Forecasting FDI Inflows from the United States (USA) to Nigeria over Ten Years Period

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Abstract
The need for a sustainable development makes several if not all countries across the globe to open their economies to foreign investors. Nigeria is not an exception in this direction, as all developing countries aim at attracting quality foreign direct investment in order supplement domestic investment and to explore the positive spill over effects associated with the investments. This study employs up-to-date data on FDI inflows from the United States to Nigeria from 1982 to 2017 sourced from the Bureau of Economic Analysis to forecast the future trend of the FDI inflows and its growth. Out -of -sample forecast has been done using the latest Excel 2016 to provide forecast for the U.S FDI to Nigeria over the next ten years. The study reveals that foreign direct investment from the U.S will maintain a slow positive upward trend with the growth rates of 2 to 3 percent over the forecast periods. The study therefore recommends that both the Government and policy makers should not only sustain the trend but to explore all necessary legal avenues to attract more FDI from U.S into various sectors that have employment and linkage potentials such as the manufacturing and agricultural sectors.

Keywords: Forecast, United States, Nigeria, Foreign Direct Investment, Ten Years

Introduction

As global economies are becoming more interrelated and interdependent, regions and countries across the globe appear to find ways of tapping opportunities available in other countries through various and divergent means and strategies; one of them is the foreign direct investment. The idea of foreign direct investment stems from the activities of multinational enterprises (MNEs) across borders in their attempt to dominate markets and maintain competitive edge in their respective industries. For example, Caves (2007) sees a multinational enterprise as an enterprise which controls and manages production establishment such as plants, located in not less than two countries. The definition of 'control' differs across countries. However, according to IMF (2009), for a foreign investment to be considered as FDI, at least 10% ownership of the equity must be held by the foreign investor in the foreign affiliate. The fact that developed and developing countries benefit from spillovers resulting from multinational enterprises is still undisputable (Narula & Marin, 2003).

Foreign direct investment plays a key role in international economic integration and it is argued that FDI brings financial balance, foster economic development and subsequently improve the welfare of societies in the host country. It is also expected to bring capital, new technologies, and new management techniques to the host country, and to increase the productivity and competitiveness of domestic industries. According to Ghebrihiwet and Motchenkova (2017), many, if not all developing nations rely upon foreign direct investment to extract and export their natural resources largely due to lack financial and technological resources. Developing countries have gradually come to realise the significance of foreign direct investment as a source of economic growth and development, income generation and growth as well as job creation. This has made most developing countries to liberalise their investment regimes and even pursue other related strategies to attract foreign direct investment.

In a quest to encourage investment and to attract foreign direct investment as a viable and alternative source of capital for development, in 1995, the Nigerian Investment Promotion Commission (NIPC) Act (Decree no. 16) and the Foreign Exchange (Monitoring and Miscellaneous Provisions) Act (Decree no. 17) which together constitute the basis of Nigeria's investment policy, were brought into being. The Nigerian Investment Promotion Commission opened almost all sectors of the economy to foreign investors and allowed 100 percent foreign ownership with the exception of few businesses (NIPC Act, 1995). The Nigerian Investment Promotion Commission (NIPC) is a one-stop investment centre aimed at streamlining the administrative procedures for new businesses and foreign direct investments. This goes to agree with the fact that multinational enterprises prefer genuine one-stop service centre to prolonged entry procedures involving numerous bodies.

The need to identify Nigeria's investment partners that are ever ready to be committed in helping to realise the country's developmental objectives cannot be overemphasised; because this will have policy implications for investment decisions regarding the sources of FDI as well as destination sectors in the country. Lall and Narula (2004) suggest that, although the essential role of FDI in economic growth and development has not changed, many of the mechanisms and dynamics of FDI-assisted development have changed; as there is larger difference in the kinds of FDI, the benefits they offer and the way in which they relate with the host economy. Therefore, it is essential to study the sources of the country's FDI regarding the kinds of FDI and its sustainability in order to know the benefits it offers, the manner of interaction in the economy and then compare these sources so that it is possible to see how each contributes to the development of the country which will subsequently shape policy direction.

This study therefore aims at forecasting the inflows of foreign direct investment from the US to Nigeria over the next ten years to see whether it is sustainable or not. This will assist the policy makers and academics in understanding the future trend of the FDI inflows from the United States to Nigeria in order to design policies in line with the trend. The study employs the use of FORECAST.ETS in Excel 2016. This is used to predict a future value on the basis of existing or historical data by using the Exponential Smoothing (ETS) algorithm. This method has the advantage of suppressing noise or unwanted variation that can distort the model while capturing trends efficiently. This is the first study as far as the existing literature is concerned that has used data on US FDI inflows to Nigeria to forecast its future values and growth. There is no study done on this direction thereby making this study to be the first to investigate into the future trend of FDI inflows from US to Nigeria. Up to date data obtained from the Bureau of Economic Analysis have been used for the forecast. The reliability and quality of the data source cannot be disputed. Following this introduction, the study is organised into: literature review, empirical result and policy recommendation.

Literature Review

Foreign direct investment can positively affect the host economy both directly and indirectly. As argued by Lagendijk and Hendrikx (2009), the direct effect of FDI to the host economy is numerous, ranging from inflows of capital, assets and technology, to opening up job related opportunities in the labour market. The indirect effect may be seen from the increased demand for intermediate goods and services which opens up other opportunities to produce additional means of finance, technology and demand for more workers especially in the supply chains. However, these benefits are not likely to occur without deliberate strategic policy arrangements by the host country. Provided the host country creates conducive atmosphere for investment, and especially foreign investment, FDI can play a major role with potential benefits of generating employment, reducing poverty, increasing growth and development, supplementing domestic savings, enhancing international trade by integrating the economy into the global economy, increasing domestic manpower skills, facilitating transfer of modern technology and improving efficiency (Dupasquier & Osakwe, 2006; Asiedu, 2002; Asiedu, 2013; Farole & Winkler, 2014 and Gui-Diby & Renard, 2015).

Despite the fact that FDI can play a major role in developing countries as a source of employment, management, technology and most stable source of external capital (Moran, 1999), it can also lead to negative impact on the growth and welfare of the host country particularly when the presence of foreign companies leads to closure of domestic firms in the same industry or generates environmental pollution in the community. This is typically the case in the natural resource-rich countries such as Nigeria where communities suffer the environmental consequences (Ngozi, Emmanuel & Clara, 2012) of the multinationals' activities in the oil region.

Closely related is the fact that most of the FDIs receive by African countries are mostly concentrated in the primary sector, typically extractive industry thereby setting a limit to the potential benefits drivable from such investments in the region particularly in the form of technology transfer and poverty reduction. Therefore, the most significant challenge facing African countries has been how to attract foreign direct investment into dynamic products and sectors that can facilitate economic diversifications (Osakwe & Dupasquier, 2006). Resource-based economies especially developing countries with low income per-capita usually report fairly high FDI inflows but the inputs used by MNEs in these countries are normally imported, hence restricting their local activities to some few employment creation and do not meaningfully contribute to growth and development (Alfaro & Chen, 2014) of the economy.

Nigeria is well known country as one of the major oil producers in the world and the largest in Africa (UNCTAD, 2005; UNCTAD, 2009; Asiedu, 2013), but the wealth from oil has not transmitted into a comparable improvement in living standards owing majorly to economic mismanagement over the years. Foreign direct investment has been prominent in the development of oil and gas sectors but remained extremely low in the non-oil sectors with only marginal developmental impact (UNCTAD, 2009). The oil industry has dominated FDI inflows to Nigeria since 1970s with FDI in the non-oil sectors restricted in favour of domestic enterprises in the name of indigenisation policy until the 1990s. Upon realisation of the devastating effects of economic and investment restrictions on the economy, Nigeria adopted one of the most liberal investment regimes in Africa for attracting foreign investors by opening almost all sectors of its economy and reversing restrictions imposed on foreign direct investment by the indigenisation policy of the 1970s and 1980s. In an effort to achieve economic liberalisation in Nigeria, the policy affected most business activities which range from privatisation of backbone services, labour regulations, environmental protection, competition policy and taxation, as well as tackling corruption (UNCTAD, 2009).

An Overview of the Investment Relations between the USA and Nigeria

The United States governments have been engaged in a series of investment and trade agreements with Nigeria in an attempt to improve their economic relationships and for the two countries to reap the mutual benefits arising from such relationships. The US and Nigeria have entered into a Trade and Investment Framework Agreement (TIFA) in 2000 in order to strengthen the bilateral relationship between the two economies. Based on the bilateral trade and investment agreement entered into by the Nigerian government and the United States in 2000, the relationship was recognized to capture both domestic and foreign investment which was expected to promote growth, generate employment, increase trade, improve technology and also enhance economic development (U.S Department of Commerce, 2017).

Content and Nature of Trade between Nigeria and the USA

In general, the total value of US trade in goods and services with Nigeria stood at about US$9.0billion in 2016 in which exports totalled US$4.4 billion and imports US$4.6 billion (U.S Trade Representative, 2017). However, United Nations Comtrade (2018) reported a different figure estimated at $8.3billion in 2016 with Nigerian imports amounting to $3.9billion while exports stood at $4.4billion. It also shows that exports from Nigeria to the United States were $11.9billion in 2013, $3.9billion in 2014, $2.0billion in 2015 and $7.3billion in 2017 whereas imports from the U.S were recorded at $24.1billion in 2012, $7.7billion in 2013, and $3.9billion in 2015.

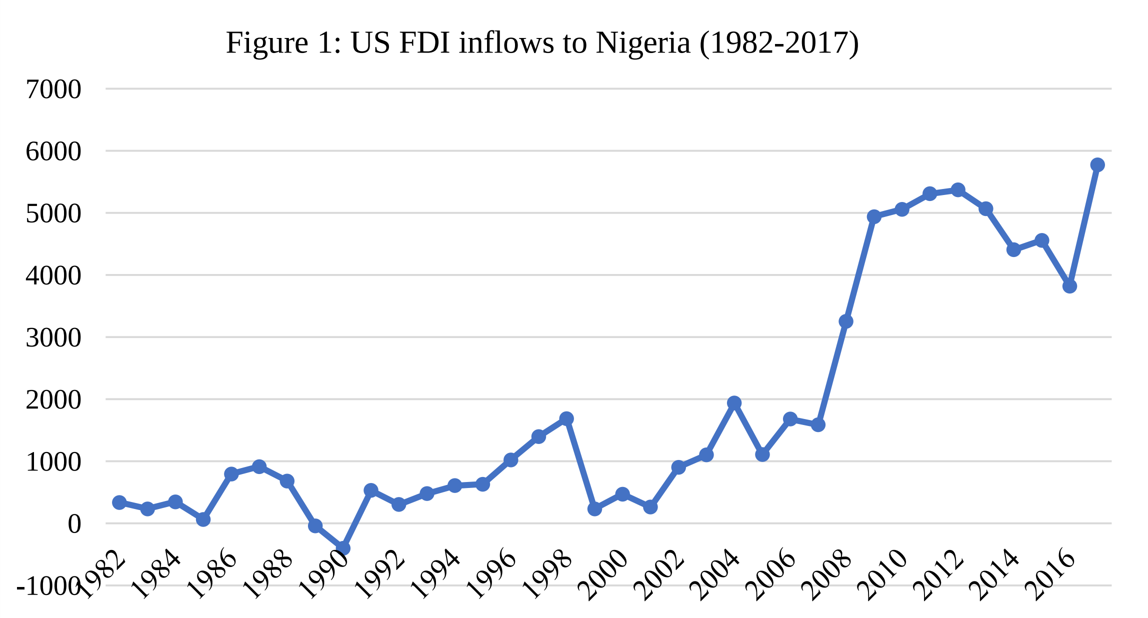
The major Nigerian export commodities to the United States are, crude oil, cocoa beans, machinery, raw materials such as rubber, metals, tobacco, feed, grains and nuts (Adefuye, 2013) while import commodities are refined petroleum products, wheat and grains, passenger vehicles, motor cars, machinery, plastic, civilian and military aircraft, engines, parts as well as weaponry (Adefuye, 2013).

It is clear that the trade deficit is greater between the two countries and Nigerian exports to USA have been on the decline. Apart from the concern that the trade volume between Nigeria and the United States is declining, the major concern for Nigeria is the huge trade deficit between them. The major reason for this trade deficit is attributed to the differences in economic structures of Nigeria and that of the USA. While manufactured goods constitute the major part of US exports to Nigeria, primary commodities particularly oil are the Nigeria's major export (Pigato & Tang, 2015) and the quantity/volume being imported by this country is negligible compared to other source countries. The big question is how can Nigeria narrow the trade imbalance between it and these two countries? One of the most viable approaches to reduce this trade deficit is to diversify the economy by encouraging more FDI in different and diverse sectors of the economy. To achieve this, Nigeria must develop its productive infrastructure especially railways, roads and aviation networks as well as power sector. These sectors can also be lucrative to foreign investors given appropriate policies.

Content and Nature of the USA FDI in Nigeria

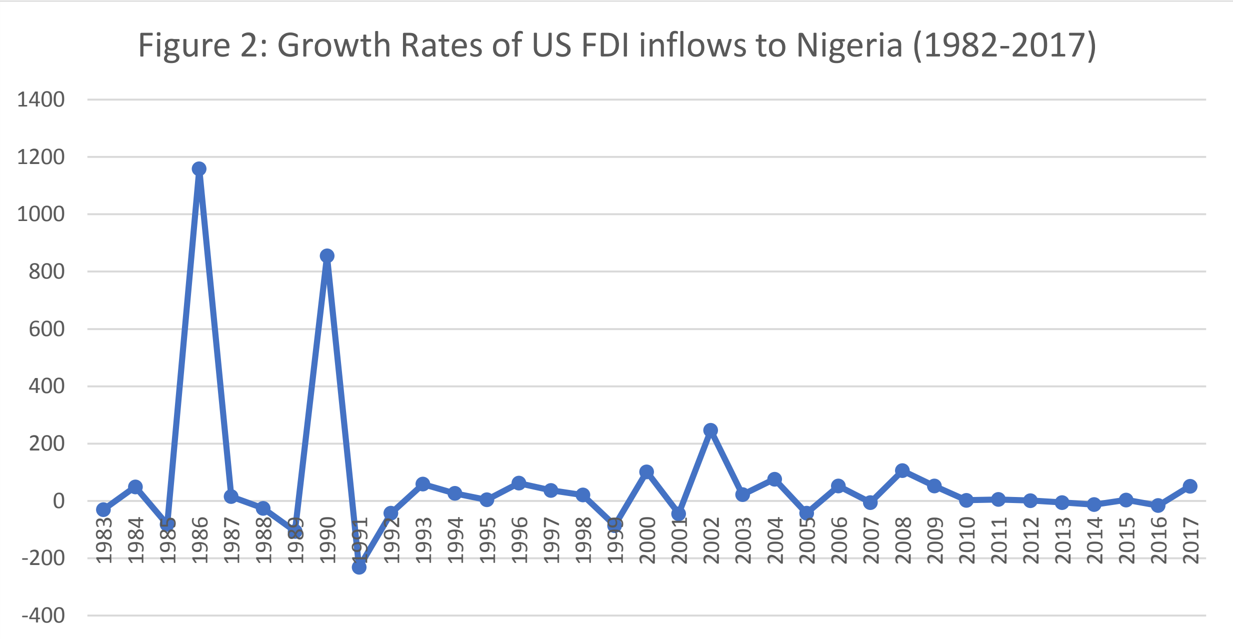
In terms of FDI, the United States is one of the largest foreign investors in Nigeria with FDI largely concentrated in the petroleum / mining and wholesale trade sectors. The stock of US foreign direct investment (FDI) in Nigeria was USD 8.1 billion in 2013, down from USD 8.4 billion in 2012; the year Nigeria emerged as the major recipient of US FDI in Africa (International Trade Organisation, 2014). The U.S. foreign direct investment in Nigeria continues to be led by the oil and gas sector although there are also substantial new investments in the power sector, telecommunications, real estate as well as agricultural sectors. The U.S foreign direct investment (FDI) stock in Nigeria continues to fall as only US$3.8 billion was recorded in 2016 as against $5.5 billion in 2015, representing a decrease of about 16.2% from the preceding year. Interestingly, the US FDI in Nigeria has started to rise. The foreign direct investment from the United States has increased by 51 percent to US$5.8 billion in 2017 up from US$3.8billion in 2016. This upward trend of the US FDI in Nigeria is presented in table

1. This increase can partly be attributed to the ongoing fight against corruption and infrastructure development across the country.



Source: *Plot by the Author using data from Bureau of Economic Analysis (2018)*

It can also be that the Economic Recovery and Growth Plan is playing an essential role towards attracting more foreign direct investment from the United States. Figure 2 depicts the growth rates of the US FDI inflows to Nigeria over several years, obviously showing some major volatilities before and immediately after the introduction of the Structural Adjustment Programmes (SAP) in 1986.



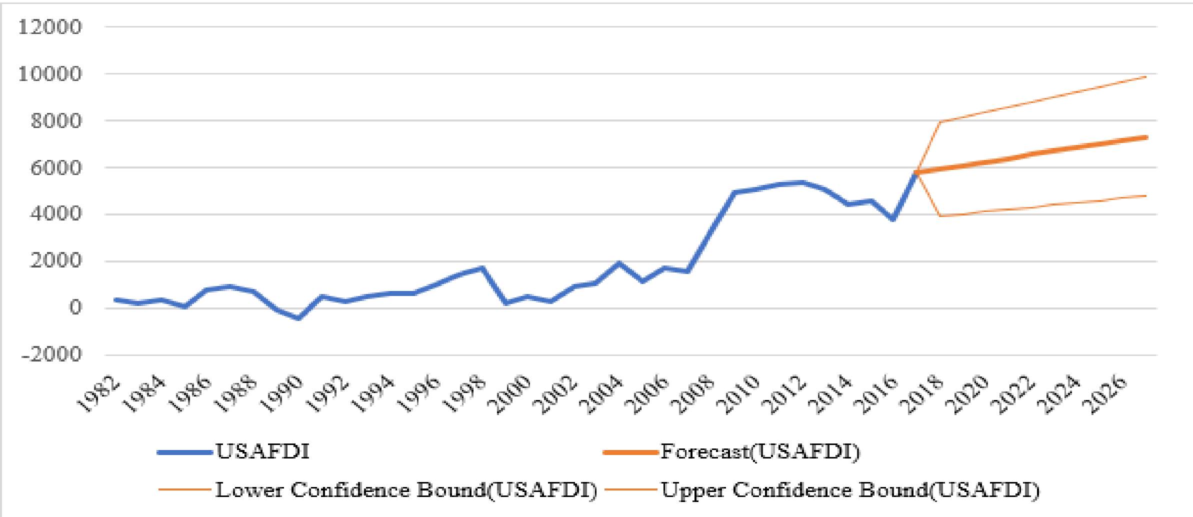
Source: *Constructed and Plot by the Author using data from Bureau of Economic Analysis (2018)*

Foreign direct investment from the United States jumped rapidly from a negative growth of -81 percent in 1985, before the SAP, to a positive growth rate of almost 1,200 percent in 1986, during the year of SAP. The Structural Adjustment Programmes allowed the Nigerian economy to be opened to foreign investors especially in the non-oil sectors. This period recorded a high growth rate of FDI inflows from the United States of America. However, because this trend was highly explosive, it could not be sustained, as the following years experienced huge declines until 1990 when there was an increase in the FDI growth rate of about 855 percent. From this point, the last major growth experience of the US FDI inflows to Nigeria was in 2002 when about 246 percent growth was recorded. Foreign direct investment continued to fluctuate around 22 and 105 percent between 2003 and 2008. During the period between 2009 and 2016, the growth rate of US FDI inflows to Nigeria has been declining substantially from 52 percent in 2009 to a negative growth of -16 percent in 2016, though it picked up in 2017 by an increase of about 51 percent again. This continues decline in the growth rates of US FDI inflows to Nigeria has been attributed to the discoveries of oil in other parts of the African regions. Insecurity in the Nigerian oil region has also been a big reason for the decrease.

Empirical Result

Based on the historical data on the FDI inflows from the United States to Nigeria from 1982 to 2017, out -of - sample forecast has been produced for ten years ahead, from 2018 to 2027. Figure 3 presents the graphical presentation of the forecast, indicating the trend the US FDI inflows to Nigeria will take in the next ten years.

Figure 3: Ten Years Out- Of – Sample Forecast of US FDI Inflows to Nigeria (2018-

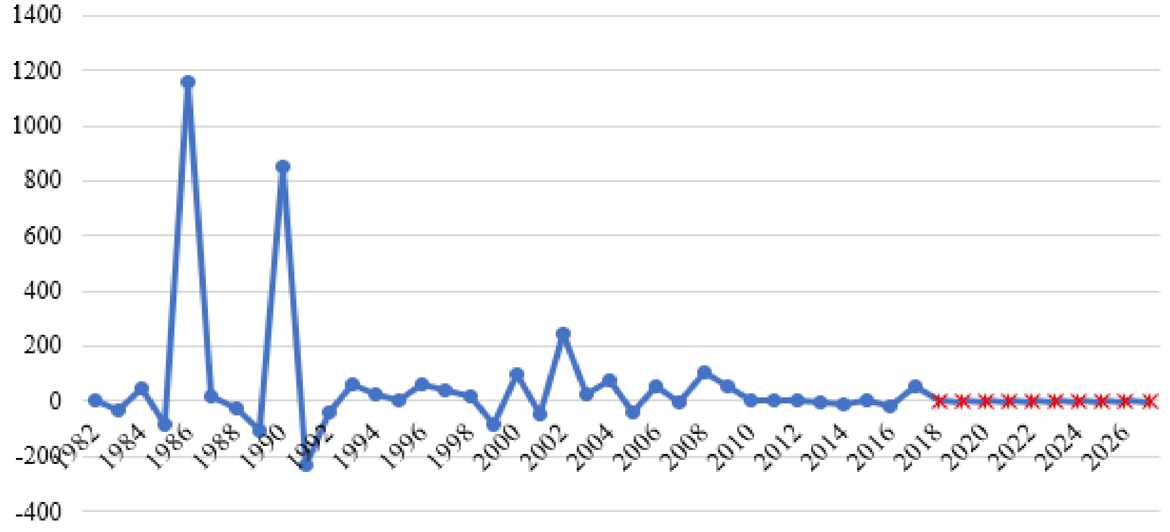


2027)

Source: *Produced and Plot by the Author based on data from BEA (2018) using Excel, 2016*

The forecast indicates that the inflows of foreign direct investment from the United States to Nigeria will increase from the current value of US$5.8 billion in 2017 to US$7.3 billion in 2027. This predicts an increase of about 26 percent over the next ten years. However, as can be observed from the forecast of the growth rates of the US FDI inflows to Nigeria over the same periods (figure 4), it is obvious that these growth rates are going to be very slow.

Figure 4: Ten Years Out-of- Sample Forecast of Growth Rates of US FDI Inflows to Nigeria (2018-2027)



Source: *Produced and Plot by the Author based on data from BEA (2018) using Excel, 2016*

Foreign direct investment inflows from the United States will grow at a very small rates of between 2 and 3 percent over the forecast periods. This implies a virtually constant growth rates of FDI inflows from US, which is a serious developmental challenge to both the government, policy makers and the private firms. Hence, this forecast gives the direction of the future FDI inflows from US to Nigeria so that the government can take necessary actions required for the enhancement of this growth.

Policy Recommendations

Based on the forecasts produced, it is obvious that Nigeria may continue to attract foreign direct investments from US but at a slow pace. Therefore, Nigerian Government and policy makers must explore all the necessary avenues to see that (i) FDI inflows from the United States does not go below the forecast growth rate, (ii) they improve investment relationship between the two countries to accelerate the growth of the FDI inflows. These can be achieved by providing an enabling environment, through the provision of quality infrastructure and incentives that will induce them to invest in the country.

The government should try to attract foreign investments from US to sectors such as the manufacturing sector, and agricultural sectors where many jobs can be created and there is potential for high level of linkages. This will go a long way in facilitating the development the sectors and enhance the productivity of domestic firms.

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