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FOREIGN CAPITAL INFLOW, AGRICULTURAL DEVELOPMENT AND ECONOMIC GROWTH IN NIGERIA: AN EMPIRICAL ANALYSIS

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ABSTRACT

The fat that the contribution of agriculture is germane to economic growth of Nigerian nation and that foreign capital is a gap filler for inadequate domestic finance in the sector cannot be overemphasized. This paper examines the impact of foreign capital inflow into agricultural sector in an attempt to change the trend of economic growth in Nigeria. The study adopts annual secondary time series data from 1970 to 2014 sourced mostly from Statistical Bulletin of Central Bank of Nigeria (CBN), International Financial Statistics of International Monetary Fund (IMF) and Annual Abstract of Statistics published by National Bureau of Statistics (NBS). Econometric technique of Error Correction Mechanism (E.C.M.) was used to analyze the data collected in order to determine the effect of foreign capital inflow on agricultural productivity in Nigeria. The results showed that foreign capital inflow has a significant impact on agricultural output. It was found to have much more significant impact on the growth of agricultural sector in the second lag, meaning that it takes more time for foreign capital inflow in this sector to yield expected positive result. The study therefore recommends an increased inflow of foreign capital to the agricultural sector, especially at this period of economic recession resulting from dwindling oil prices and falling value of Naira. Enabling environment must be provided for intending foreign and local investors in the agricultural sector to improve on the economic growth of the Nigerian economy.

Keywords: Agricultural sector, Foreign capital inflow, Economic recession, Economic growth.

INTRODUCTION

The geographical fortunes of natural resources of good land, stable water, etc. in Nigeria make the economy a predominantly agricultural, producing primary agricultural produce for both domestic consumption and exports (cocoa, groundnuts, hides and skins, palm produce, tubers, etc.) up till early 1970. This reflects in its contribution to GDP which was about 65% and that of export earnings 83% and about 70% in employment generation in the 1960's. However, the discovery of crude oil in commercial quantity in the early 1970s significantly changed Nigerian economic activities in favour of crude oil exploration. Therefore, the trend of Agricultural productivity has witnessed a downward trend over the time. The discovery of oil and its boom of the 1970s brought with it fundamental changes in the Nigerian economy. There was heavy dependence of the economy on crude petroleum export as the main source of foreign exchange earnings and government revenue. Also, there was a mass exodus of active labour force from villages to cities in search of white collar jobs.

However, agriculture continues to remain the broad economic base of the country as well as the most dominant sector in terms of employment and food production among others (Attah, 2008). It is very essential to revitalize agriculture by providing the necessary incentives and inputs to transform it from present state. The current trend in the country as oil price is on the down slide in the world market and exchange rate is not favourable to the economy, is a replay of the experience of oil glut in the 1980; which consequently led to foreign exchange receipts collapse, fall in external reserves, increased foreign debts in the face of rising imports and lots more. Government efforts at containing the adverse developments created some other serious problems such as economic depression, rising prices (inflation), unemployment and persistent balance of payment deficit. With this, diversification is a must for Nigerian economy; Agriculture must be made attractive to the local and foreign investors so as to boost its productivity, since the country has comparative advantage in this sector when compared with other countries.

The personal income level at present in Nigeria is very low and this makes investment in agricultural activities a little bit difficult in the Country. This makes external augmentation unavoidable. The dual-gap theory recognizes the importance of foreign resources in capital growth as resource gap filler between domestic savings and desired investment. Given the capital deficient nature of Less Developed Countries, foreign capital is essential for growth and development in these nations. Foreign capital in the form of Foreign Direct Investment (FDI) plays a crucial role in the economic growth and development of any economy. It has been seen to be the driving force in the rapid industrialization of the Asian Tigers and has led to the quick economic independence of these countries (Laurenceson and Tang, 2007). Therefore, one of the main priorities of African leaders as outlined in the New Partnership for Africa's Development (NEPAD) is to attract FDI as a means of improving Africa's share of world trade and to move African Countries from the margins to the centre of the global economy. This is even more so as Africa and indeed SSA region is undoubtedly in economic crisis situation featured by inadequate resources for long-term development, high poverty level, low capacity utilization and high level of unemployment (North – South Institute, 2003). FDI improves the efficiency of production in the host country through technology transfer and spill over benefits to domestic firms (Akinlo, 2004).

Nigeria like other developing African countries has been taking steps in its efforts to integrate its economy with the rest of the world in order to accelerate capital inflow in the country. Recent observation shows that certain sectors including Agriculture, Manufacturing and Communication among others have started enjoying the inflow of FDI as against their

previous experiences. This Nigeria's experience with foreign Direct Investment raises interesting questions which include the effects of the current trend of foreign capital on productivity of agricultural sector in the Country. An analysis of this will help to draw policy lessons and to offer some thoughts for a possible reform programme for fruitful diversification in Nigeria.

LITERATURE REVIEW

Agricultural development is seen by many agrarian economies as a means of attaining other economic objectives of economic transformation and diversification. Agricultural development requires human and capital resources which could be mobilized from domestic and external sources (Akinmulegun, 2015). According to Enoma (2010), the development of agriculture in Nigeria has been slow in spite of the various agricultural policies. This is reflected in the drop in food supply, employment generation, foreign exchange earnings, etc. He further identifies the needs for agricultural development in developing countries as provision of food for the teeming population, supply of raw materials to industrial sector, employment generation, market for industrial output, foreign exchange earnings, among others. Inadequate domestic savings may limit the amount of domestic resources that can be mobilized for development purpose in many developing countries. Also, inadequate technological base could make it imperative that both capital and technology be imported from abroad if the objective of economic growth is to be achieved (Ojewumi, 2008). External financing which include foreign investment in financing the growth of agriculture for the development of Nigerian economy, is required in this case (Obansa and Madukwe, 2013). Since foreign direct investment (FDI) dominates foreign capital inflow portfolio in Nigeria, this study therefore made use of FDI in its analysis.

Olomola and Akinbobola (2000) opine that the low investment rate and shortage of foreign exchange in most African countries, had made FDI to become an important source of external financing, distinct from bank lending, bringing in initial investment through both equity and non-equity arrangements; technologies including know how, managerial, technical and organizational skills. FDI is designed to extract natural resources, use labour and other relatively cheaper inputs for export oriented industries or to allow better access to larger markets. The main attraction of FDI in Africa is the exploitation of mineral resources such as mining and oil exploration. African countries have also to encourage foreign capital into agricultural activities, particularly those that have comparative advantage in agriculture.

Various empirical studies have shown the relevance of finance to economic growth and agricultural development. Michael Dolan (1980) uses a multiple regression analysis of per capita GNP in sixty-six developing countries to find out the effects of FDIs on growth. He asserts that "flows" of FDI were associated positively but "stocks" of FDI were associated negatively with growth in income per capita. Lemeius (2000) examines Foreign Direct Investment and trade of the Developed countries on fisheries sector using a count data econometric procedure. He analyses the impact of changes in investment of Japanese and the U.S. west coast states on the sector in the LDCs. He finds an increasing level of Japanese investment and the eventual elimination of foreign harvesting and processing of Alaska Pollock from U.S. controlled waters. Burfisher, Robinson and Theiefelder (1992) analyze the effects of the U.S. / Mexico FTA (FDI) on Agriculture using a 25-sector, two-country CGE model based on 1993 data. The analysis showed 10-percent increase in the Mexican capital stock through FDI increase in the nation's GDP. Basu and Guariglia (2003) use a panel of 119 developing countries, set up a growth model of a dual economy in which the traditional

(agricultural) sector uses a diminishing returns technology, while FDI is the engine of growth in the modern (industrial) sector. The findings show that inequality and growth are promoted when FDI is attracted to industrial sector, as it reduces the share of agriculture to GDP in the recipient country.

In Nigeria, Akinlo (2004) observes that oil sector receives the lion share of FDI and the sector seems to be highly disconnected from the economy. His findings show that extractive FDI might not be growth inducing as much as manufacturing FDI because the result reveals that foreign capital only has positive impact on growth after a considerable lag and it is not significant. This supports the result of Iwayemi (1995), which shows the enclave nature of the Nigeria oil sector. Also, Ayanwale (2007) investigates the empirical relationship between non-extractive FDI and economic growth in Nigeria and discovered that FDI in non-extractive sector (particularly communication sector) has higher potential to grow the economy in multiples than oil sector. These studies do not include agricultural sector of the economy.

According to Olowu (2011) and Toby and Peterside (2014), consider bank lending as a financial instrument to performing a prominent role in the process of agricultural development in Nigeria. Their findings reveal weak correlation between bank lending and the contribution of agriculture to GDP. This may be attributed to constraints and delay in disbursement of loans to farmers. Akinmulegun (2015) investigates the impact of budgetary allocation to agricultural sector in Nigeria and its contribution to GDP. The results show a unidirectional causality that runs from budgetary allocation to agricultural sector and to gross domestic product. This implies that agricultural financing has a significant effect on the Nigerian economy through agricultural productivity. It is therefore imperative to consider the effect of foreign capital inflow on agricultural development in achieving economic diversification in Nigeria. This study is interested in knowing the important implications of foreign capital inflow into agricultural sector for economic diversification in Nigeria.

METHODOLOGY AND SOURCES OF DATA

This study adopts econometric technique to empirically examine the impacts of foreign capital inflow on the development of agricultural sector for economic growth in Nigeria. The econometric technique employed in estimating this model is the Error Correction Method (E.C.M.) so as to capture both the short-run and long-run analysis. Analysis of the time series is facilitated by Econometric View (E-View) software statistical package.

Model Specification

The study adopts endogenous growth model, which emphasizes the roles played by Foreign Direct Investment in the area of both physical and human capital and the model formulation here takes after Akinlo (2004) where he devises a theoretical framework for assessing the impact of FDI in the extractive sector on economic growth in Nigeria. This is suitable for this study since it addresses the impact of FDI in Agricultural sector. The model specified production function using Cobb – Douglas form, with foreign direct investment explicitly incorporated as a factor of production for Nigeria. First, the capital stock (k) here is composed of two components human capital (k_h), and physical capital (k_p). Incorporating this into the growth process, the production function becomes:

$Y = k_p^{\alpha} k_h^{\beta} (A.L.)^{1-\alpha-\beta}$ - - ---------- (1)

Where Y = Output, K_p = Physical capital, K_h = Human capital A = Level of Technology,

L = Labour force

If physical capital is decomposed into foreign and domestic capital where foreign capital inflow is represented by foreign direct investment, then we have

$Y = (K_{pd} + K_{pf})^{\alpha} K_h^{\beta} (A.L)^{1-\alpha-\beta}$ ----------(2)

Where K_{pf} = FDI, K_{pd} = Domestic capital proxied by gross capital formation.

If equation 2 is defined in terms of output per labour it becomes

$Y = [(K_{pd} + K_{pf})^{\alpha} K_h^{\beta}]_A^{1/1-\alpha-\beta}$ ---------- (3)

Taking the log of equation (3) we have

$\log y = \alpha/1-\alpha-\beta \log k_{pd} + \alpha/1-\alpha-\beta \log k_{pf} + \beta/1-\alpha-\beta \log(k_h) + \log A$ ---------- (4)

Let $^{\alpha}/_{1}- \alpha-\beta = a_1$, $^{\alpha}/_{1}-\alpha-\beta = a_2$, $^{\beta}/_{1}-\alpha-\beta = a_3$, $\log A = a_0$

The corresponding equation becomes

$\text{Log } y = a_0 + a_1 \log k_{pd} + a_2 \log k_{pf} + a_3 \log k_h + e_t$ ---------- (5)

Where e_t is the residual

$a_0 > 0, a_1 > 0, a_2 > 0, a_3 > 0$

Economic theory shows that there are other factors that determine growth of various sectors in any economy which include degree of openness, inflation rate, debt burden, exchange rate, etc. (Ojewumi, 2008). These variables are included in the model as control variables to trace the crowd-in or complementary effect of FDI in agric sector on economic growth. This translates equation 5 to what is given below:

$y = a_0 + a_1 hc + a_2 fdi + a_3 gcf + a_4 open + a_5 edb + a_6 cpi + a_7 er + a_8 dum + a_9 ecm_{t-1} + e_t$ --(6)

Where y is the total output in the country; fdi is foreign Direct Investment; hc is the human capital proxy by total school enrolment rate; gcf is the Gross capital formation; open is degree of openness; edb is external debt burden; cpi is inflation rate; er is exchange rate; dum is change in external trade policy; ecm is the error correction mechanism and e_t is the error term.

To examine the productivity of FDI in agricultural sector, fdi in equation 6 was decomposed to sectors and agricultural fdi was incorporated to give the equation below

$yagric = a_0 + a_1 hc + a_2 fdiagric + a_3 gcf + a_4 open + a_5 edb + a_6 cpi + a_7 er + a_8 dum + a_9 ecm_{t-1} + e_t$ --(7)

Equation 7 reveals the productivity of foreign capital inflow in agricultural sector in Nigeria.

Apriori expectation of $a_1, a_2, a_3, a_4, a_5, a_6, a_7, a_8 > 0$. This implies that each of the variables in the model is hypothesized to be capable of increasing the level of agricultural productivity and thereby increasing economic growth in the country.

Sources and Measurement of Data

This study makes use of secondary data sourced from the Statistical Bulletin of the Central Bank of Nigeria (CBN), Annual Abstract of statistics of the National Bureau of Statistics (N.B.S) and International Financial Statistics of the International Monetary Fund (I.M.F). The data scope is 1980 – 2014 on variables that include Gross Domestic Product, Foreign Direct Investment, Balance of Payment, Inflation Rate, Consumer Price Index, e.t.c. All variables are in log form.

For the purpose of estimation, the variables of interest are defined as follows:

Gross Domestic Product (yagric): Total output of agricultural sector was used.

Foreign capital accumulation (fdiagric): FDI inflow to agric sector was used.

Human capital investment (gch): Total school enrolment was used as a proxy.

Domestic physical capital formation: Gross capital formation was used as a proxy

Degree of openness (gopen): This was estimated to be the sum of total exports and imports as a ratio of GDP

Interest rate (gir): The U.S. lending rate was used as given I.M.F.

Dum is a proxy for change in external trade policy which affects the inflow of FDI.

External Debt Burden (gedb): External Debt burden as given

Rate of Inflation (gccpi): The rate of inflation defined as the annual percentage change in the consumer price index

Exchange Rate (ger): The official domestic exchange rate was used since government transacts her business at the official rate. The amount of naira that exchanges for a unit of U.S. Dollar is used.

RESULTS AND DISCUSSION

The time series property of the variables used in our models was investigated before the actual model estimation for the long run and short run relationships. This was done by carrying out both unit root and co-integration tests on the variable using the sample period 1980 – 2014. This is done to ascertain the stationarity (or otherwise) of the data set before proceeding to the estimations of the models and co-integration test would help to examine the existence of long run relationships among the variables. Augmented Dickey Fuller (ADF) test was employed. This analysis would help to see the nature and strength of the relationship among the specified variables. Having established the co-integration relationship between the dependent and independent variables of our models, we proceeded to estimate an error correction model of the equations in order to ascertain the short run situation.

Unit Roots Test:

The results of the stationarity test using ADF test for the periods 1980-2015 were presented in table 1 below.

Table 1: ADF unit root tests

Variable	Series	At levels (5%)	At first differences (5%)	Order of integration
Output of Agric Sector	Gagric	-0.9847	-3.6621	I(1)
FDI in Agric	gfdi agric.	-1.1962	-4.7405	I(1)
Gross cap formation	ggcf	-0.2999	-3.8156	I(1)
Human capital	ghc	-1.8683	-2.9494	I(1)
Interest rate	gir	-1.1222	-5.7441	I(1)
Degree of openness	gopen	-1.5289	-2.9687	I(1)
External debt burden	gedb	-0.82882	-4.1867	I(1)
Exchange rate	ger	-0.3544	-3.5159	I(1)
Trade policy	dum	-1.7823	-3.4527	I(1)
Inflation Rate*	gccpi	-4.1531	-	I(0)-
Critical values	-	-2.9527	-2.9558	-

* Inflation rate is significant at level since index was used for the variable.

Source: Researcher's Computation

The results showed that all the variables tested were non-stationary at their levels. Stationarity was only induced after first differencing. However, inflation was stationary at level because inflation rate is already a first difference variable.

Tests for Cointegration

Following the reports of unit root test in table 1, which show that all the variables of interest were stationary at first difference except for inflation rate, then the test for possible cointegration among the variables were conducted using Johansen co-integration test. The result is reported in table 2.

Table 2: The Results of Johansen Co -integration Tests

Model	No of Cointegrating Equation(s) at 5% significance level
Total output & Agric FDI	4

Source: Researcher's Computation

As indicated by the statistics in table 2, the co integration test indicates that at least four integrating vector exists among the variables in the model. This implies that the variables are co integrated, suggesting that there is presence of long run feedback effects on the short run dynamism of the models.

Error Correction Analysis

Having established that long run relationships exist between the particular dependent variable and the selected independent variables, error correction analysis was therefore performed on the model earlier specified to investigate the short-run impact of foreign capital inflow in the agricultural sector on the productivity of the sector. The error correction

framework brings out the pattern of short term changes in the agricultural output arising from movements in the explanatory variables. The results are given below:

Table 3: Parsimonious Short Run Dynamic Model

Variables	Coeficients	T-Statistics	Probability
g. gdp (-1)	-1.152592	-2.850291	0.037
g. gdp (-2)	1.034017	3.421587	0.021
ggcf (-2)	0.293596	2.250073	0.023
gopen (-2)	-0.367861	-3.263346	0.02
gedb (-2)	0.202166	3.392942	0.04
gch (-2)	0.574712	2.009167	0.031
gfdi agric (-1)	0.366823	3.626832	0.007
gfdi agric (-2)	0.449163	3.017637	0.07
dum	0.280836	3.537038	0.43
ecmgdp (-1)	-0.1839707	-3.801975	0.00
R^2	0.551775		
F Stat	16.3		
Durbin Watson Stat	2.070240		

Source: Researcher's Computation

The significant lags of short run error correction solutions are reported in the table above. The coefficient of the error correction term has the expected negative sign and it also passes the 1 percent significance test. This goes to show that any short-term deviation of foreign capital inflow in the agricultural sector from equilibrium in the short-run can be restored in the long run. The low value of the error correction term means that adjustment to equilibrium in the long run is rather slow. Just about 18 percent of long run adjustment to equilibrium is completed during the first year. The DW statistic value of 2.07 shows absence of autocorrelation in the model. The implication of this is that the short-run estimates in the model above are reliable for structural analysis and policy directions.

Also, foreign capital as captured by FDI in Agricultural sector is shown to have positive significant impact on the economic growth at first and second lags. The coefficient shows that 100% increase in FDI Agriculture will impact about 37% and 45% increase on the overall economic growth of the country in the first and second lags respectively. This shows that foreign capital inflow in agricultural sector is highly productive i.e. significant and impact positively on the economy. It shows that if foreign capital is mobilized into Agricultural sector, it will serve as a path towards economic diversification of the Nigerian economy.

The results also reveal that human capital, gross capital formation, degree of openness and external debt burden are all significant at second lag. Human capital is shown to impact about 57% increase (at second lag) on the agricultural productivity in the Nigerian economy

and trade policy (Dummy 2) is also shown to have positive and significant impact which implies that the current trend of privatization and commercialization in Nigeria is a good step in the right direction.

In overall, this study reveals the capacity of productivity of foreign capital inflow in agricultural sector on agricultural productivity in the Nigerian economy. However, foreign capital inflow in the sector was shown not to be the only factor that drives productivity in the sector. The main linkage in this analysis is that since capital is a very strong variable of improving productivity, domestic capital should be augmented by foreign capital to boost agricultural performances and economic growth in Nigeria.

CONCLUSION

This paper investigated the impact of foreign capital inflow in Agricultural sector as a path towards diversification of the Nigerian economy. Error correction mechanism was used to examine the impact of foreign capital inflow in agricultural sector on economic growth of Nigeria after establishing stationarity and integration on the variables of interest. The result reveals that foreign capital inflow in agricultural sector impacts positively on the level of economic growth in Nigeria for the period under study. It is noted that efforts should be geared toward boosting the inflow of foreign capital into this sector in order to ensure economic growth in Nigeria. A key challenge for policymakers in the country is how to attract more foreign capital to agricultural sector so as to change the monoculture nature of the country. This will boost foreign exchange earnings, reduces unemployment, and also increase standard of living of people in Nigeria.

On the basis of the findings of this study, the following recommendations are made:

a. Government will need to monitor foreign capital inflow to ensure that the larger percentage of is channelled to agricultural sector where higher productivity is ensured in an agrarian economy.
b. Increased budgetary allocation to the agricultural sector is a must, especially during the current economic crisis that arises from falling oil prices.
c. Strong integration of agricultural sector into the entire economy will be helpful to impact on economic growth of the country. Forward and backward linkages between agricultural sector and other sectors of the economy are required in this case.
d. Governments at various levels should encourage both domestic and foreign farmers by creating enabling environment through subsidized implements and equipment (local and foreign), sound social and infrastructural facilities (roads, health services, electricity, etc), storage facilities, marketing of agricultural produce, among others.
e. Restricted globalization is needed so as to militate against capital flight, which is reflected in the negative impact of openness on economic growth.
f. Government has to improve and stabilized educational policy of the country in order to improve the quality of human capital in the country. When this is done, it will attract more FDI into the nation, improve the quality of farmers and impact positively on the growth of the country.
g. The current policy of commercialization and privatization should be closely monitored and frequent change of policy rules should be avoided. The official corruption and ethnic conflicts should be checkmated as they portend serious security threat to potential investors particularly the foreigners. Government needs to provide

strong economic institutions, rule of law, democracy and stable macroeconomic policy. All these build confidence in the minds of foreigners and foreign capital inflow will be stimulated.

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