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IMPACT OF INVESTMENTS ON THE PERFORMANCE OF MANUFACTURING SECTOR in NIGERIAN ECONOMY: An Empirical Analysis.

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Abstract

The study examined the impact of investments on the performance of the manufacturing sector of the Nigerian economy from 1998 – 2021. Data for the study were obtained from Central Bank of Nigeria (CBN) annual reports and accounts and National Bureau of Statistics (NBS) publications on Manufacturing Value Added (MVA) being the dependent variable, Foreign Direct Investment (FDI) and Domestic Investment (DI) as the independent variables of the study. The analysis of the data was done using Augmented Dickey-Fuller (ADF) unit root test, Autoregressive Distributed Lag (ARDL), Multiple regression and t-statistics techniques. The results of ADF revealed that the variables were non-stationary at different orders of Integration. Further, the ARDL result in a long-term relationship as the F statistics value of 11.43128 is greater than the lower and upper critical bounds values at 10 percent, 2.5 percent, and 1 percent levels of significance. The calculated t-statistics value of 2.550164 and 2.065759 for FDI and DI respectively are greater than the table value of t-statistics at 1.96 at a 5 percent level of significance and therefore all the null hypotheses of the study are rejected. The regression result showed that 42 percent variation in MVA is explained by the combined effect of FDI and DI implying a significant impact of the variables on MVA. The study recommended among others that government should encourage investment in the manufacturing sector of the Nigerian economy through the creation of an enabling environment in terms of adequate provision of electricity, water and tackling the issue of insecurity in Nigerian society. Enabling environment triggers confidence of investors in survival and growth of enterprises in the country.

Keywords: *Foreign investment, domestic investment, manufacturing sector, value added, enabling environment.*

JEL Classification: B22, B26, D31, F65

1. Introduction

The manufacturing industry is a key sector widely recognized as the engine for economic growth and development of any nation for the critical role the sector plays in terms of industrialization, infrastructural development, and job creation that culminate in an increase in the level of income, goods, and services, growth in Gross Domestic Product (GDP) and improved standard of living in the society. In Nigeria, the impact of manufacturing sector has been tremendous. For instance, in 2021 the contribution of the sector to the GDP growth was 15 percent and in the second quarter of 2021 the contribution was 12.97 percent with the largest of these contributions coming from food, beverages and

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tobacco (NBS reports). It is in recognition of the importance of the manufacturing industry that Nigerian government has been taking steps to encourage the growth of the sector. One such step of government stimulation of investment in the sector for increased productive capacity, economic growth, and development. Increased industrial output is of interest to the nation as a path to industrialization and critical to the diversification of an economy that is mainly dependent on oil revenue. The quality and quantity to employ in manufacturing processes for the desired output all depend on the number of funds invested into all the operations. Growth inducing phenomenon of investment in the manufacturing sector interestingly is a combination of two investment sources mainly Foreign Direct Investment (FDI) and Domestic Investment (DI) (Olagunju & Awoniyi, 2017 ; Ejidebe & Ughalu, 2018 ; Iyegbo & Ganiyu, 2020). The importance of these two investment sources for manufacturing businesses in Nigeria is significant at the micro and macro level of the nation's economy as finance from these sources has helped in boosting the productive capacity of the enterprises with a multiplier positive effect of increased quantity and quality of goods available in the country (Oba & Ayo, 2017; Edma & Agulla, 2018).

In support of the views of Oba and Ayo (2017) and Edma and Agulla (2018), Omowumi and Wale (2016), Chikor and Tervahle (2018) and Ubbah and Bani (2019) opined that the stock of capital and investments of local and foreign investors have been significant to increase productive capacity and performance of the Nigerian manufacturing sector citing the competitiveness of made in Nigeria shoes and clothing materials in international markets. On the contrary, Obinna and Ugor (2017) and Temitope and Alleru (2019) viewed that investments in the manufacturing sector of Nigeria particularly that of FDI have no positive impact on the performance of the sector given the insufficient flows that cannot affect the operation of the manufacturing firms in Nigeria asserting that no impact of any investment in Nigeria can be visible in an economy characterized by the weak and unstable macroeconomic framework to address the issues of volatile exchange rate and ever galloping inflation in the economy.

It is on this premise of contradictory views on the impact of investments that the objective of this study is to examine the impact of FDI and DI on the performance of the manufacturing industry in Nigeria.

2. Literature Review and Hypotheses Development

2.1 Conceptual Review

Investment

The essence of investment in a manufacturing business is to add capital equipment to increase performance. Thus, Martins and Rockney (2011) viewed investment as an outlay of some capital usually in form of money or funds in hope of a greater payoff in the future than what was originally put in. investment is always a medium or mechanism for increasing value overtime beneficial to both the investor and the organization in which the investors' resources/funds are committed. For a manufacturing enterprise, the investment will allow it to acquire modern technology that will enable it to produce more goods with increased quality and quality in a shorter period (Bergner & Andrew, 2015). The micro and macroeconomic

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positive effect of investment in the manufacturing sector in any economy are an increase in goods and services with a multiplier effect on Gross Domestic Product (GDP) growth. (Slango & Edward, 2016[1]; Rajah & Morund, 2017). Investment inflows into business are usually categorized into foreign direct investment and domestic investment.

FDI

It is conceptualized normally not only in terms of trade relations involving funds transfer between countries but also entails a total package of capital and productive capacity transfer from one country to another for maximization of global profit. Thus, Newton and Fisher (2015) stated that FDI is an investment usually made by multinational companies (MNCs) with headquarters in most developed nations involving the transfer of funds, capital, production techniques marketing, and advertising expertise, and business practices for global profit-maximization. The investment is usually made by multinationals through mergers and acquisition of shares of companies in another country mainly for profit and acquisition of economic power. Thus, Duke and Nelson (2016) viewed FDI as an investment made to attain permanent management interest in the investee company (usually 10 percent of the voting stock ordinary shares) and acquiring at least 10 percent of equity shares of an enterprise operating in another country other them the home country of the investor. FDI is therefore seen to be made where a foreign investor acquired or owns at least 10 percent of ordinary shares or equity in an enterprise outside of the investor's own country with permanent management interest attained.

By classification, Wolekan and Moabi (2016) categorized FDI into two namely public (official) and private FDI. While public FDI is made at bilateral and multilateral levels involving government-to-government investment via transfer of funds to public and government institutions, Private FDI is investments made by international financial institutions such as IMF, World Bank, and African Development Bank (AfDB) to government and private enterprises across nations.

DI

Refers to investment in companies and products of someone's own country rather than those of foreign countries (Menlik & Frabel, 2016). DI is one of the critical components of micro and macroeconomic growth strategy as an engine and pivot of the economic cycle. It is an investment in the investor's country rather than abroad used as a tool for expanding economic development and investment climate locally. Errold and Maxwell (2016) viewed DI as an investment determined according to Generally Accepted Accounting Principles (GAAP) and shall exclude all cash and cash equivalent (including limit to money, money market accounts, and certificate of deposit) that are classified as cash or cash equipment on a business Statement of Financial Position (STP). DI, therefore, is an investment meant to improve tangible fixed assets such as machines, tools, buildings, etc on a company's SFP.

ISSN: 2795-3831
E-ISSN: 2795-3823

Performance

Performance of the manufacturing business is a variable that depends on the quantity and quality of output measured by Manufacturing Value Added (MVA). MVA is the total estimate of the net output of the manufacturing activity of a business obtained by adding up outputs and subtracting all the immediate consumption or inputs (Ordmen & Krish, 2014). Value Added (VA) refers to the contribution of the factors of production specifically capital and labour to raise the value of a product (Wilson & Fildnard, 2015). The multiplier effect of value addition in a manufacturing enterprise is patronage and an increase in income of the owners of the factors of production. To the business, adding value to products is key as it provides consumers incentives to make purchases thereby increasing a company's revenue and bottom line (Kinson & Leon, 2016). Generally, MVA describes the economic enhancement a manufacturing enterprise gives its product and services before offering them to customers or consumers.

2.2 Empirical Review

Empirical evidence abounds in both developed and developing nations on the impact of investment on the performance of manufacturing businesses. For instance, Trang, et al (2019) examined the impact of FDI on economic growth in the short and long run: Empirical evidence from developing countries. Data for the study were obtained from WB reports on developing nations from 2000-2014. Fully Modified Ordinary Square (FMOLS) and Vector Error Correction Model (VECM) were used to analyze both the short and long non-impact of FDI. Results indicated that FDI stimulates growth in the long run but a negative impact is exhibited on economic growth in the short run. The result is consistent with that of Pertin and Durmuton (2019) wherein a study of the impact of FDI on manufacturing enterprises in Cambodia found a negative relationship to have existed between FDI and the growth of the manufacturing industry in the country. Similarly, Dooman and Chamberlin (2020) and Darbin (2021) in their studies on the impact of FDI on the growth of the manufacturing industry in Kenya and Tunisia respectively found that a negative relationship exists between FDI inflows and manufacturing out in these countries.

Manita and Feriva (2020) provided additional evidence on the impact of investment on the growth of the manufacturing sector in a developing nation. The study was on the impact of FDI on the growth of the manufacturing sector in South Africa from 1980-2019. The aim was to determine the effect of FDI on the manufacturing sector and the growth of the economy. The analysis of data obtained from the WB on the MVA and FDI were analyzed using correlation and regression statistical tools. Results indicated that FDI has a positive impact on the real sector and the growth of the country's economy. The finding is contrary to the studies (Trang et al, 2019 ; Pertsin & Durmuton, 2019 ; Dooman & Chamberlin, 2020 and Darbin, 2021)

In the UK, Talbert and Hallison (2019) did a study impact of FDI on the growth rate manufacturing sector from 1994-2018. The results of the Error Correlation Model (ECM) and Granger causality test on data collected on MVA and FDI for the period revealed that FDI has no impact on the growth of the real sector of the country's economy. Similarly in the

ISSN: 2795-3831
E-ISSN: 2795-3823

USA, Blakely and Lukeman (2020) did a comparative study on the impact of FDI and DI on the manufacturing sector from 2000-2018 and found that while DI showed a positive contribution, FDI showed no impact on the growth of the manufacturing sector of the economy.

In Nigeria, studies have been conducted with divergent results on the impact of FDI and DI on the performance of the manufacturing sector of the economy. For instance, Okeowo and Andrew (2017) studied the impact of DI on the Nigerian manufacturing industry from 1997-2016. Data for the study were obtained from CBN statistical bulletin and National Bureau of Statistics (NBS) reports on the manufacturing output and DI. Findings from Vector Auto regression co-integration and ECM analysis indicated a significant impact of DI on the performance of the manufacturing sector of the Nigerian economy. Similarly, in an analysis of the extent to which DI has influenced the performance of the manufacturing sector in Nigeria from 2002-2018, Eghobor and Adebo (2018) analyzed the serial data on MVA and DI using a simple regression estimation technique. The results indicated a positive relationship between the performance of the manufacturing industry in the country and DI. The studies of Mapere and Efilani (2016), Frank and Aigbobi (2017) and Ekanem and Ogbovhe (2018) further provided evidence of the positive effect of DI on the output of the Nigerian manufacturing sector. However, Ekanem and Ogbovhe (2018) noted that the impact the investment and indeed any investment can be more in Nigeria if not for socio-economic problem the country is battling with.

On the performance of the manufacturing industry and FDI, Barda et al (2019) investigated the impact of FDI on the manufacturing output from 2003-2017. Data on FDI, private sector credit, domestic savings, exchange rate, and MVA were analyzed using Ordinary Least Square Estimation (OLSE) technique. Results indicated that FDI has impacted negatively the performance of the Nigerian manufacturing sector. Similarly, Catherine et al [36] showed a negative impact of FDI on the output of the Nigerian manufacturing industry.

Contrary to these studies of Catherine et al, (2018) and Barda et al (2019) that found a negative impact of FDI on the performance of the Nigerian manufacturing sector, there are similar studies that found a positive impact of the investment on a Nigerian manufacturing operation. For instance, Dairu et'al (2018) used the OLS method and Time Series analysis to investigate the relationship between FDI and manufacturing output in Nigeria from 1998-2016. Results indicated that FDI is statistically significant in explaining variations in manufacturing out in Nigeria. The finding of Dairu et al (2018) is consistent with that of Okpadu and Kanuba (2019) that found that manufacturing output was positively correlated with FDI. This implies that FDI has positively impacted on MVA in Nigeria. Further studies by Wemimo and Odaru (2017), Maduchi and Olusi (2018) and Badejo (2019) in their separate studies on the impact of FDI on the Nigerian manufacturing sector found that FDI experts a significant positive influence on the manufacturing sector on the nation's economy.

ISSN: 2795-3831
E-ISSN: 2795-3823

Olusanya (2020) studied asymmetric effect of FDI on manufacturing sector performance in Nigeria. The study used Non-linear ARDL method to investigate co integration between FDI and growth of manufacturing sector and error correction specification combined with annual data from various sources. The estimated Non-Linear ARDL result affirmed the presence of asymmetric in the FDI changes to the growth of the manufacturing sector. It was also found that while FDI has positive impact on the manufacturing sector in the short-run, on the long-run, however, the investment has negative impact on the manufacturing sector.

Further, Nbaniga and Disu (2021) examined the effect of FDI on the output of the Nigerian manufacturing sector from 1985-2019. Data for the study on the manufacturing output and FDI for the period were obtained from the National Bureau of Statistics (NBS) and the statistical bulletin of Central Bank of Nigeria (NBS). Results of Vector Auto Regression (VAR) and co integration showed positive impact of FDI on the performance of the manufacturing sector of Nigeria.

Based on these contradictory views on the impact of investments (FDI and DI) on the performance of the manufacturing sector of the Nigerian economy, the hypotheses to investigate these divergent views were set as follows:

Ho_1: FDI has no significant impact on the performance of the manufacturing industry in Nigeria

Ho_2: DI has no significant impact on the performance of the manufacturing sector of the Nigerian economy

2.3 Theoretical Framework

The study is anchored on the accelerator theory of investment propounded by Thomas Nixion and Albert in the 20th century (Mabuchi & Olusi, 2018). The theory postulates that when demand for consumer goods and other services increase as a result of growth in population, there will be corresponding increase in demand for investors to invest in new capital goods and factories to produce more. The theory indicates how changes in level of consumption will have accelerated impact on the level of demand for investment and therefore, an explanation of economic instability, the upward and downward swings of the trade cycle (Calvon & Dermert, 2015). The theory is an observation that investment spending experience larger proportional swings in tandem with changes in consumer spending. As population grows, businesses and government need investment in factories and infrastructure for micro and macro economic growth. Poor investment for improved goods, services and infrastructure will have negative effect on growth and development of a nation (Catherine et'al, 2018)

The theory emphases the importance of investment in an economy as a critical factor in economic growth. The theory is therefore relevant to this study given the critical role the manufacturing sector play in the growth of the Nigerian economy and the need for creation of attractive environment for investors.

ISSN: 2795-3831
E-ISSN: 2795-3823

3. Methodology

This section describes the procedures followed in data collection and analysis. The study made use of secondary data obtained from Central Bank of Nigeria (CBN) annual reports and accounts and National Bureau of Statistics (NBS) bulletins on MVA, FDI, and DI in the manufacturing sector of the Nigerian economy from 1998-2021. The data obtained were analyzed using multiple regression and t-statistical tool. The long-run relationship between the variables (MVA, FDI, and DI) was also investigated using Autoregressive Distributed Lag (ARDL).

3.1 Model Specification

The regression model of the study was adopted from the work of Tsuorah et al (2007), Bhartlmer et al (2009) and Sherque and Roller (2011) for the analysis of time series data.

The independent variables(X) are FDI and DI denoted by X1 and X2 and the dependent variable (Y) is MVA. Therefore, the econometric equation liking the two variables (X and Y) is as follows: $Y = a + \beta_1X_1+B_2X_2= \varepsilon$ ------ equation1.

Deriving from equation 1, the linear equations representing the model of the study are as follows:

MVA = f(FDI, DI) ------equation 2

$MVA = a + \beta_1 \log FDI = \beta_2 \log D_1 = U_t$ ------equation 3

Where:

MVA = Manufacturing Value Added

a = Intercept

FDI = Foreign Direct Investment

DI = Domestic Investment

U_t = The stochastic error term

The a-prior expectation is that $\beta 1, \beta 2 > 0$ indicates the expected positive behavioral signs among the explanatory variables of the study.

ISSN: 2795-3831
E-ISSN: 2795-3823

4. Results and Discussion of Findings

Table1: Augmented Dickey-Fuller (ADF) Unit Root Test Result

Variables	**ADF Statistics**	**Critical value**	**Stationary status**
MVA	-4.898792	-3.96 (1%) -3.41 (5%)	1(1)
FDI	-4.767345	-3.96 (1%) -3.41 (5%)	1(2)
DI	-4.262414	-3.96 (1%) -3.41 (5%)	1(1)

Source: Author's computation 2022, E-view 9.0 output.

Table1 presents the unit root stationary result. The variables (MVA, FDI, and DI) were tested using ADF. All the variables were found to be non-stationary at a level but stationary at different orders of integration. While FDI was stationary after the second difference that is integrated of order 1(2), MVA and DI were found to be stationary after the first difference that is integrated of order 1(1).

FDI was stationary after the second difference with an absolute calculated value of -4.76345 which is greater than the absolute ADF critical value of -3.96 and -3.41 at 1 percent and 5 percent levels of significance respectively after the second difference. MVA and DI became stationary after the first difference with ADF values of -4.898792 and -4.262414 for MVA and DI respectively. The values are greater than the critical values of ADF t-distribution values of -3.96 and -3.41 at 1 percent and 5 percent levels of significance.

Table 2: Bound Test for co-integration using Autoregressive Distributed Lag (ARDL)

Test Statistics	Value	K
F – Statistics	11.43128	1
Critical Value Bounds		
Significance	10 Bound	11 bound
10%	2.45	3.52
5%	2.86	4.01
2.5%	3.25	4.49
1%	3.74	5.06

Source: ADF t-Distribution table.

Table 2 above shows the result of the bounds co-integration test. The computed F-statistic of 11.43128 is greater than all the lower and upper critical bound values at 10%, 5%,

ISSN: 2795-3831
E-ISSN: 2795-3823

2.5%, and 1% respectively, thus indicating the existence of a long-run relationship between the performance of the Nigerian manufacturing industry (MVA) and the investment variables it depends (FDI and DI).

Table 3: Regression Results

Regressor	Co-efficient	Std. Error	t-statistics	p-value
C	3.741953	1.667182	2.356702	0.0232
LOG FDI	0.236817	0.161384	2.55164	0.0361
LOG DI	0..562413	0.334222	2.065759	0.0076
R-squared=0.418144			Mean dependent var 2.846621	
Adjusted R-square=0.383615			S.D dependent var 0.368143	
S.E of regression = 0.204134			Akaike Info criterion 0.524167	
Sum squared resid = 0.611251			Schwarz criterion 0.547362	
Log-likelihood -1.55312			Hannan –Quinn criterion	
F-Statistics 11.43128				
Prob (F-statistics) 0.00134			Durbin Watson stat 2.034	

Source: Author's computation using E-view 9.0

On the overall fit and significance of the model, it was found to have a good fit by the result of the moderate high value of F-Statistics value of 11.43 and significant at 1 percent level. Further, the coefficient of determination (R^2) value of 0.418144 indicates that approximately 42 percent of the variation in MVA is explained by the combined effect of FDI and DI in Nigeria while the remaining 58 percent are accounted for by other factors outside the model of this study. Durbin Watson (DW) was used to test for the presence of serial correlation. The calculated value of DW is higher than the tabulated upper value of DW (DWu) at 1.883 signifying the absence of autocorrelation (serial error) among the explanatory variables. The absence of serial errors connotes the high predictor powers of the independent variables of likely changes in MVA both in the short and long run.

The hypotheses formulated in this study were tested using t-statistics at a 5 percent level of significance for a two-tailed test. The rule of thumb under t-statistics is to accept the null hypothesis if the critical t-value at 1.96 is greater than the calculated value otherwise reject the hypothesis. From 3, the calculated t-statistics values are 2.550164 and 2.065759 for FDI and DI respectively and are greater than the table value of 1.96 at the 5 percent level. Therefore, the null hypotheses of this study are rejected. This, therefore, implies that both investments (FDI and DI) have a significant impact on the performance of the manufacturing industry in Nigeria.

ISSN: 2795-3831
E-ISSN: 2795-3823

From table 3, it is shown that a percentage increase in FDI on average will result in to increase of 0.236817 increases in MVA. Also, a percentage increase in DI on average will result in 0.562413 increases in MVA holding other variables constant. The result implies that both investments have an impact on the performance of the manufacturing industry in Nigeria. The regression result is consistent with bound test co-integration in which a long-term relationship was established among the variables of this study. The findings of this study particularly the result of the impact of FDI on the growth of the manufacturing sector is consistent with that of (Wemimo & Odaru, 2017; Dairu et al 2018; Mabuchi & Olusi, 2018; Okpadu & Kanuba, 2019 and Badejo, 2019), contrary to (Catherene, et al, 2018 and Barda et al, 2019).

FDI has been boosting the performance of the manufacturing sector in Nigerian economy leading to creation of new products with increased quality (Dairu et al, 2018). FDI is not just the flow of money but also the inflow of technology, knowledge, skills and expertise developed for creation of Jobs and poverty reduction in Nigerian society. The investment has been a major source of non-debt financial resources for economic growth and development of the country (Okpadu & Kanuba, 2019).

Similar to stimulating growth role of FDI in Nigerian economy, DI has been a productive factor in the manufacturing sector of the country. The investment has boosted capital formation, employment creation, profitability of the sector, high returns on capital and creation of confidence of the investors (Eghobor & Adebo, 2018 and Ekanem & Ogborhe, 2018)

5. Conclusion and Recommendations

The study examined the impact of investment on the performance and manufacturing industry in Nigeria. The study specifically investigated the impact of FDI and DI on MVA in the real sector of the economy. Data for the study on MVA, FDI, and DI in Nigeria from 1998-2021 were obtained from CBN annual reports and accounts and NBS bulletins and publications.

The analysis of the data was done using regression as well ARDL to ascertain the impact of the explanatory variables on the dependent variable as well as the nature of the relationship between the variables. The results indicate a significant impact of the explanatory variables (FDI and DI) on MVA with the short and long-run relationship. The study, therefore, concluded with the following recommendations:

1. Government should encourage investments in Nigeria by providing an enabling environment, particularly in the area of infrastructure improvement, and tackling the issue of security with every sense of sincerity and seriousness.
2. With the impact of FDI on the operation of manufacturers in Nigeria, a viable code of conduct of Nigeria's business ethics for MNCs should be in place to limit their profit repatriation from the country.

ISSN: 2795-3831
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3. Nigeria's local content initiative, production, and export of Nigerian products should be encouraged. The encouragement should come from the government by way of funding research on viable local materials for manufacturing industries where investors can put in their funds.

ISSN: 2795-3831
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