

of whether or not to invest across the border. Reasons for doing international business are numerous and entail varying degree of risks and commitment from MNCs (Twarowska, Kąkol, 2013). The following are some of the reasons why firms choose to internationalize;

1.3.1 Market expansion; this is one of the most significant stimulator for internationalization. Firms decide to either seek new market in the existing countries or to strive for new market segment in a new country. Considerable potential market exists overseas, as company's production capacity is beyond the size of its domestic consumption, it seeks for new opportunities, or if a business is thriving in one market, expanding worldwide would likely enhance its total turnover. This could lead to great triumph abroad with unique offering or technological edge not found by global competitors (Cavusgil et al, 2012:53; Keegan, Green, 2013:303; Risky, Michael, 1998:1).

1.3.2 Resource acquisition; firm always consider the cost of inputs necessary to make production. They preferred locations where inputs are in abundance and cheap, hence, internationalization enables the company to access low cost capital, low labour cost and other cheaper means of production (Cavusgil et al, 2012:53; Risky, Michael, 1998:1).

1.3.3 Competitive strike; it is obvious that firms are always striving hard to either maintain or acquire a competitive position in a given market. Competition globally is rising considerably. Many companies engage in international business in order to defend their statusquo or counter offensive attack (retaliation) as in the case of market leader, while in the case of market challenger or follower, firms engaged in preemptive, frontal, flanking or encirclement attack. Firm enter rivals home markets to subvert and curb it growth. This is simply because the market leader enters new market based on the belief that if left alone, competitor would gain significant advantage (Cavusgil et al, 2012:53; Risky, Michael, 1998:1).

1.3.4 Technological changes; information and technological advancement are main facilitators of cross border investment activities. Technology diffusion provides consumers with ample variety of choice of offerings at competitive prices. This trend created enormous opportunities and permit firms to engage in both marketing

and procurement activities and become global players (Cavusgil et al, 2012:67-73; Risky, Michael, 1998:1).

1.3.5 Social changes; globalization result in rapid changes in fashion and preferences. Many people are willing to be recognized as a part of a particular group owing to social factors influence brought about by globalization. For this reason, globalization opened up unlimited opportunities and boost sales of foreign firms' products (Cavusgil et al, 2012:88; Risky, Michael, 1998:1).

1.3.6 Government, trade and investment policies; incentives measures embraced by authorities are part of development policies. They include various incentives such as free economic zones, investment allowance, tax holiday, interest refund, subsidies for research and development etc. Liberalization of market and adoption of free markets i.e. privatization, reduction of various obstacles to trade by the regulatory agencies internationally stimulates cross border transactions (Cavusgil et al, 2012:73; Erdoğan, Atakli, 2012; Risky, Michael, 1998:1).

#### **1.4 The Concept of Foreign Direct Investment (FDI)**

Globalization leads to unprecedented escalation in cross border activities by knitting separate national borders into a single world economy. The trend obliges companies to extend their operations beyond their borders. FDI is of significant importance to global economic growth. According to Ozturk, Kalyoncu, (2007), in the late 1980s and 1990s, FDI surged rapidly across the globe, reinvigorating the long and disputatious argument about the costs and advantages of the flow of foreign capital. It is obvious that FDI has been a catalyst to the global economic growth and development through for example, total factor productivity growth. FDI serves as a channel for creating direct and enduring economic relationship between countries. Interconnectedness of economies allows individuals and businesses to be exposed to greater freedom to take advantage of international economic opportunities. The attentions of both developed and developing nations now is to attract considerable amount of FDI because of its tremendous benefits of not only ensuring stream of capital into a country, rather, as a catalyst that accelerates economic growth and development through technological advancement thereby

enhancing domestic technological capabilities. It also increases competition thereby ensuring that domestic consumers have access to qualitative goods and services at competitive prices, learning from the technology and innovation of the foreign investors thereby improving the efficiency of labour and management productivity. The host country is provided with the opportunity to promote its offerings more widely on global market, it provides managerial prowess that helps in restructuring and enhancing domestic industry development. Additionally, employment opportunities are indirectly created and further economic activity encouraged through the promotion of vertical and horizontal linkages with the local enterprises. Similarly, development partners such as World Trade Organization (WTO), United Nations Conference on Trade and Development (UNCTAD), International Monetary Fund (IMF) and such had contributed hugely to the success of this trend through creating more action ground for all types of companies to participate and benefits than hitherto where it is impossible for small firms to be players. For FDI to deliver the desired prospective benefits, sound and coherent policies framework are pre-requisites (Blomstrom, Kokko, 2003; Cavusgil et al 2012:40; Evans, 2002; Golup et al, 2011; Nocke, Yeaple, 2007; Odenthal, 2001; OECD, 2008; Zhuang, Griffith, 2013).

#### **1.4.1 Foreign Direct Investment**

FDI is an internationalization strategy where the enterprise establishes a physical presence abroad through direct ownership of productive assets such as capital, technology, labour, equipment, plant and land. Foreign investment is when a company commits inputs in productive activities overseas. FDI is the most advanced and complex foreign market entry strategy. It entails establishing manufacturing plants, marketing subsidiaries or other facilities in target countries. FDI entails taking part in the management of a firm since it suggests a long-standing nexus between the investor and the direct investing company. FDI in the form of both Merger and Acquisitions (M&A) and greenfield investment aids in strengthening the domestic economy, adds new value added activities leading to economic diversification, enhances potentialities, productivity and competition of an economy. FDI is a riskier mode of entry compared to other strategies owing to the substantial commitment of resources. Firms are enticed to take part in value

adding activities overseas so as to exploit new opportunities, to expand their share on the global market, to procure assets such as equipments, plants, to access cheap labour force and resources. FDI also enables firms to manufacture market and contend domestically in key markets. This Investment may take the form of establishing new structure known as greenfield investment or the complete acquisition or partial buying of an existing enterprise through merger and acquisition known as megadeal or brownfield (Calderón et al, 2004; Cavusgil et al, 2012:434; Gedik, 2013; Evans, 2002; Keegan, Green, 2013:283; Qiu, Wang, 2011; Ugochukwu et al, 2013).<sup>1</sup>

FDI is that classification of global venture that indicates the objective of a resident entity in one economy obtaining enduring interest in a company resident in another country. The acquisition of 10% or more of ordinary shares or voting right of a firm outside investor's home country should be recorded as direct investment (IMF, 1993:86; Humanicki et al, 2013).

FDI can be classified into equity capital, reinvested earnings and intra-firm loans. Equity capital is the purchase of stocks of enterprises by the parent firm located abroad. Reinvested earnings mean the plowback ratio, that is, the amount of money retained by the company not disbursed to equity holders as a return on their investment to finance other activities. It could be the revenue from foreign subsidiaries, branches or associates not distributed i.e. retained earnings. Intra-company loans or other direct capital investment is the transfer of capital and other financial transaction between the direct investors (head-quarter) and its subsidiary. This type of loan include short or long term lending and borrowing of funds, trade credits and debt securities, between two direct investment firms with identical direct investor (Gedik, 2013; UNCTAD, 2013; USAID, 2005).

#### **1.4.2 Foreign Portfolio Investment (FPI)**

FPI is an investment in the form of foreign equity securities and debt securities such as bonds notes, etc., which does not require the active management of the securities by the investor in order to earn interest and profit. It is an investment by individuals, firms or public to acquire foreign financial instruments.

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<sup>1</sup> European Union foreign direct Investment yearbook 2007, pp 21 - [http://ec.europa.eu/eurostat/ramon/coded\\_files/fdi\\_yearbook\\_2007.pdf](http://ec.europa.eu/eurostat/ramon/coded_files/fdi_yearbook_2007.pdf)

The process of acquiring foreign securities such as bonds, shares, etc in order to generate financial return is known as FPI (Cavusgil et al, 20012:438). With a sound regulatory framework, FPI will aids in promoting and strengthening domestic capital markets, improve its function, increases its liquidity and corporate governance (Afşar, 2007; Cavusgil et al, 2012:438; Evans, 2002; IMF, 1993).

#### **1.4.3 International Collaboration Venture (ICV)**

ICV refers to international business partnership, a situation whereby two or more legal separate entities pool their resources and allocate the expenses and risks of a new business enterprise in order to pursue certain goals. ICV is a very strategic means of accessing international market quickly, effectively and economically. By pursuing this strategy, firm can circumscribe its financial risk and learn about the new business environment. This enables a company to exploit partner's complementary prowess and technology (Cavusgil et al, 2012:434-435; Keegan, Green, 2013:284).

#### **1.4.4. Non-equity Modes (NEMs) of Investment**

In today's world, FDI is not only restricted to production, export of goods and services rather, non-equity modes of FDI should also be taken into consideration by the policy makers due to its huge benefits. Many MNCs have found non ownership (contractual) forms of business activities as a prudent means of investment. The NEMs are contractual entry modes or technical joint ventures or technical collaborations because they involve selling of successfully developed idea or technology to both domestic and foreign firms. These activities which involve turnkey projects, franchising, subcontracting, licensing, consortiums, countertrade, services outsourcing, management contracts as well as other contractual relationship are facilitated by transnational corporations (TNCs). They enhance economies of scale and scope, share the costs of research and development (R&D), greater market coverage not possible for a firm to achieve single handedly (Grosse, Behrman, 1992; UNCTAD, 2006; WIR, 2011:8-9)<sup>2</sup>.

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<sup>2</sup>UNCTAD World Investment Report 2011 non equity modes of international production and development.

#### **1.4.5 The major theories of foreign direct investment**

The ultimate goal of FDI theory is to explain the rationale and factors that motivate and influences MNCs investing out of their national territory (Cywiński, Harasym, 2012; Morgan, Katsikeas, 1997). These theories are;

- Monopolistic Advantage Theory
- Product Life Cycle Model Theory
- Eclectic theory
- Theory Internationalization

#### **1.4.6 Theory of Monopolistic Advantage**

With competitive advantages and core competences, MNCs are capable of successfully setting production facilities abroad and earn above average profits rather than to engage in licensing or franchising to foreign firms. Competitive advantage allows firms to outperform its competitors since they are firm-specific advantages such as production technologies, finance, leading brand, managerial prowess, industrial organization and knowhow. This allows firm to create unique offerings and the ability to achieve economies of scale via vertical or horizontal integration. MNCs gain from investing overseas are related to product differentiation emanating from know-how, R&D, economies of scale in production, distribution, efficient cost, management skills, lower costs as a result of mass production as well as benefitting from the rest stages of the product life circle (Asiedu, 2002; Cywiński, Harasym, 2012; Grosse, Behrman, 1992; Hayakawa et al, 2011).

#### **1.4.7 Product Life Cycle Model**

International product life-cycle theory attempts to clarify and provides a theoretical explanation of the process of global trade and FPI. It basically concentrates on a firm's intentions on investment taking into account costs and revenue and dispelled the notion that inputs and products are immobile. The key issues in explaining the pattern of international business are technical innovation and market expansion. According to this theory developed by Vernon (1966), a product must pass through certain stages of development before a firm subscribe to the idea of engaging in manufacturing it for the consumption overseas. At early

phases, firms invest in advanced countries as domestic demand is adequate enough to support domestic production. At a maturity stage, standardization leads to hike in demand of the product on the foreign market. The production activities shift to developing countries due to lower production cost as a means of minimization of expenses, the less-developed countries may offer competitive advantages as a production location. However, at a later stage, effort will turn to be export oriented because of low labour cost. In the final stage (decline) the home country becomes the net importer of the same products. Morgan, Katsikeas (1997), asserted that trade circle emerges where a good is manufactured by the head operation, then by its affiliates abroad and finally anywhere in the globe where production costs are at their lowest (Cywiński, Harasym, 2012; Grosse, Behrman, 1992; Kurtishi-Kastrati, 2013; Morgan, Katsikeas 1997; Vernon, 1966).

#### **1.4.8 Eclectic paradigm**

The eclectic paradigm offers a general framework for clarifying where, how, and why MNCs engage in international production activities. Dunning (2000:163), points out that, MNCs are established by the interrelation of sets of interconnected variables which encompass the components of three sub-paradigms. These three intertwined variables are imperative in determining the magnitude and pattern of FDI. According to OLI paradigm investors choose FDI because they possess core competences, O - ownership, L - location, and I - internalization advantages. Ownership specific advantage (O) is an income generating tangible and intangible assets not possessed by rivals. This encourages MNCs' decisions to invest overseas by way of capital, manpower, finance, patent, trademark, production technique, economies of scale, entrepreneurial skills, managerial effectiveness, superior technology efficiency, effective marketing and organizational systems which are not available to firm's rivals. These core competences enable firms to compete internationally. Location specific advantages (L) refers to the relative location advantages in a particular country enjoyed by a firm and guides its value added tasks as a result of relocating to foreign markets. This location abundant resources include, factor endowments, incentive offered by the governments (tax holiday, export processing zone), cheap inputs, infrastructure, good governance, protected and untapped markets, transportation and

communications expenses and size of the market etc. Firms are enticed to relocate their value added activities because of the availability of natural resources and immobile factors of production abroad jointly with their competitive advantages. Internalization advantage (I) refers to a firm's capability to manufacture and market through its affiliates instead of selling them or partnership agreement which is of course more lucrative, taking costs of production into account. MNCs are guided by these advantages with respect to investment, the O advantage determines the "why" decision, I advantages determine the "how" decision and the L advantage determine the "where" decision (Dunning, 2000; Grosse, Behrman, 1992; Lee et al, 2009; Kuşluyan, 1998; Kurtishi-Kastrati, 2013).

#### **1.4.9 Internalization Theory**

Internationalization theory attempts to explain how large firms function internally (within its units) with respect to production and consumption of inputs as well as goods and services which are more profitable to produce within the borders of its chain of commands. It asserts that, firm's partaking in FDI is dependent on the ownership of core competencies in relation to that possessed by their foreign counterparts. The theory states that firms internationalized in order to internalize most parts of its production process i.e. bringing new activities under governance and ownership of a firm by focusing on vertical and horizontal integration. The emphasis on this advantage is on the single firm rather than the whole industry. This hugely reduces normal business risks and allows firm to gain economies of scale and scope by enhancing organizational learning across national markets. MNEs competitive strategy is based in part of its ability to integrate the activities of its affiliates across the borders. This enables MNEs to avoid search and negotiation costs, to gain economies of scale, to circumvent barriers to trade and other transaction related costs. Internationalization theory centers on the notion that firms seek to develop the means of making production at lower cost internally. Centralized decision making process and authority is sineaquanon as per as going global is concerned (Cywiński, Harasym, 2012; Dunning, 2000; Grosse, Behrman, 1992; Morgan, Katsikeas, 1997).

## **1.5 The Strategic Logic of FDI**

In general, the motives of MNEs are to maximize profits by exploiting their resources overseas and utilizing the ownership-specific advantages through internalization. It also depends on the types of opportunities they are seeking and the challenges and opportunities offered by several activities abroad (Dunning, 2000). Below are the motives behind the investment from the perspective of MNCs.

**1.5.1 Market-seeking or demand oriented FDI** sometimes referred to as horizontal (HFDI) is born out of a desire of MNCs to either access new market, follow key suppliers and customers abroad to maintain the current ones or to establish a physical presence in the key market served by its rivals as part of its global strategy. MNCs serve foreign market by manufacturing products in the host country and sell there. HFDI is undertaken for the purpose of expansion to produce the same products abroad, to better serve customers' needs more than competitors do, to reduce costs of productions, and to overcome trade barriers. Market seeking FDI is motivated by factors inter alia, Gross Domestic Product (GDP), per capita income, Purchasing Power Parity (PPP), market size, market structure and market potential growth. Sometimes firms undertake demand oriented FDI in order to confront existing or potential competitors directly in the competitors' home market (Asiedu, 2002; Beugelsdijk et al, 2008; Cavusgil et al, 2013:347,445-446; Dunning, 2000; Gorynia et al, 2005; Kudina, Jakubiak, 2006; OECD, 2008:4; USAID, 2005:43).

**1.5.2 Resource-seeking FDI** enables MNCs to gain access to factor endowment. Products are made in the host economy for the intention of selling it abroad. The availability of productive resources such as physical, technological and human resources enhance resource seeking activities. The concentration is hugely on the extractive industries such as oil or mineral rich developing countries. The goal is to acquire resources that are more abundant at a cheaper cost which are not obtainable in the home country. Firms in the oil, crop growing or mining sectors have to move to the location where the raw materials are available. Firms like Exxon Mobil, Total etc. established their refineries in locations with huge petroleum reserves such as Nigeria, Iraq,

Kuwait etc. (Asiedu, 2002; Cavusgil, et al 2013:437; Dunning, 2000; Kudina, Jakubiak, 2006; OECD, 2008:3; USAID, 2005:9).

**1.5.3 Efficiency-seeking or rationalized FDI** sometimes referred to as vertical FDI (VFDI) which emanates from the firms wish to create economies of scale, scope by expanding overseas, to enhance a more efficient division of labor of an existing domestic and foreign assets. MNCs relocate their production facilities by setting up affiliates wherever they could perform most efficiently and effectively via near-shoring or off shoring. In vertical FDI firms acquire or seek to own certain stages of valued added activities for manufacturing, selling and delivering of products (Cavusgil, et al, 2012:445-446). Efficiency seeking FDI is facilitated among and between developed and developing nations owing to the reduction of lots of natural and artificial constrains to trade and transaction expenses. The specific motives behind efficiency seeking include; (i) minimization of manufacturing expenses by having access to cheap labour and other inexpensive production facilities. MNCs that established presence in Africa, China, Eastern Europe, India etc did so to minimize cost of production; (ii) locate factory or assembly operations near key customers specifically if the firm is in an industry where consumers preferences change rapidly; (iii) to circumvent tariffs and other trade related impediments, firms penetrate markets for this purpose by establishing an affiliate in a country or trade bloc. Thus, the firms enjoy the same benefits as domestic firms. Firms may equally partner with local firms as a means of satisfying local contents rule; (iv) to take advantage of government incentives such as tax concessions or holiday, export processing zones as well as other investment related benefits (Cavusgil et al, 2012:437-348; Beugelsdijk et al, 2008; Gedik, 2013; Dunning, 1998, 2000; USAID, 2005:11).

**1.5.4 Strategic asset-seeking FDI** is geared toward exploiting existing firm's ownership specific edge, it either protects or increases that advantage by possessing new assets or through pooling resources together with foreign firms. Firms are stimulated to FDI when they found that there exists special synergies between their operations and a given foreign assets to promote

their long-term strategic objectives, especially advancing their global competitiveness. Firms carry out this type of activities in order to take advantage of various factor endowments, economic system, government policies and markets structures by focusing value added ventures in a few number of locations to supply multiple markets. TNCs form global strategic alliances in order to attain this objective or acquire domestic enterprise (Dunning, 1998, 2000; Gedik, 2013; Kurtishi-Kastrati, 2013; Kubina, Jakubiak, 2008; USAID 2005).

## **1.6 Types of FDI**

FDI consists of varieties of mode of entries. This is dependent on the rationale why a firm decides to produce abroad. The following are types of FDI entry modes;

### **1.6.1. Green field investment**

This is an investment in which a firm constructs an entirely new production facility. It refers to investment where a foreign firm acquires a piece of land and erects a new structure such as production plant or marketing subsidiary for the purpose of making production. This type of investment allows 100% ownership of the investment made by the investors, hence enables MNCs to protect their technological edge from dissipation. Therefore MNCs need to be fully aware of the circumstances in the host countries in order to incorporate their competencies with the location specific advantages. In so doing, firm transfers its capabilities to produce abroad (Calderón et al, 2004; Cavusgil, et al, 2013:444; Gorynia et al, 2005; Harzing, 2002; Keegan, Green, 2013:287; Nocke, Yeaple, 2007; Qiu, Wang, 2011).

### **1.6.2. Mergers**

Merger refers to the convergence of two or more firms to form a new larger firm. Mergers come about when two or more enterprises concur to establish a new single firm rather than remain separated for creating business synergies. Mergers generate many positive outcomes including inter-partner learning and resource sharing, economies of scale, costs saving from elimination of duplicative activities,

a broader range of product and services for sale and a greater market power. In order to attain faster market expansion, higher profits and greater level of control, MNCs may move from franchising and licensing strategies to merger. There are several types of mergers as follows; (a) statutory merger where the merged (or target) enterprise is close down (b) subsidiary merger in this case the acquired enterprise will become a subsidiary of the parent company (c) consolidation merger refers to a situation whereby two or more companies join to establish an entirely new firm. The merged firms come to an end, their stockholders automatically become new firm's shareholders (d) merger of equals is a type of merger when enterprises involved are of identical sizes (Calderón et al, 2004; Cavusgil et al, 2012:444; Foltz et al, 2002; Keegan, Green, 2013:288; OECD, 2008: 197-198; Qiu, Wang, 2011).

Other forms of mergers include; horizontal merger which occurs when two companies in similar line of business merged (two firms in cocoa and beverages industry), vertical merger means two firms having different activities or with complementary activities. If two firms are selling similar products in different markets it is called market-extension merger. Selling distinct but related goods on the similar market by two firms is referred to product extension merger, when two firms in different line of value added activities merged it is called conglomerate merger (food firm merging with tobacco firm). Merger generally enhances efficiency and effectiveness, it may increase market power of the domestic enterprise from the incoming foreign management proficiencies, marketing strategies, technology, etc. (Calderón et al, 2004; Cavusgil et al, 2012:444; Foltz et al, 2002; Harzing, 2002; OECD, 2008; Qiu, Wang, 2011).

### **1.6.3. Acquisition**

Acquisition is an element relating to the processes of business reconfiguration. It entails the use of a company's funds to possess an existing venture. The acquiring firm buys all the properties and liabilities of the target enterprise. The acquired firm either becomes an affiliate or part of a subsidiary of the acquiring enterprise. By acquiring an existing entity, TNCs gain ownership of the existing assets such as equipments, plants, human resources and have access to present suppliers, markets and customers. Another term used in this context is

'brownfield acquisition' this type of investment is stimulated to investors whose goal is seeking some specific complementary inputs embedded in the acquired firms. Acquisition takes the forms of (a) take-over, a type of possession in which the acquiring firm is far bigger than the target firm. It is sometimes used to indicate aggressive transactions (b) reverse take-over which refers to an operation where the target enterprise is larger than the acquiring firm (c) horizontal acquisition, a firm in the same industry decides to acquire a competitor (d) vertical acquisition, one firm acquired another in different production process (e) two firms in different line of production amalgamate is called conglomerate acquisition (Calderón et al, 2004; Cavusgil et al, 2012:444; Foltz et al, 2002; Gorynia et al, 2005; Harzing, 2002; Nocke, Yeaple, 2007; OECD, 2008; Qiu, Wang, 2011).

### **1.7 FDI stimulators**

The recent surge in FDI inflow and outflow globally is propelled by myriads of factors. These factors are enormous and complex enabling business environment such as infrastructural development, incentives by government, political and macroeconomic stability, openness to trade, factor endowment, enduring investment climate, market size, real income and coherent environmental and trade policies among nations. Stable government, political stability and laissez-faire attitudes are among the primary factors that attract FDI. Similarly, trade liberalization- be it regionally or globally that is, removal of various tariffs and non-tariffs obstacles to trade promotes FDI by expediting more business activities from within and outside the region and minimized the indispensability of the size of the market as a determinant of investment location. These trade blocs include inter alia; Shanghai Cooperation Organization (SCO), European Union (EU), Canada U.S Trade Agreement (CUSTA), European Free Trade Agreement (EFTA), Association of Southeast Asian Nation (ASEAN), Economic Community of West African States (ECOWAS), North American Free Trade Agreement (NAFTA) and African Union (AU). Similarly, development partners like World Bank, World Trade Organization (WTO), International Monetary Fund (IMF), United Nations Conference on Trade and Development (UNCTAD) contribute hugely to this trend. They were established to help oversee, promote and facilitate international trade

and development in areas of investment, finance, technology and enterprise development. They provide guidance on administrative, governing frameworks and sporadically financial support. Economic integration through preferential trade agreements which confers special treatment between trading partners stimulates FDI. These include; free trade agreement (FTA), the ultimate goal is the elimination of duty on products that cross boundaries between the partners; customs union in which members countries concur to the formation of common external market besides elimination of internal barriers to trade; common market allows for free movement of inputs in addition to customs union and FTA; economic union, the goal here is to harmonize and integrate economic and social policy within the union in order to expedite free movement of factors of production, products and capital. Special interest groups are part of this development; they serve the interest of particular industries or countries. These include Organization of Petroleum Extracting Countries (OPEC), a very strong cartel that decides on the global oil prices, Organization for Economic Co-operation and Development (OECD) which supports the economic development and business goals of advanced economies. Others include, industrialization, economic development and modernization, integration of world financial markets, advances in information and communication technologies (Alenka et al, 1990; Asiedu, 2002; Blomstrom, Kokko, 2003; Cavusgil et al, 2012:72-73,220-221; Keegan, Green, 2013:93; UNCTAD, 2006; UNIDO, 2009)<sup>3</sup>

### **1.8 The Risks Associated with International Business**

International business environment are associated with various levels of risks and opportunities. MNCs carried out their operations outside their home countries. Despite its huge benefits, FDI is negatively affected by drastic changes in a nation's business environment which will have adverse effect on the profit and other objectives of a firm. These risks may have a disastrous impact on FDI. They include inconsistency in policies, changes in law and regulations, import restrictions etc. Albeit, these threats are not meant to discourage FDI because the benefits far outweigh the impediments. Ergo, it is incumbent on firms doing

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<sup>3</sup> Enhancing the development role and the impact of UNCTAD, United Nations, Geneva, 2006. For more information, visit [http://unctad.org/en/Docs/tdbex40d2\\_en.pdf](http://unctad.org/en/Docs/tdbex40d2_en.pdf)

overseas business to be aware of these risks as they are inevitable (Enderwick, 2006; Kapila, Hendrickson, 2001).

### **1.8.1 Political/Country risk**

Political/Country risk relates to the potential risk or adverse effects that return on investment suffers from due to government actions such as socio political scenario, low institutional quality and other policy regulations, that reduce the profitability of doing business abroad. These risks are inevitable as the rules of the game for international business are established by the governments at various levels. Governments may decide to enforce some sorts of restriction on firm's activities such as limiting financial activities (capital transfer, profit repatriation etc) or risk on the ownership control, such as government policies with respect to management control. Institutional impediments imposed by governments such as taxes, lack of laws preventing the rights of minority shareholders, inadequate materials as well as facts and information to security holders. The government takeover of corporate assets either through confiscation, expropriation or nationalism. Other classifications of threats that served as a bottlenecks toward the smooth operations of MNCs include, embargoes and sanctions, boycotts against firms or nations, terrorism, war, insurrection and violence. A government also imposes several trade and investment impediments that benefit interest groups, such as domestic firms and labor unions. Such barriers include protectionism, tariff and non-tariffs barriers, quotas as well as investment barriers. Foreign investment laws controls on operating firms and practices, marketing and distribution, environmental issues, contracts, and income repatriation laws. These and lots more are serious threat to company's productivity and profitability (Bartram, Dufey, 2001; Groose, Behrman, 1992; Cavusgil et al, 2012:210-227; Enderwick, 2006; Hayakawa et al, 2011; Keegan, Green, 2013:154).

### **1.8.2 Currency risk**

Currency risk refers to the exchange rates changes which result from volatility in exchange rates or conversion limitations outside the power of a firm. It refers to the risk that changes in nation's exchange rate will undesirably affect the future of a firm. This type of risk arises as a result of changes of one currency in

terms of another. This is apparent considering the fact that international transaction is conducted in different national currencies. The more significant the volatility, the more the value of firm's profits declined. Inflation, recession and other adverse economic situations in one country may negatively affect exchange rate due to impact of globalization. Similarly, the inputs price may skyrocket as a result of exchange rates volatility (Cavusgil et al, 2012:47; Kapila, Hendrickson, 2001).

### **1.8.3 Political Lobbying and Loss of National sovereignty**

A situation in which foreign firms have resorted to political lobbying to enable them to get certain policies and laws implemented in their favour. It is quite tough for certain governments to effectively control MNCs because they are huge and powerful. Some of them have revenues which are higher than the GDP of many nations. General motors' is higher than Denmark GDP, Wal Mart is bigger than Pakistan, Algeria and Peru in terms of value added, Exxon is bigger than New Zealand, Czech Republic and many other small nations. Royal Dutch/Shell is higher than Venezuela, while IBM annual sales volume greater than Singapore, Sony is higher than Pakistan. TNCs can serve as major threat to the national sovereignty and they pervert the cultural and social fabric of nations (Cavusgil et al, 2012:81; Grauwe, Camerman, 2003; Roach, 2007).

### **1.8.4 Technology**

Despite their access to latest technology, MNCs do not convey cutting edge technology, they only transfer outdated technology to the host countries, making it difficult for locals to either acquire technical knowledge of producing goods and services or having control over the technology, owing to the fear of losing their competitive advantage. Through the use of capital intensive technology, they provide devastating rivalry thereby crowding out domestic businesses which may generate unemployment. This serves as an obstacle for the host country to attain its maximum potential (Moura, Forte, 2010; Ogochukwu et al, 2013).

### **1.8.5 Off-shoring and the flight of jobs and capital**

This mean shifting of value added across national boundaries in an attempt to cut down production cost resulted in the loss of numerous jobs, downsizing and

loss of opportunities. Similarly, a country might experience balance of payment difficulties on account of capital flight causing net capital outflow. Resource seeking FDI created huge pressure on the labour market of many countries, therefore, many people could become redundant. MNCs are known for paying low wages and exploitation. Due to low wages offered in the Eastern Europe, firms like General Motors, Ford and Volkswagen have off-shored many jobs over there, hence many people became unemployed. (Cavusgil et al, 2012:82; IMF, 2001; Osinubi, Amaghionyeodiwe, 2010).

#### **1.8.6 Effect on the natural environment, poor and culture**

Globalization has significantly resulted in negative externalities such as environmental pollution (air, water, land), exerting strong pressure capable of adulterating the norms and values of nations leading to cultural dilution. This is due to global convergence of customers needs and wants as well as access to global brands, new values, norms and new products. Problem in one country can easily proliferate and become regional or global conundrums (Cavusgil et al, 2012:83; Enderwick, 2006; Osinubi, Amaghionyeodiwe, 2010).

### **1.9 Global Investment Trends**

Global FDI flow has realized a dramatic increase and surpassed the pre-crisis average in 2011, reaching \$1.5 trillion regardless of chaos in the world economy. Although, they still remained some 23% lower than their 2007 highest. In 2011, there was 16% increase in global FDI inflows compared with 2010, signaling slightly high economic prosperity in developing nations throughout the year and the higher profits for MNCs. In developed nations FDI flows hiked by 21%, to \$748 billion. FDI surged by 11% in developing economies reaching a record \$684 billion. Similarly, transition economies recorded the upsurge by 25% reaching to \$92 billion. Developing economies accounted for 45% of the global FDI, while transition economies accounted for 6% of world FDI. Cross nation M&As as well the greenfield investments in the developing and transition economies served as the

key drivers for the upsurge. FDI in service, primary and manufacturing sector contributes tremendously toward the increase in 2012 (UNCTAD, 2012).<sup>4</sup>

In 2012 global FDI inflows fell by 18% down from a revised \$1.65 trillion in 2011 to \$1.35 trillion. Inflows of FDI to developing economies remained slightly strong in 2012, reaching more than \$700 billion. Contrariwise, flows of FDI to developed nations declined significantly to \$561 billion, almost one third of their zenith value in 2007. The strong decrease in FDI flows is in stark contrast to other macroeconomic variables, such as employment growth, trade, GDP, which all remained positive in 2012. However, global FDI outflows dropped by 17% to \$1.4 trillion down from \$1.7 trillion in 2011 (UNCTAD, 2013).<sup>5</sup>

### **1.10 Structure of the Study**

The research comprise of three chapters which includes theory of foreign direct investment and internationalization, general background to the study, empirical review, research methodology, empirical analysis, summary and the conclusion.

Chapter one comprises of international business activities, reasons behind international business, the concept of FDI and other forms of foreign investment, the major theories of FDI, the strategic logic of FDI, different types of FDI, risks associated with going global and recent global FDI trends.

Chapter two includes general background to the study, objective of the study, research questions, statement of the problem and significance of the study, FDI profile for Nigeria and Turkey and scope and limitation of the study.

Chapter three is the research methodology used in this study which includes explanation of stationary and stationary test, cointegration test, causality test, VAR impulse response functions and variance decomposition, sources of data, model specification, empirical results and analysis, summary and conclusion.

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<sup>4</sup>For detailed please visit [http://unctad.org/en/PublicationsLibrary/wir2013\\_en.pdf](http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf)

<sup>5</sup> For further information please visit the following link: <http://www.unctad-docs.org/files/UNCTAD-WIR2012-Full-en.pdf>

## **CHAPTER TWO**

### **GENERAL BACKGROUND TO THE STUDY**

#### **2.1 Why FDI in Nigeria and Turkey?**

Recently, the sudden surge in the global FDI inflows and outflows signify how imperative and crucial role it plays in industrial development of the developed and developing countries. There exists a wide gap of capital stocks and technology between developed countries and developing ones, hence FDI seems to be an appropriate means of bridging this gap. The positive effect of foreign resources on the global economic growth is widely acknowledged. For a MNC to participate in global value added activities and remained competitive, it has to operate beyond its national boundaries. This has been confirmed by the increasing number of partnerships, mergers and acquisitions, franchising, licensing, consortiums, joint ventures and other forms of business cooperations. FDI is a category of global investment that a resident entity in one economy acquires an enduring interest in a company resident in another economy.<sup>6</sup> FDI take the form of either a greenfield investment or a corporate takeover, that could be a merger and an acquisition (Bildirici, 2010). FDI is also considered as one of the strategic business activities undertaken by MNCs either in the form of greenfield investments, strategic alliances, collaborative ventures or through acquiring existing assets of a foreign firms.<sup>7</sup> FDI is a strategic means of boosting economic growth of both host and home country. This is particularly vital for developing and emerging markets. In the last couple of decades, the attitude towards inward FDI has changed considerably, as many nations have reformed their economic policies to bring more investments from foreign companies. The impact of FPI on economic growth has been debated hugely by scholars over decades in both the developed and developing countries. However, there are reams of study on FDI since it is seen to have a considerable

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<sup>6</sup> <http://www.tcmb.gov.tr/yeni/eng/>

<sup>7</sup> Eurostat pocketbooks, international trade and foreign direct investment 2013

impact on growth and development. Developing countries has also become strategic and fascinating investment destinations. Both Nigeria and Turkey are key players in the league as both countries attracted some amounts of FDI every year. It is believe that in the developed economies foreign resources played an imperative role in the economy, albeit it is not the same across countries and depends on country characteristics, stage of development, investment and coherent policies environment and sectors (Baykal, 2004; Blomstrom, Kokko, 2003; Gedik, 2013; Ilgun et al, 2010; Osinubi, Amaghionyeodiwe, 2010; UNCTAD, 2013; UNIDO, 2009).

FDI is a vital source of finance for developing countries' economies as it helps to cover the current account deficit, fiscal deficit, hence it serve as an important source of capital to complement insufficient domestic resources. FDI facilitates transfer of technology, technical know-how and skills, creates jobs to the domestic economy directly or indirectly, stimulate innovations, improve consumer welfare through wider choices and increased quality, help local firms to expand into foreign markets, increase investment opportunities, enhance competition domestically as well as other positive externalities. FDI leads to economic development and prosperity in general. Both endogenous and neoclassical theories of growth accentuate clearly the role FDI played in promoting and enhancing economic growth in host countries (Baykal, 2004; Egbo, 2011; Gedik, 2013; Hermes, Lensink, 2003; Mangir et al, 2012; Zakari et al, 2012; Krkoska, 2001).

On the global scale, there has been increasing FDI inflows substantially. Table 1 depicts this trend for some years. In 2011, there was 16% increase in global FDI inflows compared to 2010, indicating moderately high economic growth in developing economies during the period and higher profits of MNCs. FDI surged in developed nations by 21% to \$748 billion. Developing and transition economies accounted for 11% and 25% increased, reaching a record of \$684 and \$92 billion respectively. The former and later accounted for 45 % and 6% of world FDI (UNCTAD, 2012). Transition and developing economies still continued to constitute more than half of world FDI. Albeit global FDI inflows fell by 18% in 2012, down from a revised \$1.65 trillion in 2011 to \$1.35 trillion. Global FDI in 2013 rose by 11% to an estimated \$1.46 trillion up from a revised US\$1.32 trillion

in 2012. This increase in FDI inflows is witnessed in all key economic groupings – transition developed and developing economies (UNCTAD, 2003, 2014).

Table 1 illustrates the global FDI trend in these major economies that is, developed, developing and transition over the period of three years. FDI inflows and outflows from 2009 to 2011 in billions of dollars are presented.

**Table1:**Regional FDI flows 2009 – 2011 (Billions in dollars and percent)

Region	FDI Inflows			FDI outflows		
	2009	2010	2011	2009	2010	2011
World	1197.8	1309.0	1524.4	1175.1	1451.4	1694.4
Developed countries	606.2	618.6	747.9	857.8	989.6	1237.5
Developing countries	519.2	616.7	684.4	268.5	400.1	383.8
Africa	52.6	43.1	42.7	3.2	7.0	3.5
East Asia and South-East Asia	206.6	294.1	335.5	176.6	243.0	239.9
South Asian countries	42.4	31.7	38.9	16.6	13.6	15.2
West Asian countries	66.3	58.2	48.7	17.9	16.4	25.4
Caribbean and the Latin America	149.4	187.4	217.0	54.3	119.9	99.7
Transition economies	72.4	73.8	92.2	48.8	61.6	73.1
Percentage share in global flows of FDI						
Developed countries	50.6	47.3	49.1	73.0	68.2	73.0
Developing countries	43.3	47.1	44.9	22.8	27.6	22.6
African continent	4.4	3.3	2.8	0.3	0.5	0.2
East Asia and South-East Asia	17.2	22.5	22.0	15.0	16.7	14.2
South Asia	3.5	2.4	2.6	1.4	0.9	0.9
West Asia	5.5	4.4	3.2	1.5	1.1	1.5
Caribbean and the Latin America	12.5	14.3	14.2	4.6	8.3	5.9
Transition economies	6.0	5.6	6.0	4.2	4.2	4.3

**Source:** UNCTAD, World Investment Report, 2012

Developing and emerging countries have recognized the important of FDI as a strategic device for economic prosperity, hence, put hands on deck in pursuing

various strategies designed to attract more investment inflows, remove barriers to trade and integration of their economies with global economy. These include various incentives, sound investments policies and regulatory framework. Inflows of FDI are capable of increasing the level of investment, thus leading to rise in per capita income of the host nation (Christopher, 2012; Gedik, 2013; Mangir et al, 2012). The impact of foreign resources with respect to economic prosperity is reliant on the level of human resource obtainable in the recipient country too. Therefore, for FDI to transfer into desired level of economic growth there supposed to be a starting level of income, human capital, political stability exchange rate stability, infrastructural development, lower rate of inflation as well as the size of the economy. These are the most important determinants of FDI (Alfaro et al, 2010; Borensztein et al, 1998; Blomsrtom, 1992; Imoudu, 2012; Mangir et al, 2012).

The rationale behind this research is to make a comparative analysis of the effect of FDI between Nigeria and Turkey. These two nations formed part of MINT economies. MINT in an acronym referring to Mexico, Indonesia, Nigeria and Turkey coined by a British economists Jim O'Nill who was equally the founder of BRICS countries serving as building bricks of 21<sup>st</sup> century world economy. They really share beyond having huge population and very favorable demographics for at least the next 20 years, their economic prospects are interesting. MINT economies are predicted to emerge among the world's most significant economies by the middle of 21<sup>st</sup> century. Turkey and Nigeria are geographically located to serve the nearby markets, they attracted significant FDI inflows. Turkey serve its region and Europe, it is also a member of EU Custom Unions. While Nigeria has the prospects to serve as economic hub for Africa, already the biggest economy on the continent, with abundant factor endowments. Due to these, the MINT will profit hugely from investments made in these countries. They are going to witness the increase in the number people eligible to work with respect to those not working. Hence, MINT is considered to be the next economic giants (Akpan et al, 2014; Mangir et al, 2012).<sup>8,9</sup>

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<sup>8</sup><http://www.bbc.com/news/magazine-25548060>\_accessed (18/4/2014)

<sup>9</sup><http://www.bbc.com/news/business-26913497>\_accessed (9/4/2014)

Nigeria emerged Africa's biggest economy following the rebasing of its GDP, that is, the process of substituting an old base year used to amass volume measures of GDP with a new and latest base year or price structure. Economies are dynamic in nature, they expand, shrink, new sectors emerge, consumer tastes and preferences changes over time, new products and new technologies emerge. Thus, Nigeria includes those sectors that are excluded from GDP components. The rationale behind rebasing GDP data is to give the most up to date picture of an economy.<sup>10</sup> Nigeria is an emerging market that has abundant natural resources with oil playing a significant role in the nation's economy is rapidly expanding in other sectors such as finance, service industry and entertainment. Nigerian economy exhibited strong GDP growth averaged over 8% and never fell below 6% over the last decade. The real GDP grew by 7.7% in the fourth quarter of 2013 mainly driven by non-oil sector growth of 8.8%. The growth is projected at 6.7% and 7.3% in 2013 and 2014. Nigerian telecommunication sector is one of the fastest growing in the world. Its manufacturing sector includes leather, textiles and vehicle productions such as Peugeot and Bedford. The country is on track of becoming one of the 20 biggest economies in the globe by 2020 (ADB, 2013; CBN, 2014; NBS, 2014; World Bank, 2013).<sup>11</sup>

Turkey's GDP increased by 4.0%, 10.2% at both constant and current prices respectively in the last quarter of 2013 compared to previous years. Manufacturing sector has played a key role in this trend. Turkey no longer rely on its location advantages. Turkey's favourable geographical location and low labour cost with easy access to Middle East, North Africa, the Russian Federation and Western and Eastern Europe afforded the country opportunity of been an appealing manufacturing export base for automobile industry. FDI in Turkey is of great benefits as it helps it improve its economic development. Exports surged by 11.5% in April 2014 compared to the same period in 2013 making the total export

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<sup>10</sup> [www.nigerianstat.gov.ng](http://www.nigerianstat.gov.ng).

<sup>11</sup> [www.theemergingeconomy.com](http://www.theemergingeconomy.com), [www.goingglobeallive.co.uk](http://www.goingglobeallive.co.uk)\_accessed (18/4/2014)

increased by 9.5% and reached \$53.43 billion.<sup>12</sup> FDI can enhance Turkey's foreign business, human capital and industrialization (UNCTAD, 2013).<sup>13,14,15</sup>

## **2.2 Objective of the Study**

The overall objective of this research is to evaluate the effect of foreign direct investment on the economic growth of Nigeria and Turkey, being the countries in questioned share some things in common. Also, the following specific objectives shall be considered;

1. To ascertain the extent at which FDI inflow influences economic growth in Nigeria and Turkey.
2. To examine the factors hindering the effectiveness of FDI in Nigeria and Turkey.
3. To establish whether there is an equilibrium relationship between economic growth and FDI in Nigeria and Turkey.
4. To examine the past and present policies and their significance in attracting desired level of FDI inflow into Nigeria and Turkey.

## **2.3 Research Questions**

The question confronting policy makers includes why foreign investors are storming other countries. It is against this backdrop that the study focuses on evaluating the impact of foreign resources on economic growth of Nigeria and Turkey. In order to accomplish this goal, the following research questions are offered to be answered in the study.

1. What is the impact of FDI inflows on economic growth in Nigeria and Turkey?
2. What are the factors hindering the effectiveness of FDI in Nigeria and Turkey?
3. Is there an equilibrium relationship between economic growth and FDI in Nigeria and Turkey?

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<sup>12</sup>[www.economy.gov.tr/blog.tcp.gov.tr/?p=11281](http://www.economy.gov.tr/blog.tcp.gov.tr/?p=11281) (Accessed\_6/5/2014)

<sup>13</sup><http://www.bbc.co.uk/mediacentre/proginfo/2014/01/r4-mint-.html> (accessed 3/03/2014)

<sup>14</sup>[www.theemergingeconomy.com](http://www.theemergingeconomy.com), [www.goinggloballive.co.uk](http://www.goinggloballive.co.uk)\_accessed (18/4/2014)

<sup>15</sup>[www.turkstat.gov.tr/HbGetirHTML.do?id=16191](http://www.turkstat.gov.tr/HbGetirHTML.do?id=16191) (Accessed\_6/5/2014).

4. Does the past and the present policies on FDI aided in attracting needed inflows of FDI into Nigeria and Turkey?

#### **2.4 Statement of the Problem and Significance of the Study**

The nexus between FDI and economic growth is a subject of debate among researchers. There is myriad of literature on the significant roles and channels through which FDI promotes host country's economic growth. It is generally acknowledge that FDI improves economic growth in a resource scarce economy by increasing the quantity and efficiency of physical investment. FDI is associated with quite number of benefits in the host countries ranging from enhancing capital formation, gross fixed capital formation, provide revenue for the policy makers, employment generation, encourage the application of novel technologies and resources in the production process, managerial skills, increasing domestic competition and other positive externalities. This means FDI has dual benefits, it help host economies to attain economic prosperity, it also enhances the profits of MNCs. FDI is a growth and development enhancing mechanism (Asiedu, 2002; Gedik, 2013; Ilgun et al, 2010; Ozturk, Acaravci, 2010).

There are number of theories and perspectives over the previous decades that have been developed in order to explain the connection between FDI and economic growth as well as the determinants of FDI and explained different causal relationships. Therefore, the specific problem which the study intends to address is what these countries can do to increase private sector trade volume and investment in order to boost their economic growth and development. This research seeks to make a comparative analysis of the impact of FDI on economic growth on Nigeria and Turkey. These two countries are part of MINT economies with a promising future of becoming giant economies in the mere future based on their potentials such as large consumer markets to prosper future growth, huge growing inhabitants,

young demographic producers and market size which is quite riveting (Akpan et al, 2014; Erhieyovwe, Jimoh, 2012).<sup>16</sup>

However, empirically, these two countries did not attract huge amount of foreign investment. It further stresses that, the amount of FDI inflow attracted by these two countries is scanty considering their potentials such as location advantages, abundant resources, sizeable markets, and good demography etc. some reported no causality or equilibrium nexus between economic growth and FDI in one or both nations. Some reported unidirectional, bi-directional or independent causality between FDI and GDP. For instance, Çetinkaya et al, 2011, Günaydin, Tatoğlu 2005, Ilgun et al, 2010, Ozturk, Kalyoncu 2007, investigations confirmed a bi-directional causality running from FDI to economic growth in Turkey. While, Georgantopoulos, Tsamis 2011, reported uni-directional causality running from FDI to GDP in Turkey. Dilek, Gökmen 2014, found no evidence of causal relationship between FDI and GDP in Turkey. On the other hand, in Nigeria, Abdallah, Abdullahi 2013, Imoudu 2012, Nkechi, Okezie 2013, findings stated no long run relationship between FDI and GDP in Nigeria. Nurudeen et al, 2010, Abdullahi et al, 2012, Egbo et al, 2011 reported unidirectional causality between FDI and GDP while Erhieyovwe, Jimoh 2012, reported no evidence of any causality between FDI and GDP in Nigeria.

This low inflow of FDI may be attributed to policies inconsistency, political instability, lack of autonomy for Investment Promotion Agencies (APA) etc (Babatunde, et al, 2013; Fry, 1993; Vural, Zortuk, 2011; Zakari et al, 2012).

For these emerging markets to gain a higher amount of FDI inflows that will go hand in hand with government efforts to stimulate further economic growth and prosperity, policy makers have to incorporate new micro and macroeconomic policies which were not previously captured by making investment in their countries more easier, removing various hindrances that hampers the smooth flow of business activities, improving the educational level of their populace so that latest technology could be easily transferred to the local economy, more political will to deal with the issue of corruption, increase the rate of incentives as it attract

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<sup>16</sup><http://www.theemergingeconomy.com/2014/01/mint-economies-mexico-indonesia-nigeria.html>  
(Accessed\_ 15/4/2014)

more investors and boost their profit. These are necessary conditions for medium and long term growth (Asiedu, 2004; Gedik, 2013; Ozturk, Acaravci, 2010; Zakari et al, 2012).

The significance of this study is to determine how the increase in inflows foreign resources into Nigeria and Turkey can have a desired effect on their economic growth. The research will attempt to bridge the gap in the existing body of knowledge by using recent data as this type of research has never been conducted before. The investigation will serve as a yardstick as to whether these economies are flourishing or not, whether it is worth investing in by current and potential domestic and international investors or not.

### **2.5 Nigeria and Turkey FDI profile**

The inflow of FDI across the globe has changed considerably more than couple of decades ago. This is obvious owing to the fact that many countries open up their boundaries and liberalized their investment policies in order to welcome more investments from foreign firms (Blomström, Kokko, 2003).

There has been a rise in FDI inflow into Nigeria in both portfolio and real sector of the economy as the country receives the highest inflows of FDI on the African continent over the last decade increasing from \$1.14 billion in 2001, \$2.1 billion in 2004, \$1.0 billion in 2006, \$6.9 billion in 2007, \$7.7 billion in 2008, reaching to \$11 billion in 2009 as reported by UNCTAD positioning the nation as nineteenth receiver of foreign resources in the globe.<sup>17</sup><sup>18</sup> Similarly, UNCTAD reports indicate that the country is the largest recipient of FDI inflows in 2012 and 2013 on the Sub Saharan Africa (SSA) although it fell from \$8.9 billion in 2011 to \$7.0 billion in 2012 (UNCTAD, 2012, 2013). In 1970, 1975 and 1989, the country attracted small amount of FDI worth \$205 million, \$470 million, \$1.0 billion respectively. However, the progress in increased FDI inflows than hitherto is associated with series economic transformation, liberalization and restructuring since the establishment of Nigerian Investment Promotion Commission (NIPC) in 1995.<sup>19</sup><sup>20</sup>

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<sup>17</sup>Corporate Nigeria, business, trade and investment guide, 2010/2011

<sup>18</sup> For more information, see the review of Nigerian economy, 2010, National Bureau of statistics report

<sup>19</sup> UNCTAD WID country profile Nigeria 2006

Prior to establishment of NIPC, and the return of democracy in Nigeria in 1999, FDI flows suffered seriously from incoherent investment policies and has been focused largely on oil and gas sector since 1970s due to its profitability and remained low on other sectors of the economy.<sup>21</sup> NIPC was established in 1995 in an effort to streamline business entry procedure, to revitalize and open up its economy which has suffered from inappropriate policies and structural imbalances and to actively promotes FDI and to bring more needed foreign capital by making the country's business environment more conducive. NIPC is an IPA and the goal was to promote, stimulate, and coordinate all investments in Nigeria. It offers latest information on investment opportunities and to connect the nation's economy with the world economy. To further promote this objective, NIPC provides a one-stop-shop to pave way, facilitate and remove impediments facing incoming investment. It allows for 100% participation or ownership in all sectors, but this is not permitted in oil sector where FDI is circumscribed to joint ventures, reversing all those constrains to FDI imposed by the previous policies. Privatization of telecommunication sectors leads to outstanding growth in the economy, making it the fastest growing sector in Africa and number 8 fastest sectors in the world in 2009 (Babatunde et al, 2013; Joshua et al, 2013; Zakari et al, 2012).<sup>22,23</sup>

The return of democracy in Nigeria is associated with substantial changes regarding the nation's investment climate to integrate with the world economy. Government embraced the private sector led growth strategy by withdrawing gradually from direct participation in commercial activities. Ergo, the country's economy is open for foreign investors to participate in the process. The first indigenization policy which is the Nigeria Enterprises Promotion Decree (NEPD) came into being in 1972 and imposed several trade impediments on FDI leading to closure of some foreign firms. Foreign investment was permitted up to 60%. The next phase of indigenization decree is that of 1977, NEPD strengthen the restriction on FDI entry by increasing the number of business reserved for Nigerian exclusively, lowering the foreign ownership from 60% to 40%. In 1989, NEPD was

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<sup>20</sup> [www.ncc.gov.ng](http://www.ncc.gov.ng)

<sup>21</sup> UNCTAD, (2009) Investment policy review of Nigeria

<sup>22</sup> Corporate Nigeria, business, trade and investment guide 2010/2011

<sup>23</sup> UNCTAD, 2009, Blue book on best practice in investment promotion and facilitation Nigeria

amended, relaxing these obstacles to trade to entice foreign investors (Zakari et al, 2012; Joshua et al, 2013).<sup>24</sup>

NIPC established the One-Stop Investment Centre (OSIC) which offer investors the opportunity to register their businesses on the spot without any delay. This has really restored confidence in investors on obtaining immediate, efficient and transparent services from government agencies. The centre has effectively eliminated log-jams confronted by investors in setting up and managing their businesses, thus eventually decreasing the expense of start-up of business in Nigeria. OSIC aided in making administrative procedures such as approval, licence/permit, registration of a firm and provision of up to date investment information such as investment climate, legal and regulatory framework, data on Nigeria economy as well as sector and industry exclusive information which will help current and prospective investors in making appropriate investment decisions. Similarly, it offers a number of incentives for ownership in number of industries with the exceptions of those sensitive to national security, participates actively in regional integration schemes such as African Union (AU), Economic Community of West African States (ECOWAS), principally to establish customs union and common market to liberalize and promote free flow of goods and services, capital and people. The country signed an agreement with international conventions such as the World Trade Organization (WTO) and multilateral investment guarantee agency. Number of export processing zones was created to encourage the expansion of the export base of the country through the speeding up of export business. These efforts made the country number one recipient of FDI and the largest economy on the African continent (CBN, 2010; Joshua et al, 2013; NBS, 2014).<sup>25,26</sup>

The incentives available to investors include, legislative provisions regarding to taxes and repatriation of foreign capital at any time, tax relief and concessions are also provided in the domestic value added, labour intensive, domestic inputs and export activities oriented towards substantial training. NIPC allows for protection of foreign investment. It provides guarantee against expropriation, confiscation and nationalization, it also provide capital assets

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<sup>24</sup>UNCTAD 2009, Investment policy review of Nigeria

<sup>25</sup>Investment policy review of Nigeria – UNCTAD 2009

<sup>26</sup> UNCTAD WID Country Profile: NIGERIA, 2006

depreciation allowance. Disputes settlement between investors and any government enterprises within the framework of any bilateral or multilateral agreement on investment protection has been stipulated in the investment law. In consultation with other government agencies, NIPC shall negotiate specific incentives and benefits for investors. Activities such as conferences and seminar, exhibitions etc will initiate, organize and participate by NIPC for the stimulation of investment. Also it detects problems and difficulties being faced by investors and provides solutions and the needed assistance to them through its monitoring outfit. Nigeria's investment law supports the sanctity of contract and the regulation (Babatunde et al, 2013; Bala, 2003; Zakari et al, 2012).<sup>27,28</sup>

However, tuning to Turkey, the country has experienced a significant surge in both inward and outward of FDI owing to economic liberalization movement in 1980. Prior to 1980, there are a lot of restrictions which had affected the FDI inflow into the country. Therefore, the economy had to go through a myriad of reforms since government then had realized the impact of globalization on economies and the need for Turkey to take advantages of foreign resources (Ilgun et al, 2010). Among the reforms implemented through the liberalization period shifting from import substitution towards export-led development include; free market economy, minimum state intervention and integration with the world economy in 1980. Consequently, inflows of FDI reached from \$97 million in 1980 to \$8.6 billion in 1998. Prior to this period, Turkish economy was characterized by heavy protection which of course served as an obstacle to the smooth conduct of FDI and attracting needed inflow of foreign capital. Several efforts were made in order to get rid of investment bottlenecks and to improve the inflows level by enhancing its global share through harmonizing policies and proving conducive investment environment. This led to encouragement through direct and indirect measures such as export tax rebates, duty free access to import, preferential export credits etc. Elimination of import barriers gained momentum after 1984. There was huge reduction in tariffs and substantial amount of commodities were allowed to be

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<sup>27</sup> UNCTAD, 2009, Nigeria investment review

<sup>28</sup><http://www.nigeriatradeshub.gov.ng/Organisations/ViewOrganisation.aspx?AgencyId=1014>

imported without any prior permission (Izmen, Yilmaz, 2009; Mangir et al, 2012; Coskun, 2001).

Between the years 2005-2010, FDI inflows reached an annual average of \$15 billion from \$2 billion through 2000-2004 and \$772 million in 1990-1999. Similarly, privatization of energy sector, telecommunications and banking contributed to the recent surge in FDI inflow into Turkey.<sup>29</sup> The accession to the EU Custom Union in 1996 marked an important milestone in an effort to integrate into the global economy which had greatly aided in accelerating trend in Turkey (Mangir et al, 2012).

FDI inflows had increased by 76% to \$16 billion, maintaining the nation's position as the region's second highest receiver of FDI and rising its share in the region's total from 16% to 33% although has slightly decreased by 25% in 2012 to \$12.4 billion. Inflows in Turkey remained smaller than their zenith of \$22 billion in 2007 (UNCTAD, 2012, 2013). There was a great increment compared to 2009 and 2010 in which inflows into the country stood at \$8.4 billion, \$9.1 respectively.<sup>30</sup>

In order to further stimulate the value added activities and to benefit from foreign resources, Investment Support and Promotion Agency Turkey (ISPAT) was established. The goal is to promote Turkey's investment opportunities to the rest of the world and provide support and assistance to both current and potential investors' before, during and after entry into the country.<sup>31</sup>

Investment policies available include formation of suitable land filling facilities in line with the type of waste, small enterprises' to gain easier access to various government buttress programs, online application through the launch of a small and medium enterprises information system, removal of administrative bottlenecks and red-tape, automation of the process in work permits, tax exemption grant for the products specified in accordance with global bilateral and multilateral R&D programs and provision of an effective audit as well as effective control system in food sector have been secured. Similarly, Turkey has signed bilateral investment treaties so as to enhance bilateral flows of resources and to safeguard

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<sup>29</sup> Investment country profiles Turkey, February 2012 UNCTAD

<sup>30</sup> [www.economy.gov.tr](http://www.economy.gov.tr) General directorate of foreign investment May 2011

<sup>31</sup> <http://www.invest.gov.tr/en-US/theagency/Pages/OurServices.aspx> (Accessed 7/5/2014)

the investment of foreign investors with countries having strong investment relation with Turkey<sup>32</sup>

Other incentives include 100% customs duty exemption on imported machinery and equipment, 100% value added tax exemption on the purchase and import of machinery and equipment, corporate tax reduction from 50% up to 90% determine by the location and the amount of investment, incentives for technology development zones, research and development incentives, incentives for free trade zones. Also there is employer's share for insurance premium payment, VAT refund, and VAT exemption for strategic investment incentives. Other measures include repatriation of 100% earnings/profits and return on shares, 100% foreign ownership, foreign administration; reduced tariffs and non-tariffs trade impediments to adapt to EU benchmarks, no price controls, and compliance with global legal/accounting. Turkey also offer exports inducements to prospective investors such as custom duty exemption, energy incentives in priority development regions, subsidized loans, free trade zones, land allocation, corporate tax exemption and construction/building taxes exemption (Coskun, 2001).<sup>33,34</sup>

However, economic liberalization is the means to support economic growth and development, hence, countries worldwide had enacted and continued to liberalize their economies, providing more appropriate regulatory activities. Countries continued to undertake appropriate investment policies to promote and encourage private investment. These two emerging economies were not left behind in terms of restructuring their economies to further support their growth and development. This is evident in considering the increase in the amount of FDI inflows to these nations over the years despite its decreased after the period of global economic meltdown as provided in the tables 2 and 3 (Agbaeze, Onwuka, 2014; Babatunde et al, 2013; Bala, 2003). Table 2 presents FDI inflows and stocks between 2005 -2012 as a percentage of gross fixed capital formation (GFCF) and as a percentage of GDP for both countries. Nigeria and Turkey can also be compared in terms of FDI inflows as a percentage of GFCF as well as percentage of GDP. It

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<sup>32</sup> Investment country profiles Turkey, February 2012 UNCTAD

<sup>33</sup> Investment in Turkey 2013 [www.kpmg.com.tr](http://www.kpmg.com.tr)

<sup>34</sup> Republic of Turkey prime ministry investment support and promotion agency of Turkey (ISPAT) regional investment partnership, Tunisia investment forum 2013

shows the level of trend in the annual inflows and outflows of FDI for the period of 2005-2007, 2009, 2010, 2011, and 2012. In 2005-2007 periods, the total capital inflows were \$5321 billion in Nigeria, and \$ 17421 billion in Turkey. In Nigeria, the highest amount of FDI inflows was realized in 2011 with the total inflows of \$8950 billion. This amount decreased to \$7026 billion in 2012. On the other hand, FDI inflows were \$16047 in 2011 and decreased to \$12419 billion in 2012.

**Table 2:** FDI Flows and Stocks in Nigeria and Turkey during 2005–2012 (Billions of dollars and percentage) selected years

FDI flows								As a percentage of GFCF			
		2005-2007	2009	2010	2011	2012	2005-2007	2010	2011	2012	
Nigeria	Inflows	5321	8650	6099	8915	7029	47.6	22.8	32.8	23.9	
	Outflows	404	1542	923	824	1539	3.6	3.5	3.0	5.2	
Turkey	Inflow	17421	8663	9036	16047	12419	14.6	6.5	9.5	7.6	
	Outflow	1365	1553	1464	2349	4073	1.1	1.1	1.4	2.5	
FDI stocks		1995	2009	2010	2011	2012	As percentage of GDP				
							1995	2010	2011	2012	
Nigeria	Inward	16256	54228	60327	69242	76369	53.7	26.3	28.2	27.6	
	Outward	2943	4118	5041	5865	7407	9.7	2.2	2.4	2.7	
Turkey	Inward	14933	143736	186980	140017	181066	6.6	25.6	18.1	22.9	
	Outward	1418	22250	22509	26398	30417	0.6	3.1	3.4	3.9	

**Source:** UNCTAD, *World Investment Report 2013*; <http://unctad.org/wir> or <http://unctad.org/fdistatistics>. Country fact sheet Nigeria, Turkey. [http://unctad.org/sections/dite\\_dir/docs/wir2013/wir13\\_fs\\_ng\\_en.pdf](http://unctad.org/sections/dite_dir/docs/wir2013/wir13_fs_ng_en.pdf), [http://unctad.org/sections/dite\\_dir/docs/wir2013/wir13\\_fs\\_tr\\_en.pdf](http://unctad.org/sections/dite_dir/docs/wir2013/wir13_fs_tr_en.pdf)

Table 3 presents FDI inflows and outflows for Nigeria and Turkey as a percentage of GFCF which refers to the percentage of net increase in physical assets (investment minus disposal) within the period specified. It is the acquisition minus disposals of produced fixed assets for a period of more than one year.<sup>35</sup>

<sup>35</sup><http://www.oecdilibrary.org>(Accessed 10/4/2014)

**Table 3: FDI Inflows and Outflows as a Percentage of GFCF 1990-2002**

Inflows of FDI as percentage of GFCF			Outflows of FDI as percentage of GFCF		
Country	Nigeria	Turkey	Country	Nigeria	Turkey
1990	20.1	1.6	1990	8.3	- 0.0
1991	24.6	1.8	1991	9.0	0.1
1992	28.3	1.8	1992	6.4	0.1
1993	42.8	1.1	1993	12.1	0.0
1994	68.9	1.5	1994	9.9	0.1
1995	59.5	1.8	1995	9.0	0.2
1996	92.8	1.3	1996	25.3	0.2
1997	58.0	1.3	1997	3.6	0.4
1998	40.0	1.5	1998	5.2	0.6
1999	46.9	1.7	1999	6.9	1.4
2000	40.2	1.8	2000	5.2	1.6
2001	38.2	10.7	2001	2.8	1.6
2002	49.2	2.8	2002	4.2	0.4
2003	32.4	3.3	2003	2.5	0.9
2004	32.8	3.5	2004	4.0	1.0
2005	81.2	9.9	2005	0.2	1.0
2006	40.7	17.1	2006	2.7	0.8
2007	39.5	15.9	2007	5.7	1.5
2008	47.6	13.6	2008	6.1	1.8
2009	42.2	8.4	2009	7.5	1.5
2010	22.8	6.5	2010	3.5	1.1
2011	32.8	9.5	2011	3.0	1.4
2012	23.9	7.6	2012	5.2	2.5

Source: *WIR, 2013* UNCTAD, FDI/TNC database ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics)).

<http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx>

Table 4 measures the value of capital and reserves that come from one economy and migrate to another for the purpose of investment. FDI stocks refer to the investment that emanates from other economies and may be expressed in terms of percentage of GDP to give a whole picture of the origin of capital and reserves. Outward stocks measure the amount of money that government and its firms invest abroad. It provides information on where investment goes. High FDI outflows can be an emblem of economic growth and prosperity that indicates firms are big

enough to carry out value added activities abroad.<sup>36</sup> In terms of FDI inward stock share of GDP, Nigeria recorded the highest inflow of FDI to GDP in 1999 of 62.7% and lowest in 2006 of 21.5%. In Turkey, the highest share of FDI inflow to GDP was 25.6% in 2010 and the lowest share was recorded in 1990 and 1993 of 5.5%. In terms of FDI outflow as a share of GDP, Nigeria recorded highest in 1999 of 11.1% and the lowest in 2005 of 0.3%. Highest FDI outflow share of GDP was 3.9% in 2012, and the lowest 0.5% in 1993 in Turkey.

**Table 4:** FDI Inward and Outward Stock as a Percentage of GDP

FDI inward stock as a percentage GDP 1970-2012			FDI outward stock as a percentage GDP, 1970-2012		
Country	Nigeria	Turkey	Country	Nigeria	Turkey
1990	24.4	5.5	1990	3.5	0.6
1991	29.1	5.9	1991	4.9	0.6
1992	33.7	6.0	1992	5.9	0.6
1993	39.2	5.5	1993	7.5	0.5
1994	50.4	8.0	1994	9.3	0.7
1995	53.7	6.6	1995	9.7	0.6
1996	57.0	6.4	1996	10.9	0.6
1997	59.3	6.4	1997	10.8	0.7
1998	60.5	6.5	1998	10.8	0.8
1999	62.7	7.3	1999	11.1	1.1
2000	51.3	7.1	2000	8.9	1.4
2001	56.8	10.4	2001	9.6	2.3
2002	45.8	8.1	2002	7.5	2.5
2003	43.3	11.0	2003	6.8	2.0
2004	35.7	9.8	2004	5.5	1.8
2005	23.5	14.8	2005	0.3	1.7
2006	21.5	17.9	2006	0.4	1.7
2007	22.4	24.0	2007	0.9	1.9
2008	21.9	11.0	2008	1.2	2.4
2009	32.0	23.4	2009	2.4	3.6
2010	26.3	25.6	2010	2.2	3.1
2011	28.2	18.1	2011	2.4	3.4
2012	27.6	22.9	2012	2.7	3.9

**Source:** *WIR, 2013* UNCTAD, FDI/TNC database ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics)).  
<http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx>

Table 5 presents FDI inward performance index which depicts a nation's relative triumph in enticing world FDI. It shows how nations are performing with

<sup>36</sup> UNCTAD FDI stock

respect to their potential and enable it to realize the importance to measure how they are doing today in terms of attracting FDI and their potentials in the future. This performance is measured by UNCTAD, using its yardstick by standardizing a country's inflows with respect to the size of the economy. It also measures country's potential using key economic determinants and policy importance to investors. These are, per capita GDP, the rate of economic growth over previous years, the availability of enabling infrastructure, low cost labour force, market potential, skills and the presence of factor endowments. It is assumed that the bigger the economy as measured by economic growth (GDP) the higher the additional FDI it will receive. A value less than one denotes a smaller share of FDI with respect to GDP and a value greater than one implies a larger share of FDI with respect to GDP. FDI divestment is indicated by a negative value, which suggests that foreign investors took away their investment in that period. The Outward FDI Performance Index shows a country's success with respect to investing elsewhere through FDI.<sup>37,38</sup>

With respect to Nigeria and Turkey regarding FDI performance and potentials index over some years is ranked below by UNCTAD.

**Table 5:** FDI inward performance and potential index ranking, 1990-2010

FDI inward performance index			FDI outward potential index		
Economy	Nigeria	Turkey	Economy	Nigeria	Turkey
1990	16	78	1990	64	63
1995	25	110	1995	91	76
2000	76	126	2000	87	72
2005	49	89	2005	82	68
2006	84	71	2006	82	72
2007	90	91	2007	87	73
2008	71	94	2008	85	75
2009	40	102	2009	93	80
2010	61	108	2010	..	..

Source: UNCTAD, World Investment Report, 2010, Annex Table 28.

[www.unctad.org/wir](http://www.unctad.org/wir)

<sup>37</sup> [www.unctad.org/en/](http://www.unctad.org/en/)

<sup>38</sup> UNCTAD 2012, world investment report

## **2.6 Scope and limitation of the study**

The economy is big enough with many diversities and complexities. This research will focus on a particular sector of the economy, that is, international investment. This thesis is on the comparative analysis of the effect of foreign resources on economic growth of Nigeria and Turkey, the observation spans are from 1970-2012. The research involves the inflows and outflows of FDI into these economies, FDI performance and potential index, increased in terms of flows due to economic liberalization, analyzed the data collected over the period covered by the study and proposed solutions to the problems.

**CHAPTER THREE**  
**EMPIRICAL LITERATURE OF FDI GROWTH NEXUS:**  
**NIGERIA AND TURKEY**

**3.1 Review of Empirical Literature**

FDI and economic growth nexus on the growth and development of both developed and developing nations has spurred volumes of empirical studies. Hence, it becomes a debated issue on the global scale (Erhieyovwe, Jimoh, 2012). There exists a numerous research that investigated the effect of FDI on economic growth of which some reported a positive nexus between FDI and economics, while others reported otherwise. However, it is worthy of note that, the impact of FDI vis-à-vis economic growth is a country specific even on the same continent, it heavily depends on so many factors inter alia political, economic, social, technological, institutional and human capital of a host nation. FDI enhances the recipient nation's competitiveness, GFCF, industrial productivity and other spinoff benefits such as enhancement in the quality of human resources, transmission of technology, managerial expertise, and increased investment. Others include externalities in the form of imitation, human resource training and development, introduction of new production processes by the MNCs and licensing. For a country to absorb new technology and other FDI related benefits there has to be a threshold level of infrastructural development. FDI impact on economic growth is dependent on the intensity of human resources and the level of income existing in the recipient nation (Alfaro et al, 2010; Blomsröm, 1992; Borensztein et al, 1998; Gedik, 2013).

Empirically, FDI has been found to accelerate economic growth in the host through interaction of human capital by Almfraji, Almsafir (2014), Borensztein et al, (1998), Glass,Saggi, (1998), Vu, (2008). Zhuang and Griffith (2013) in their research on the effect of M&A and greenfield FDI on income inequality, employing a panel data of 93 nations between the span of 1990-2009, found that the distributional impact of greenfield investment on income equality is significantly

negative, while that of M&As is insignificant. M&As and greenfield investment are not associated with more equal income distribution in developed nations than in developing nations. Similarly, the results suggest that greenfield investment contributes to a more equal income distribution in Latin American and Caribbean countries.

Similarly, in making comparison of the role of FDI on economic growth between Africa and Asia countries, Zakari et al, (2012), came to the conclusion that, for both African and Asian countries, there is evidence of a positive nexus between FDI and GDP. Furthermore, the result suggests that there is unidirectional causality for Africa, no such for Asia.

Hermes, Lensink (2003), conducted a research on 67 least developed countries (LDCs) between the period of 1970-1995 to empirically examine the role the development of the financial system plays in improving the positive nexus between FDI and economic growth. Their result suggested that, for 42 nations foreign resources as a percentage of GDP is between zero and one, for 17 nations it is between one and two, for five countries between two and three, and for three countries between four and five.

Asiedu (2002), analyzed the determinants of FDI to developing countries, the results proved that drivers of FDI in other developing countries have dissimilar impact on FDI to Sub-Saharan Africa (SSA). While infrastructure and a higher return on capital found to promote FDI to non SSA, they had no significant effect on FDI on SSA. Similarly, a marginal benefit of increased openness to trade or trade liberalization generates more FDI to non SSA countries in comparison with SSA countries. The result also suggested that there is adverse regional effect for SSA, thus SSA receive lower amount of FDI by virtue of its location.

Shahrudin et al, (2010), analyzed the determinants of FDI in Malaysia, they empirically realized the existence of equilibrium relationship among FDI and its key determinants. They realized that development in the financial market instrument and a more advanced banking system are found to be the key factor in driving more foreign investor into Malaysia. Buckley et al, (2002), investigation found the evidence of non-productivity spillovers in the development of high-tech and new products by domestic enterprises. It was further reported that many forms

of ownership advantage of foreign firms, connected to nationality, confer conflicting spillover impacts on domestic enterprises in the recipient nation. The findings further imply that absorptive capacities between the types of domestically owned enterprise vary, and that form of possession has a powerful influence on the extent, if at all, domestic enterprises are capable to take advantage from spillovers.

Fry (1993), focused on the role of FDI in boosting economic growth by using macroeconomic framework of 16 developing countries for a time series cross section data namely; Pakistan, Mexico, Brazil, Chile, Egypt, India, Nigeria, Venezuela, Turkey, Sri Lanka, Philippines, Indonesia, Korea, and Thailand. The study suggests that in 11 countries FDI is linked with the reduction of domestic investment signifying that FDI to those nations is merely a close substitute for other form of capital inflows. In 5 Pacific economies, FDI is associated with the increase in the domestic investment. While negative impact of FDI was discovered on national savings of all the 16 developing countries.

In their efforts to determine how FDI promotes growth, Alfaro et al, (2010), report that, there exists higher growth rates as a result of increase in FDI in financially developed countries compared to those observed in financially poorly developed countries. Abel, Nikki (2011), analyzed the relative effect of macroeconomic, financial development and institutional factors on the flow of FDI on SSA region. They employed panel data obtained from 30 SSA countries between 1995 to 2008. Their finding was that the size of a country's market, infrastructural development, financial development, and urban agglomeration has huge positive effect on FDI flows in the SSA region. Similarly, they found that, inflation as well as corruption has positive effects on the influx of FDI on SSA. On the same vein, the findings revealed that FDI flows to SSA have a significant positive impact on trade openness. Furthermore, Anyawu (2011), investigated the determinants of FDI inflows on Africa, he concluded that there is a significant nexus between openness to trade, high government consumption, market size, agglomeration, natural endowments and FDI inflows to Africa. He also found that higher financial development has negative effect on FDI inflows to Africa.

In their empirical analysis of the impact of FDI on economic growth between Turkey and Pakistan between the span of 1975-2004, Ozturk, Kalyoncu

(2007), applied Granger causality and Engle-Granger co-integration techniques reported the evidence two way causality between FDI and economic growth in Turkey. In the case of Pakistan, only GDP granger causes FDI. Moreover, the findings suggested that the variables are co-integrated for both Turkey and Pakistan.

Bengos, Sanchez-Robles (2003), reveals that in spite of the fact that FDI is positively correlated with growth of the economy, receiving countries demand a threshold or a minimum human capital, liberalized market as well as social, economic and political stability so as to benefits from long term foreign capital inflows. This is because it takes well educated inhabitants to comprehend and diffuse the benefits of new innovations to the entire economy. Literature indicates that foreign capital unaccompanied by any domestic direct investment cannot lead to any stable initiation for higher standard of living in the future.

However, there lies a vagueness of FDI and growth nexus. Theoretically, FDI can exert positive effect on the host economy through enhancing growth by means of productivity and expertise acquired by domestic firms, transfer of technology as well as capital. Empirically, evidence is not unanimous. In developed nations based on the prevailing evidence is in favour of the notion that the productivity of local enterprises is positively correlated to the existence of TNCs (Moses, 2011).

### **3.2 FDI and Nigeria: Empirical Evidence**

A number of empirical investigations stresses the effect of foreign investment on economic growth. That is, FDI inflow leads to externalities in the form of technological diffusion and spillovers, improving standard of living, enhancing domestic enterprises competitiveness and thus this remains hugely ambiguous on account of conflicting outcomes (Osinubi, Amaghionyeodiwe, 2010). Nigeria received the highest share of FDI inflow to Africa in 2007, 2012, 2013, accounted for 16% of total FDI inflow to Africa, while in 2012, it attracted one fifth of the total inflow (1/5) on the continent (UNCTAD 2012, 2013). Empirically, FDI as a growth enhancing mechanism reported mixed results vis a vis improving Nigerian economic growth.

Izuchukwu, Huiping (2008), suggested that in order for FDI to exert the desired positive impact on economic growth, countries must have reached minimal income level so as to be able to take advantage of technology transmission and absorb new technologies and thus benefit the extra advantages that FDI can offer. On the same vein, Egbo (2011), found a positive nexus between FDI and economic growth in Nigeria. This indicates the existence of causality between FDI and economic growth in Nigeria. It coincides with the fact that, FDI stimulates economic growth.

However, some studies reveal positive association between FDI and Nigerian economic growth. For instance, Urama, Oduh (2012), ascertained that developments in telecommunication sector has impacted positive result toward poverty reduction in Nigeria to a very large extent. Ayanwale (2007), reports that, FDI stimulates economic growth in Nigeria, albeit the whole effect may not be significant, its component do have a positive impact. Similarly, market size, stable macroeconomic policy and infrastructural developments are the determinants of FDI in Nigeria. FDI in the communication sector has the highest potential to contribute hugely to the growth of economy, while FDI exerts negative impact on manufacturing sector.

Fasanya (2012), examined whether FDI plays a key role in accelerating economic growth in Nigeria. He reported the positive effect of FDI on economic growth. Albeit he recommended that coherent government policies are crucial.

Osinubi, Amaghionyeodiwe (2010), investigated the impact of the foreign private investment on Nigerian economic growth. Their findings shows that regardless of contradicting reports on the impact of inflows of foreign private investment other developing countries, the Nigerian situation is little bit dissimilar that foreign private investment has a positive significant effect on GDP growth rate of the country.

Ugochukwu et al, (2013), in their study of the impact of FDI on economic growth of Nigeria, they discovered a positive but statistically insignificant relationship. This could be attributed to scanty inflow of FDI into the country which has not been able to reflect positively on economic growth. They also reported that domestic investment played a key role for the growth of Nigerian economy. Similar

findings are reported in the study by Christopher (2012), in analyzing the contribution of foreign direct investment on economic growth in Nigeria which found the evidence positive relationship between FDI and GDP during the period covered by the research. Although its contribution to economic growth in Nigeria was not statistically significant, the research shows that foreign investment has the prospect to substantially effect on the economic growth of the country.

Nabine (2009), investigated the Chinese FDI impact on economic growth of Nigeria and reported the absence of bilateral trade contribution on Nigeria economic growth in the short term. However, in the long run, bilateral trade between the two countries can enhance Nigeria economic growth. And Granger causality indicates that inflows of Chinese FDI is due to the Nigeria labour force which is the main vehicle that contribute to the development of China and Nigeria bilateral trade growth which have a positive impact on Nigerian economic development. In their efforts to analyze the impact of FDI in Nigeria, Ogbanje et al, (2010), found that, strong relationship exists between agricultural sector's share of foreign direct investment and agricultural GDP, suggesting that increase in agricultural sector's share of FDI is associated with growth in agricultural GDP.

Kareem et al, (2012), in determining the impact of FDI in the oil sector on the Nigerian economic growth found that an increase in FDI by a single unit into the oil sector at lag 3 (three years time lag) will increase Nigeria's GDP by 16 units approximately.

Moses (2011), investigated the impact of FDI on oil and non-oil sector between the periods of 1970-2008, he reported that non-oil FDI contributed positively to economic growth, while FDI to oil sector had less impact on the economic growth. Olumuyiwa (2013), analyzed the impact of FDI on economic growth over the period of 1970-2010 in a pre and post deregulated Nigerian economy and arrived at the conclusion that, FDI granger causes GDP in the pre-deregulation era that is (1970-1986), no such causality was found in the post-deregulated period (1986-2010). Nurudeen et al, (2010), Abdullahi et al, (2012), Egbo et al, (2011), empirically detected a unidirectional relationship running from FDI and GDP.

Apart from the several studies that supported the effect of FDI on countries economic growth and development, there are number of investigations that found negative impact of the presence of foreign firms on local enterprises. For instance, Izuchukwu, Huiping (2008), in analyzing the impact of FDI in telecommunication sector on the economic growth of Nigeria, their empirical results indicates adverse relationship between FDI and GDP. They asserted that this could happen in a short run, the relationship may change in the long run. In the study of Imoudu (2012), using Johansen's cointegration approach examines the impact of foreign direct investment on Nigeria's economic growth between 1980-2009, he concluded that impact of FDI on Nigerian economic growth at the moment was not that significant. Also, Abdallah, Abdullahi (2013), Nkechi,Okezie (2013), found a negative long run connection between FDI and growth in Nigeria. Similarly, Akinmulegun (2012), study suggests that FDI has not improved the standard of living in Nigeria. He further attributed this to the small proportion of FDI inflow on the continent and the little flow that accrued to Nigeria.

Erhieyovwe, Jimoh (2012), reported no evidence of causality between FDI and GDP. While Akinlo (2004), in his investigation on the impact of FDI on economic growth of Nigeria, concluded that FDI concentrated on oil sector might not enhance growth as much as FDI focused on manufacturing sector. Similarly, it suggests export, human resources, labour are positively related to growth. Private capital has insignificant positive effect on growth based on the result.

Subair, Salihu (2011), stated that FDI on its own has contributed adversely to the development of small and medium scale enterprises in Nigeria through the MNCs. This has been attributed to low profit expectation in small and medium scale businesses and perhaps, the transnational enterprises (TNEs) are more risk averse.

Omankhanlen (2011), investigated the impact of inflation and exchange rate on foreign direct investment and its relationship with economic growth in Nigeria between 1890-2009, his findings suggested that, inflows of FDI into the country's was not a main contributor to economic growth and development of the country. He further reported that, foreign exchange rate had greater effect on the

inflow of FDI into the Nigerian economy whereas inflation had minimal impact on the inflow of FDI into the country.

### **3.3 FDI and Turkey: Empirical Evidence**

In his work on the causal nexus between economic growth and FDI in Turkey during the period of 1999-2006 using Granger causality tests, Afşar (2007), found that, reciprocal causality relationship between FDI and growth rate do not exist. The relationship is one way causality, only FDI affects growth, while growth does not affect FDI. Kiran (2011), investigated the causal links between trade and foreign direct investment for the period of 1992-2008 in Turkey. His results reported that, there is no evidence of causal relationship between FDI and trade in Turkey. His findings further suggested that certain conditions need to be improved such as development of financial system, labour, political stability, and education before having foreign investment.

In the study of the FDI as a determining factor in Turkey's export performance using annual data for (1982-2009), Vural, Zortuk (2011), revealed that real appreciation of the country's currency negatively affects nation's export performance. Export supply is positively connected to the domestic relative price of exports while the higher local demand decreases export supply. The result further indicates that, foreign private investment happens to have statistically significant impact on export performance as well as its coefficient has a positive sign.

Temiz, Gökmen (2010), empirically investigated the relationship between FDI and export by using Turkish monthly time series data during the period of 1991-2008. In this study a number of econometric techniques were employed. Their findings indicates that both in long run and short run, the evidence causality running from export to FDI in Turkey. The study further suggests that, Turkish economy have not received any considerable positive spillovers from FDI to export, indicating no FDI-led export growth linkage. Moreover, Dilek, Gökmen (2014), empirically investigated the inflow of FDI as an international business operation by TNCs and economic growth over the period of 1992-2007, their findings states that no causal relationship between FDI and GDP in Turkey. Similarly, Alagöz et al, (2008), conducted an investigation of the nexus between FDI and GDP in Turkey they concluded that, there is no evidence of causality between the variables.

Georgantopoulos, Tsamis (2011), analysed the triangular causal links between economic developments in Turkey over the period of 1970-2009, their results reveals unidirectional causalities running FDI to GDP, export to FDI and export to GDP.

Durnel (2012), empirical studies suggests that, FDI contributes to the growth of some sectors such as manufacturing, electricity, gas and water. It was also found that there is unidirectional causality from FDI and GDP.

Darrat, Sarkar (2009), investigates the growth consequences of FDI and reports the evidence of strong equilibrium relationship connection of inflows into Turkey and real economic growth, economic openness and the accumulation of human capital. They further suggested that, out of the three growth factors, human resources accumulation can only encourage economic growth in the short-run in addition to its significant equilibrium causal effect. Ergo, good education is a sineaquanon as it appears capable of improving and sustaining economic growth in Turkey, both in the long-run and short-run.

Çetinkaya et al, (2011), Günaydin, Tatoğlu (2005), Ilgun et al, (2010), Ozturk, Kalyoncu (2007), in their studies of how FDI promote growth and the interaction of FDI and growth in Turkey, they came to the conclusion that, there is a bi-directional causality running from FDI to economic growth in Turkey.

Loewendahl, Ertugal (2000), investigated the performance of Turkey's economy in attracting foreign private investment. Their conclusion was that the country has not been successful in attracting the needed amount of FDI because of the decelerate pace of privatization, institutional and political impediments of which prolonged inflation is an indication. Similarly, the results further suggested that inadequate investment promotion as a main hindrance. Therefore, membership of EU is indispensable if Turkey is to successfully contend and attract higher level of FDI. Coskun (2001), examined the determinants of FDI in Turkey he disclosed that, FDI inflows are highly motivated by the growing market size of the country and economic performance. This is attributed to the intention of foreign firms to produce to meet the demands of local market instead of exporting.

Bildirici et al, (2010), analyzed the relationship between FDI and growth in Turkey by using threshold cointegration over the period of 1992:01-2008:01. Their

empirical research shows that, in the cases in which foreign capital decrease above 70%, there will be 35% decrease in the growth and this is a quite remarkable decline.

Mangir et al, (2012), analyzed the key determinants of FDI in Poland and Turkey for the period of 2000-2009. Their results suggests that in Poland, FDI Granger caused market size, and bidirectional causality between openness and FDI is found. However, in the case of Turkey, market size (GDP growth) Granger caused FDI inflows and evidence of unidirectional causality between openness and foreign direct inflows running from openness to inflow was realized. No evidence of causal relationship between foreign private investment and inflation as in the case of Poland.

However, it is widespread belief that FDI bridges the investment gap and positively affect the productivity of the host countries, though empirical evidence fails to reinforce these assertions in both countries, as the impact of FDI vis-a-vis economic growth is not unanimous in their submissions. In particular most of the empirical literature affirms insignificant or negative, positive or no effect of FDI on the economic growth of these countries. Ergo, the correlation between FDI and growth is riveting topic open to further debate.

### **3.4. Methodology**

Identifying the long run relationship between foreign direct investment and economic growth is very important because increase in FDI can play a vital role in enhancing country's economic growth in several channels. Therefore, it would be imperative to determine how FDI inflows affect economic growth of Nigeria and Turkey. This study seeks to answer the following questions, what is the impact of FDI inflows on economic growth in Nigeria and Turkey? Is there any long run relationship between FDI and economic growth in Nigeria and Turkey? What are the factors hindering the effectiveness of FDI in Nigeria and Turkey? Does the past, and the present policies on FDI, aided in attracting desired level of FDI inflow into Nigeria and Turkey?

In short, there are two main goals of this research. The first one is to determine the relationship between FDI inflow and economic growth in Turkey and in Nigeria for the period of 1970-2012. And the second one is to make a

comparison between Turkey and Nigeria with respect to the influence of the FDI inflow on economic growth. In a quest to meet this objective, the econometric technique is used to provide an answer to the questions raised.

This study employs the methods of time series econometrics, such as, vector autoregressive (VAR), unit root test, cointegration test, causality test, impulse-response functions and variance decomposition to test the dynamic relationship between FDI inflow and economic growth.

To be able to notify every selected variables effect in time series analyses, the VAR model is used in this study. VAR model is a general framework used to describe the dynamic interrelationship among stationary variables. All variables in a VAR are treated symmetrically in a structural sense that each variable has an equation explaining its evolution based on its own lags and the lags of the other model variables. VAR modeling does not require as much knowledge about the forces influencing a variable as do structural model. The only prior knowledge required is a list of variables which can be hypothesized to affect each other intertemporally. The VAR methodology is quite popular in forecasting econometric variables. In econometrics, VARs methodology was made popularized by Sim (1980). The VAR model approach has some very good attributes that, it is very simple and the researcher does not need to worry about which variables are endogenous or exogenous. It is multi-equation method, all variables are treated as endogenous. Estimation with VAR is very simple in the sense that each equation can be estimated with the usual OLS (ordinary least square) method separately. The forecasts obtained from VAR models are in most cases better than traditional structural models. VAR may be able to capture more attributes of the data as it offers a very rich structure. The VAR is commonly used for forecasting systems of interrelated time series and for analyzing the dynamic impact of random disturbances on the system of variables. VAR can serve as a means of identifying the relationships among variables. It can be considered as a means of conducting causality tests, impulse-response functions and variance decomposition. Similarly, VAR allow us to test for the bearing of causality linking the variables (Asteriou, Hall, 2007:279-281; Chris, 2008:290-295; Enders, 2004:301; Gujarati, 2003:848-849; Mangir, 2012).

The connection between inflow of FDI and economic growth is analyzed by using Johansen cointegration test and Granger causality in this study. Before applying the cointegration test and deciding the relationship among the variables, it is essential to test the stationarity of the series and degrees integration of the series.

Stationarity of the variables is very indispensable for econometric analysis. For this reason, unit root test is performed on the time series variables. This is owing to the fact that time series data mostly have unit roots. A series is said to be stationary if it has a constant mean, variance and auto-covariance over time. This means that in stationary time series, shocks will be temporary and their effect will be removed after a while as the series converge to their long run mean. On the other hand, non-stationary contains stochastic trend, hence, leads to spurious results to econometrics analysis which are meaningless. In other words, regression analysis with non-stationary variables could not materialize consistent result and a null regression problem may appear. Consequently, the nature of the time series will be tested to determine whether they are stationary or not and also their order of integration. The order of integration should assist us in determining the subsequent long run relationship among the variables. Unit root test is applied for this reason using the Augmented Dickey Fuller (ADF) (1981). It is imperative to establish the appropriate lag length in VAR systems. If the lag length is too small, the model which we are trying to estimate may have specified wrong, on the other hand, if it is too large, degrees of freedom are idle. During the analysis, the optimum lag length is ascertained by the Schwarz information criterion (SC) (Asterio, Hall, 2007:288; Dilek, Gokmen, 2014; Enders, 2004:68-69; Gujarati, 2003:802).

Economic theory is often concerned in long run relations and have very little to say about the economies in a state of disequilibrium. Cointegration is a statistical property of time series method used to test the long run relationship between variables. Despite being individually non-stationary, a linear combination of two or more series can be a stationary. Where there is an evidence of cointegration, we proceed with VECM (Vector Error Correction Model) which implies that a long run relationship among the series is present, in the absence of cointegration we proceed with VAR.

In line with the objective of this research, the next step after unit root test involves applying cointegration test to find out whether the variables are cointegrated or not. The long run nexus between FDI and economic growth is analysed with the Johansen cointegration test. The statistical mechanics of Johansen are wider spread and better compared to Engle Granger because it circumvent the use of two steps estimators and furthermore, can estimate and test for the existence of multiple cointegrating vector. It also allows for the speed of adjustment parameters and testing restricted versions of the cointegrating vectors. Johansen cointegration test involve two test statistics; the trace statistic and the maximum eigenvalue statistic. The trace statistic tests the null hypothesis: “there are at most  $r$  cointegrating relations” against the alternative of “ $m$  cointegrating relations” (i.e., the series are stationary),  $r = 0, 1, \dots, m-1$ . The maximum eigenvalue statistic test the null hypothesis: “there are  $r$  cointegrating relations” against the alternative; “there are  $r + 1$  cointegrating relations”. In other words, the major disparity between the two test statistics is that, the trace test is a joint test where the null hypothesis is that the number of cointegrating vectors is less than or equal to  $r$ , in contrast to a general alternative that there are more than  $r$ . Whereas the maximum eigenvalue test performs diverse tests on the individual eigenvalues, where the null hypothesis is that the number of cointegrating vectors is  $r$ , contrary to an alternative of  $(r+1)$  (Asteriou, Hall, 2007:307-308; Chris, 2008:336-337; Gujirati, 2003:822; Johansen, Juselius, 1990; Margin, 2012). The optimum lag lengths are essential in Johansen cointegration test. The optimum lag lengths are determined again using the Schwarz information criterion in this study.

Previously, it is said that in time series analysis the first step should be to determine whether the levels of the variables are unit root free. If not, the next step is to take the first differences of the data. Usually, if the levels of data are not stationary, the first differences become stationary. If the time series are non-stationary then the VAR framework needs to be modified to allow consistent estimation of the correlation among the series. The vector error correction (VECM) model is just a special case of the VAR for variables that are stationary in their differences (i.e.,  $I(1)$ ). The VECM can also take into account any cointegrating connections among the variables. In this case, the short run dynamics of the

variables in the system are represented by the series in differences and the long run relationships by the variables in levels. One of the very good features of VAR is that it allow for the direction of causality between the time series. In the VAR system, Granger causality illustrates the power of clarification of variable to each other in the system. Assume that we have two variables; Y and X affect each other with distributed lags. This relationship can be captured in VAR. Granger (1969) developed a test to ensure whether or not the inclusion of previous values of a variable X enhances the forecast of present values of variable Y. If the prediction of Y is improved by including past values of X relative to only using the past values of Y, then X is said to Granger-cause Y. likewise, if the previous values of Y enhance the forecast of X with respect to using only the previous values of X, then Y is said to Granger-cause X. If both X is found to Granger-cause Y and Y is found to Granger-cause X, then there is said a feedback correlation. Yet there is a possibility of spurious causality. To prevent it, both series need to be stationary (Asteriou, Hall, 2007:281; Chris, 2008:298). In this research, the pairwise Granger causality test was conducted.

The advocates of VAR models estimate impulse-response functions simply because the coefficients obtained from the VAR models are difficult to interpret because they thoroughly lack any theoretical backing. F- test is not capable of explaining the relationship or disclose whether changes in the value of a given variable have a positive or otherwise effect on other variable in the system or how long this requires to take place. However, such information will only be given by examination of VAR's impulse-response and variance decompositions. Impulse-response test is conducted to trace out the responsiveness of the dependent variables in the VAR to shocks to each of the variables. It shows the reaction of each variable in the VAR and the impact of other variables. Similarly, impulse-response can give information on the period through which variables return to equilibrium following the shock in the long run nexus. Therefore, for each variable from each equation separately, a unit shock is applied to the error, and the impacts upon the VAR system over time are observed (Chris, 2008:299; Enders, 2004:305; Hamdi, Sbia, 2013).

Uncovering the relationships among the variables in the system is vital as it helps to understand the properties of the forecasts error. Unrestricted VARs are not particularly important for short term forecasts. The variance decomposition discloses some important information and explanation regarding the contribution of each variable to other variables in the system. While variance decompositions offer a relatively distinct procedure for looking into VAR system dynamics. It offer the percentage of the fluctuations or changes in the dependent variables that are attributed to their 'own' shocks, and the shocks that occur because of the other variables (Chris, 2008:300; Enders, 2004:310).

### 3.4.1. Sources of Data

Annual data from 1970 to 2012 is used in this analysis. In this study, GDPC (GDP per capita) denotes economic growth and FDI denotes the foreign direct investment inflows. Data on FDI inflow were obtained from the UNCTAD statistics for both countries. Data on GDPC were obtained from World Bank (2014) for both countries. The logarithmic values of the variables are used in this study.

### 3.4.2. Model Specification

In order to examine the effect of FDI inflow on economic growth in Nigeria and in Turkey, the following VAR system equations in a bivariate framework are used:

$$y_t = c_1 + \sum_{i=1}^n \alpha_{1i} FDI_{t-i} + \sum_{i=1}^n \beta_1 y_{t-i} + \mu_{1t}$$

$$FDI_t = c_2 + \sum_{i=1}^n \alpha_{2i} FDI_{t-i} + \sum_{i=1}^n \beta_{2i} y_{t-i} + \mu_{2t}$$

Data specification:

$y_t$ : The log of per capita GDP,

$y_t = \text{LGDP}$  (The log of per capita GDP)

LGDPN: The log of per capita GDP in Nigeria

LGDPCT: The log of per capita GDP in Turkey

LFDI: The log of foreign direct investment inflows

LFDIN: The log of FDI Nigeria

LFDIT: The log of FDI Turkey

$\mu_{1t}$  and  $\mu_{2t}$  are the residual terms

$c_1$  and  $c_2$  are the constant terms

Data set graphs are given in Figure 1.

**Figure 1:** Graphs of the data set



### 3.5. Empirical Results and Analysis

FDI was chosen to be the topic of discussion in this study because of the massive benefits and opportunities it offers. This is recognizable in considering the global surge in both inflows and outflows of this trend annually. There are enormous capital stocks, innovations and technology vacuum between developed and developing economies. Therefore, FDI inflow to developing economies will serve as a suitable means of external finance for bridging this gap to complement insufficient domestic resources. FDI inflow to a nation has the potential of being mutually beneficial to the foreign entity and host economy. Investing firms gain access to market, low cost labour force, incentives and production resources. Inflows of FDI are capable of increasing the level of investment, thus leading to surge in per capita income of the host economy. FDI generates spill-over effect such as technology diffusion, stimulates innovation, technical know-how and skills, increase domestic competition, jobs creation and revenue generation in the domestic economy. It also aids local firms to expand abroad.

#### **Stationarity of the variables:**

Initially, stationarity of the variables has been examined. Unit root test is performed on the time series variables. To clarify the unit root of variables, the ADF (1979) test is applied and its results are presented in Table 6. The critical values were generated by Eviews7 econometric program and based on MacKinnon values. The values that are given in parenthesis designate the lag lengths. During the analysis, the optimum lag length is ascertained by the Schwarz information criterion (SC).

The table 6 presents the results of ADF test, the table indicates that LFDI Nigeria (LFDIN) was non-stationary in level (-2.2382) but after taking the first difference LFDI Nigeria (DLFDIN) becomes stationary (-12.093) at 1% and 5% significance levels. Similarly, ADF test for LGDP Nigeria (LGDPN) reveals non-stationary of the series in level (-1.4007), after taking the first difference, it becomes stationary (-5.5090) at 1% and 5% confidence levels.

LFDI Turkey (LFDIT) was stationary at both level and first difference at 5% significance<sup>39</sup>. While LGDP Turkey (LGDPCT) ADF test indicates non-

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<sup>39</sup>The **significance level** is chosen to be 0.05 (or equivalently, 5%) in this analysis.

stationary at level (-2.4954), stationary is observed at first difference (-6.6701) at 1% and 5% significance levels.

For Nigeria, the unit root test indicates both FDI and GDPC are non-stationary in levels but stationary at the first difference at 1% and 5% significance levels. On the other hand, for Turkey, unit root test indicates that FDI is stationary in level and difference at 5% significance level, while GDP is non-stationary in level it become stationary after taking the first difference at 1% and 5% levels of significance.

**Table 6: ADF Unit Root Test Results**

NIGERIA				
Variables	ADF Test Statistics	Prob.	Deterministic Regressors	Results
LFDIN	-2.238232 (0)	0.4567	Intercept and Trend	Non-stationary
LGDPEN	-1.400747 (0)	0.9575	None	Non-stationary
DLFDIN	-12.09300*(1)	0.0000	Intercept	stationary
DLGDPCT	-5.509018*(1)	0.0000	None	stationary
TURKEY				
Variables	ADF Test Statistics	Prob.	Deterministic Regressors	Results
LFDIT	-3.856654** (0)	0.0230	Trend and Intercept	Stationary
LGDPCT	-2.495432(0)	0.3287	Trend and Intercept	Non stationary
DLFDIT	-9.364243*(1)	0.0000	Intercept	Stationary
DLGDPCT	-6.670184*(1)	0.0000	Intercept	Stationary

Note. \*, \*\* indicates significance at 1% and 5% respectively. "D" refers to the first difference

### **Cointegration Test:**

The next step involves applying Johansen cointegration test to find out whether the variables are cointegrated or not. The optimum lag lengths are determined using Schwarz information criterion.

Given the Johansen procedure for testing for cointegration requires the series to be integrated of the same order. This calls for Johansen cointegration analysis for Nigeria but not for cointegration analysis for Turkey.

Result from the cointegration test for Nigeria is reported in Table 7. In the table, it is reported that the null hypothesis indicates that there is no cointegration. This is also accepted by trace and maximum eigenvalue statistics. This result shows that there is no correlation in the model. This means that, the FDI inflow and GDP per capita for Nigeria do not cointegrate in the long run. This may be due to the

insufficient development in the needed areas to attract considerable amount of FDI and the concentration of FDI to the oil sector.

**Table 7: Johansen Cointegration Test Results (For Nigeria)**

Sample (adjusted): 1972 2012				
Included observations: 41 after adjustments				
Trend assumption: Linear deterministic trend				
Series: LFDIN LGDPCN				
Lags interval (in first differences): 1 to 1				
<b>Unrestricted Cointegration Rank Test (Trace)</b>				
Hypothesized		Trace	0.05	
No. of CE (s)	Eigenvalue	Statistic	Critical Value	Prob.**
None	0.053394	2.649940	15.49471	0.9805
At most 1	0.009713	0.400190	3.841466	0.5270
<b>Trace test indicates no cointegration at the 0.05 level</b>				
* denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon-Haug-Michelis (1999) p-values				
<b>Unrestricted Cointegration Rank Test (Maximum Eigenvalue)</b>				
Hypothesized		Max-Eigen	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None	0.053394	2.249750	14.26460	0.9838
At most 1	0.009713	0.400190	3.841466	0.5270
<b>Max-eigenvalue test indicates no cointegration at the 0.05 level</b>				
* denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon-Haug-Michelis (1999) p-values				
<b>Unrestricted Cointegrating Coefficients (normalized by b*S11 *b=I):</b>				
LFDIN	LGDPCN			
-0.810423	2.054638			
0.778457	0.502604			
<b>Unrestricted Adjustment Coefficients (alpha):</b>				
D(LFDIN)	-0.018007	-0.040676		
D(LGDPCN)	-0.045212	-0.001370		
<b>1 Cointegrating Equation(s):</b>				
	Log likelihood	-11.50391		
<b>Normalized cointegrating coefficients (standard error in parentheses)</b>				
LFDIN	LGDPCN			
1.000000	-2.535267			
	(1.52532)			
<b>Adjustment coefficients (standard error in parentheses)</b>				
D(LFDIN)	0.014593			
	(0.05591)			
D(LGDPCN)	0.036641			
	(0.02543)			

### **Causality Test:**

The next task is to investigate the direction of causality between the FDI and GDP in Nigeria and Turkey. The pairwise Granger causality test is used to determine the causal relationship between GDP per capita and FDI inflow in Nigeria and in Turkey. Granger causality really implies only a connection between the present value of one variable and the previous values of other, it does not mean that movements of one variable bring about movements of another (Chris, 2008:298). The result of Granger causality is presented in Table 8.

**Table 8: Pairwise Granger Causality Tests Results**

<b>Pairwise Granger Causality tests results for Nigeria</b>		
Period: 1970-2012, Lag Length 2 (according to SC)		
Null Hypothesis	F-statistic	Probability
DLGDPCN does not Granger cause DLFDIN	0.83927	0.4405
DLFDIN does not Granger cause DLGDPCN	0.20663	0.8143
<b>Pairwise Granger Causality tests results for Turkey</b>		
Period: 1970-2012, Lag Length 2 (according to SC)		
Null Hypothesis	F-statistic	Probability
DLGDPCT does not Granger Cause DLFDIT	0.02837	0.9720
DLFDIT does not Granger Cause DLGDPCT	0.29709	0.7448

All null hypothesis area accepted at the 5% significance level.

As a result of the pairwise Granger causality test it is apparent that there is no causal relationship between FDI inflow and GDP per capita in the short run in both countries. This could be possibly due to the fact that, the amount of FDI received by Nigeria is not enough despite its huge abundant resources, the market size potentials and the openness to trade. FDI modes of entry especially in Turkey is mostly through mergers and acquisitions, this means that the merging or acquiring foreign businesses acquire the facilities and sustain production operations without considerable investments (Temiz, Gökmen, 2014).

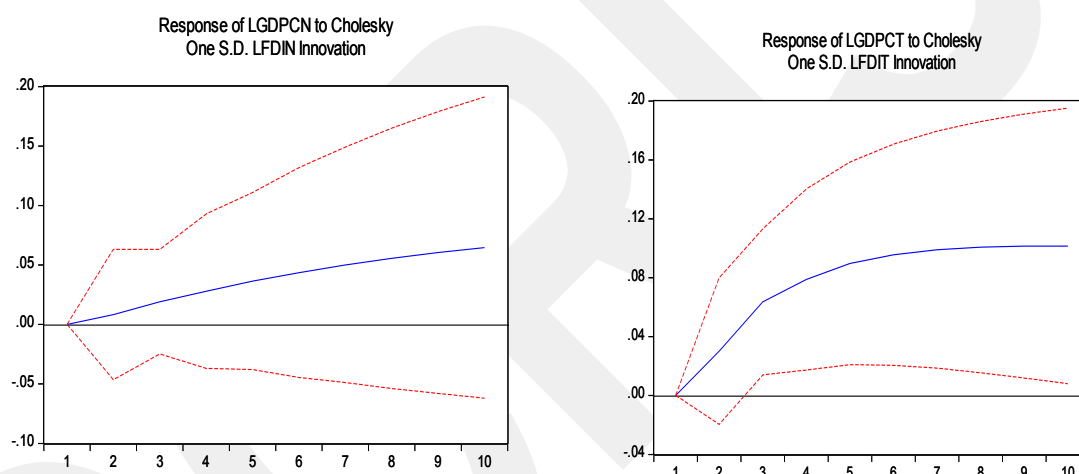
The ultimate aim of obtaining FPI inflow is to gain access to latest technology, updated knowledge and expertise, accumulation of foreign capital and managerial prowess, this goal cannot be accomplished with obsolete applications (Temiz, Gökmen, 2014). Consequently, with respect to this research, it is evident

that Turkey and Nigeria have not been able to obtain the positive benefits anticipated from FPI inflow and to reflect on their economic development and growth.

### **Impulse-Response Functions**

Figure 2 shows the dynamic impulse-response of the VAR systems for Nigeria and Turkey, using the Cholesky decomposition to identify the shocks. The generalized impulse-response function is applied to outline the dynamic response of a well standard deviation shock in FDI on present and forthcoming value of per capita GDP.

**Figure 2:** Impulse Response Function



The response of GDPC to a shock in FDI inflow for both countries are statistically significant. The impulse-response functions obviously indicate that the response of GDP per capita to a shock in FDI inflow for both countries did not come to equilibrium over the 10 year period.

### **Variance decomposition:**

After applying the impulse-response analysis, the variance decomposition is used to investigate the short run dynamic parameters of the variables. Variance decomposition reveals the proportion of movement of a variable that is attributable to its own shocks and the portion of the movement caused by the other endogenous variables.

Variance decomposition for Nigeria is presented in Table 9. This indicates that 100% shocks to FDI inflow are self-explained in the first year. This stays around 98.79% for the 10<sup>th</sup> year suggesting minimal impact for GDP per capita. Over the 10 year period GDP per capita accounts for only between 0 to 1.21% of variation in FDI. Variance decomposition also reveals that 93.63% shocks to GDP are self-explained in the first year. However, over the 10 year period FDI contribution to GDP per capita variation is only between 6.37% to 20.04%. It is clear that the contribution has increased but still very low over the 10 year period.

**Table 9:** Variance Decomposition (Nigeria)

Variance Decomposition of LFDIN:			
Period	S.E.	LFDIN	LGDPGN
1	0.445707	100.0000	0.000000
2	0.492025	97.25298	2.747020
3	0.600272	97.97841	2.021591
4	0.649787	97.89779	2.102207
5	0.714768	98.23705	1.762950
6	0.760205	98.42150	1.578496
7	0.808204	98.59970	1.400298
8	0.848037	98.71469	1.285315
9	0.886894	98.77550	1.224498
10	0.921492	98.79137	1.208625
Variance Decomposition of LGDPGN:			
Period	S.E.	LFDIN	LGDPGN
1	0.203696	6.367886	93.63211
2	0.299282	7.427461	92.57254
3	0.363449	8.773324	91.22668
4	0.410214	10.18688	89.81312
5	0.446134	11.71205	88.28795
6	0.474683	13.29849	86.70151
7	0.497983	14.94556	85.05444
8	0.517392	16.62720	83.37280
9	0.533863	18.33186	81.66814
10	0.548069	20.04092	79.95908
Cholesky Ordering: LFDIN LGDPGN			

This result is consistent with the findings of the cointegration test and Granger causality test for Nigeria. The FDI inflow and GDP per capita for Nigeria do not cointegrate in the long run; there is no causal relation between FDI inflow and GDP per capita in the short run in Nigeria.

An inspection of the Table 10 in the case of Turkey reveals that approximately 91.99% variation in FDI are self-explained in the first year, this reduces to 77.04% by the 10<sup>th</sup> year with GDP accounting for around 22.96% of variation in FDI. The table also illustrates that 100% fluctuations in per capita GDP is caused by itself in the first year and progressively decline to around 59.99% by the 10<sup>th</sup> year with FDI accounting for between 0% to 40% over the 10<sup>th</sup> year period. It is concluded that the contribution of the FDI to variance in GDP per capita is rising over time in Turkey but this is not enough for accelerating the economic growth.

**Table 10: Variance Decomposition (Turkey)**

Variance Decomposition of LFDIT			
Period	S.E.	LGDPCT	LFDIT
1	0.706505	8.005772	91.99423
2	0.805793	9.703667	90.29633
3	0.919455	12.16496	87.83504
4	0.999618	14.36234	85.63766
5	1.072644	16.35631	83.64369
6	1.136720	18.09142	81.90858
7	1.195555	19.59123	80.40877
8	1.249865	20.88298	79.11702
9	1.300626	21.99695	78.00305
10	1.348344	22.96123	77.03877
Variance Decomposition of LGDPCT			
Period	S.E.	LGDPCT	LFDIT
1	0.153699	100.0000	0.000000
2	0.199185	97.70962	2.290376
3	0.235856	91.10542	8.894578
4	0.267449	84.40242	15.59758
5	0.296736	78.18861	21.81139
6	0.323804	72.97745	27.02255
7	0.348997	68.69100	31.30900
8	0.372458	65.19895	34.80105
9	0.394371	62.34294	37.65706
10	0.414892	59.98998	40.01002
Cholesky Ordering: LGDPCT LFDIT			

This result is in line with the outcomes of Granger causality test for Turkey, there is no causal relationship between an FDI inflow and GDP per capita in the short run in Turkey. However, the rising of the contributions of FDI on GDP per capita variations over the period is very important phenomena in Turkey.

### 3.6 Research findings

This research examines the impact of FDI on economic growth in Nigeria and Turkey. ADF unit root test, Granger causality, cointegration, impulse response and variance decomposition were applied. FDI has been acknowledged to be a growth enhancement mechanism through transfer of capital, technological innovations, and other positive externalities. However, the result shows that, in Nigeria, the ADF unit root tests indicates that both FDI and GDP has unit root in levels, the variables became stationary at first difference. In the case of Turkey ADF tests reports stationary in both levels and first difference for FDI. For GDPT, ADF test indicates the variable has trend in level, stationarity is observed at first difference.

Cointegration test indicates that there is no cointegration. This is also accepted by trace and maximum eigenvalue statistics. This result illustrates no evidence of equilibrium correlation between FDI and per capita GDP in Nigeria.

Granger causality test shows no existence of causality between FDI and per capita GDP in Turkey. Similarly in Nigeria there is no causality between FDI and per capita GDP. This means that there is no positive feedback between the variables in both countries.

The response of GDPC to a shock in FDI inflow for Nigeria and Turkey are statistically significant. The impulse-response functions obviously indicate that the response of GDP per capita to a shock in FDI inflow for both countries did not come to equilibrium over the 10 year period. After applying the impulse-response analysis variance decomposition is used to investigate the short run dynamic parameters of the variables. Variance decomposition indicates the percentage of the movement of a variable that is due to its own shock, and the portion of the movement caused by the other endogenous variables. Variance decomposition for Nigeria discloses that 100% shocks to FDI are self-explained in the first year. This remains around 98.79% for the 10<sup>th</sup> year. Over the 10 year period, GDP per capita accounts for only between 0 to 1.21% of variation in FDI suggesting minimal impact for GDP per capita. Variance decomposition also confirms that 93.63% shocks to GDP are self-explained in the first year. Over the 10 year period, FDI

contribution to GDP per capita variation is only between 6.37% to 20.04%. It is obvious that the contribution has increased but still very low over the 10 year period. This outcome is consistent with the findings of the cointegration test and Granger causality test for Nigeria. The FDI inflow and GDP per capita for Nigeria do not cointegrate in the long run, there is no causal correlation between an FDI inflow and GDP per capita in the short run in Nigeria. However, in Turkey variance decomposition results reveals that, approximately 91.99% variation in FDI are self-explained in the first year, this decreases to 77.04% by the 10<sup>th</sup> year with GDP accounts for 22.96% of the variation in FDI. Variance decomposition indicates that 100% fluctuation in per capita GDP is due to its own shocks in the first year and progressively decline to around 59.99% by the 10<sup>th</sup> year with FDI accounts for 40% of the fluctuation in GDP over the 10<sup>th</sup> year period. It is evident that the contribution of FDI to fluctuation in GDP per capita is rising over time in Turkey but this is not enough for accelerating the economic growth.

### **3.7 Summary**

In order to investigate the impact of FDI on economic growth of Nigeria and Turkey, the study employs time series data of two variables namely, FDI and GDP. The motivation behind this study is the huge debate on the impact of FDI vis-a-vis economic growth. FDI has been acknowledged to support the growth of both developed and developing economies through transfer of capital, technological innovations and other positive externalities. Some researchers found a positive correlation between FDI inflows and economic growth, others reported no evidence of such nexus. Some researchers believe that there must be a threshold level of infrastructure, education, income, sound, reliable and credible investment policies for the economy to be able to absorb the positive impact of FDI. According to world investment report 2013 published by UNCTAD, there is a surge in FDI inflows and outflows on a global scale, developing economies are increasingly receiving more FDI accounted for more than half of the inflows. However, Nigeria and Turkey are parts of developing economies and certain amount of FDI was received by these economies (Ayanwale, 2007; Babatunde, 2013; Erhieyovwe, Jimoh, 2012; Fasanya, 2012; Ilgun et al, 2010; Imoudu 2012; Izuchukwu, Huiping,

2008; Kareem, 2012; Kiran, 2011, Ozturk, Kalyoncu, 2007; Günaydin, Tatoğlu, 2005; UNCTAD, 2013).

The study analyzes this relationship from theoretical perspective and various empirical studies were reviewed. The literature is divided into four; first theoretical literature was reviewed of various theories of FDI. Secondly, the general analyses of the empirical investigation from across the globe. Third part analyzed empirical studies concerning Nigeria; several studies using different methodology were reviewed. Fourth part analyzed empirical investigation evidence from Turkey using different methodology.

Several tests were administered in this thesis in order to arrive at dependable and reliable results. The first test conducted is the unit root test using ADF to make sure that the variables are free from unit root. This will go long way in determining the validity of the findings. Johansen cointegration test was carried out to ascertain if equilibrium connection between the variables exist. Pairwise Granger causality test was conducted. Lastly, impulse response and variance decomposition tests were performed.

The result of the unit root test indicates that, variables for Nigeria are not stationary in levels but after taking the difference they turned into stationary. For Turkey, one variable reported stationary in both level and first difference, for the other variable, stationarity is observed after taking the first difference. In order to determine whether there is a long run association between the variables in Nigeria, Johansen cointegration was conducted. Johansen Juselius procedure for testing for cointegration requires the series to be integrated of the same order, this calls for Johansen cointegration analysis for Nigeria only. No cointegration test is done for Turkey. Cointegration test reveals that both trace and maximum eigen value tests do not cointegrate. This implies that there is no long run relationship between FDI and economic growth in Nigeria. Having found no cointegration, VARs impulse response function was estimated for both countries to outline the dynamic response of a well standard deviation shock in FDI on current and future value of per capita GDP. The response of per capita GDP to a shock in FDI inflows for both countries is statistically significant. Although the response of GDP per capita to a shock in FDI inflows for both countries did not converge to equilibrium over the 10 year

period. Similarly, forecast error variance decomposition is used to investigate the short run dynamic parameters of the variables. Variance decomposition reveals the percentage of movement of a variable owing to its own movement and the portion of the movement caused by the other endogenous variables. Variance decomposition for Nigeria indicates that 100% shocks to FDI inflow are self-explained in the first year. This remains around 98.79% over the 10<sup>th</sup> year suggesting minimal impact for GDP per capita which accounts for only between 0 to 1.21% of variation in FDI over the 10 year period. Variance decomposition also discloses that 93.63% shocks to GDP are self-explained in the first year. Over the 10 year period, FDI contribution to GDP per capita variation is only between 6.37% to 20.04%. It is clear that the contribution has increased but still very low over the 10 year period. This outcome is consistent with the findings of the cointegration test and Granger causality test for Nigeria. The FDI inflow and GDP per capita for Nigeria do not cointegrate in the long run; there is no causal relation between an FDI inflow and GDP per capita in the short run in Nigeria. However, in Turkey variance decomposition results reveals that, approximately 91.99% variation in FDI are self-explained in the first year, this reduces to 77.04% by the 10<sup>th</sup> year with GDP contributing around 22.96% of variation in FDI. Variance decomposition indicates that 100% variation in per capita GDP is attributed to its own shocks in the first year and progressively decline to around 59.99% by the 10<sup>th</sup> year with FDI accounting for between 0% to 40% over the 10<sup>th</sup> year period. It is apparent that the contribution of FDI to movement in GDP per capita is rising over time in Turkey but this is not enough for accelerating the economic growth. This result is analogous to the outcomes of Granger causality test for Turkey which found no causal relation between FDI inflow and GDP per capita in the short run in Turkey. Meaning that, there is neither one way causality, nor two way causality.

### **3.8 Conclusion**

It is widely believed that the presence of foreign firms in both developed and developing countries can positively affect aggregate productivity and growth through knowledge transfer, technology, capital, managerial acumen, positive externalities, possibly improving the country economic prosperity. Both economic theory and recent empirical evidence confirmed the aforementioned statement. By

FDI, it means consumers would be provided with the kind of products they desire and improve their choices, governments will receive more revenues, new capital will flow into the host economies and enhances competition locally. FDI is an investment undertaken and owned by foreign investors either wholly or partly. It could be through building new plants overseas or buying or merging with the existing businesses. It could also be through collaborative ventures, strategic alliances, franchising, licensing etc. The inflows and outflows of FDI in the world have changed considerably more than couple of decades ago. This is noticeable based on world investment annual reports which will be attributed to the fact that many countries open up their boundaries and liberalized their investment policies in order to increase the participation of MNCs which accelerate growth. FDI is being considered as the strategic source for economic prosperity for developing and emerging countries, hence, countries took decisive measures to attract more investment inflows, remove barriers to trade and integration of their economies with global economy. Among the measures taken are; various incentives, sound investments policies and regulatory framework. Inflows of FDI are capable of increasing the level of investment and support inadequate domestic resources thus leading to rise in per capita income of the host country (Cavusgil et al, 2012:40; Grosse, Behrman, 1992; Gedik, 2013; Ilgun, 2010; Imodu, 2012; Ozturk, Acaravci, 2010; Risky, Michael, 1998:2; Twarowska, Kąkol, 2013; UNCTAD, 2012, 2013; Zakari et al, 2012).<sup>40,41</sup>

This study is the cross country analysis of the impact of FDI between Nigeria and Turkey. The countries are part of MINT economies having favourable demographics, market potentials and fascinating economic prospects. Nigeria and Turkey has passed through various phases of economic reforms. Economic restructuring measures taken by authorities in Nigeria have played a crucial role in increasing the inflows of foreign capital into the country. With the return of democracy and the establishment of NIPC, several reforms were taken to remove various trade bottlenecks and offering better investment opportunities ranging from withdrawal of government from running the commercial activities and privatization

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<sup>40</sup><http://www.nigeriantripoli.org>

<sup>41</sup>[www.invest.gov.tr](http://www.invest.gov.tr)

of some sectors etc. Consequently, FDI inflows reached from \$205 million in 1970 to \$8.6, \$8.9 billion, \$7.0 billion in 2009, 2011, 2012 although lower than the inflows in 2011. The process of economic transformation in Turkey started in 1980s. This includes minimum state intervention, free market economy, shifting from import substituting towards export-led growth and other incentives for investors. Transformation periods till date led to rapid economic growth considering the increased in the FDI inflows into the country. Similarly, the accession to the EU Custom Union in 1996 was an important effort to integrate into world economy. This helped increasing the FDI activities in Turkey. In terms of investment performance attractiveness and potentials, Turkey is one of the region nations that attractiveness surged. Consequently, FDI inflows reached from \$58 million in 1970 to \$21, \$22, billion in the pre crisis period of 2006, 2007 to \$12.4 in 2012 (Akpan et al, 2014; Babatunde et al, 2013; Coskun, 2001; Izmen, Yilmaz, 2009; Mangir et al, 2012; Ozturk, Acaravci, 2010; UNCTAD, 2012, 2013, Zakari et al, 2012).<sup>4243</sup>

It is worthy of note that, country's investment policies in general are imperative determinants of FDI inflows and its effects vis-a-vis developing local enterprises. The impact of FDI on economic growth is dependent on the level of human capital available in the host economy. Therefore, for FDI to bring the needed level of economic growth there has to be a minimum level of income, human capital, political stability, exchange rate stability, infrastructural development, lower rate of inflation as well as the size of the economy. These are the most important determinants of FDI (Alfaro et al, 2010; Borensztein et al, 1998; Blomström, 1992; Imoudu, 2012; Mangir et al, 2012).

However, empirical literature reports both negative and positive impact of this trend in both countries. For instance, in Turkey, Darrat, Sarkar (2009), found the evidence of robust long-run relationship linking real economic growth with FDI inflows. Gunaydin, Tatoglu (2005), Ilgun (2010), Mangir et al, (2012), reported one way causal relationship between FDI and economic growth. On the other hand,

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<sup>42</sup>Corporate Nigeria, business, trade and investment guide, 2010/2011

<sup>4343</sup> For more information, see the review of Nigerian economy, 2010, National Bureau of statistics report

Afşar (2007), Kiran (2010), Dilek, Gökmen (2014), reported that, reciprocal causality relationship between FDI and growth rate do not exist in Turkey. Loewendahl, Ertugal (2000), concluded that, Turkey has not been successful in attracting needed FDI owing to the slow pace of privatization, institutional and political impediments of which prolonged inflation is an indication. Dilek, Gökmen (2010), concluded that, both in long run and short run, the evidence causality running from export to FDI in Turkey. Their finding reveals that there is not any significant positive spillovers from FDI to export, suggesting no FDI-led export growth connection.

Similarly, in the case of Nigeria, the same case were reported, for instance, Urama, Oduh (2012), ascertained that developments in telecommunication sector has impacted positive result toward poverty alleviation in Nigeria to a very large extent. Fasanya (2012), Osinubi, Amaghionyeodiwe (2010), found a positive effect of FDI on economic growth. Moses (2011), came to the conclusion that non oil FDI contributed positively to economic growth, while FDI to oil sector has less impact to economic growth. On the other hand, Ugochukwu et al, (2013), discovered a positive but statistically insignificant relationship, this could be attributed to scanty inflow of FDI into the country which has not been able to reflect positively on economic it's growth. Izuchukwu, Huiping (2008), reported a negative relationship between FDI and economic growth. Abdallah, Abdullahi (2013), Imoudu (2012), Nkechi, Okezie (2013), findings concluded that there is no long run relationship between FDI and GDP. Omankhanlen (2011), found that FDI is not the major contribution to the nation's economic prosperity.

However, valued added activities undertaken in a country whether by foreign or local investors, public or private is essential to the socio economic reformation and has a huge positive multiplier effect on the rest of the economy. Therefore, for any country to effectively gain full benefits of these investments, designing coherent investment promotion policy is pre-requisite. Policy makers should focus on improving the investment climate to promote the formation of linkages between domestic and foreign investors. Authorities in Nigeria and Turkey should apply more political will to deal with corruption and lack of good governance.

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