
FOREIGN PRIVATE CAPITAL INFLOWS AND ECONOMIC GROWTH IN NIGERIA

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ABSTRACT

Foreign capital inflows into recipient economies have been viewed as a stimulant to improved economic growth. This is anchored on the belief that they help to boost investment and productivity. It is in the light of this, that this study empirically examines the effect of foreign private capital inflows on Nigerian's gross growth rate (GDP), gross savings and investment, using data from period 1980 to 2013. The research design adopted for this study is the ex-post factor research design. The Ordinary Least Square (OLS) Regression technique was also employed in testing the causal relationship between foreign capital inflow and GDP, domestic investment and domestic savings in Nigeria. Findings from the analysis reveal that foreign capital inflow has a positive but insignificant effect of on economic growth (GDP) and domestic investment, while having a negative and non-significant effect on national savings. The study therefore, recommends a re-assessment of government's foreign direct investment policies as well as institutional and general macro-economic policies to make them more hospitable to foreign funds.

Keywords: Foreign Private Capital Inflows, Foreign Direct Investment, Economic Growth, Gross Domestic Product (GDP), Domestic Investment, National Savings.

1.0 INTRODUCTION

Discussions on foreign capital inflows and its effects on the economic growth of economies of the world abound in economic and financial literatures. This is borne out of the perceived belief that foreign private capital inflows are expected to bring about increased investment and productivity, result in competition among corporate organizations and even lead to improved corporate governance among the many benefits. For these reasons therefore, studies theoretical as well as empirical, have been carried out by different scholars on the impact of foreign private capital on economic growth on a macro-economic level (Onwumere, 2013).

However, like many other issues in economics, there seems to be divergent views among scholars on this perhaps, because of their understanding of the statistical concept of foreign capital inflow. For this reason, comparison of results of different studies trying to prove or disprove a particular point becomes difficult. Using cross-border and or time series data, researchers make conflicting claims. While some believe that foreign capital inflows add to national savings and investment and therefore, affect income positively others, argue that foreign capital inflows have negative effect on national savings and therefore on balance, they may have retarding effect on development.

Nevertheless, most developing economies of the world including Nigeria have come to the realization that domestic resources alone are not enough to finance investment and therefore boost economic growth. There is therefore the need for capital deficient economies to complement local savings with foreign capital inflow which is seen as a catalyst in the economic growth process. Nigeria has since 1999 realized the need to restructure its institutions, macro-economic as well as political frameworks and policies in order to woo this much need capital inflow. This is perhaps in recognition of the fact that foreign capital inflows depend on a variety of features of the host economy which among others include its market size, level of education, institutional environment, tax laws, and overall macro-economic and political environment (Aurangzeb, and Ul Haq, 2012). Chowhury and Mavrotas (2003) posit that the contribution of foreign direct investment to economic growth of any country depends on some other factors like the degree of its openness and the human capital base. Similarly, Olofsdotter (1998) posits that the beneficiary effects of foreign direct investment are stronger in those countries with a higher level of institutional capability.

Over the years, Nigeria has witnessed a sizable inflow of foreign capital. For example, Nigeria received 70 percent of the sub regional foreign direct investment to West Africa countries according to UNTAD World Investment Report, 2006. The same year too, she received a net inflow of US\$5.4 billion of foreign direct investment as listed in the Library of Congress-Federated Research division report, 2008. Also, as at August 2007, World Bank assistance to Nigeria amounted to US\$2.67billion involving 23 active projects.

These impressive FDI inflows into the Nigerian economy notwithstanding, the Nigerian economy is still bedeviled with severe challenges such as increased poverty, low capacity utilization, declining output, rising unemployment rates, unstable power supply and decay in infrastructure among others.

It is in the light of these contradictory scenarios that this study is initiated to empirically analyze the causal relationship between foreign private capital inflow and growth in the Nigerian economy with particular concern on the nation's Gross Domestic Product (GDP), Domestic Investment and Savings which are critical indicators of growth in most emerging economies.

To address this issue, this study is structured into five sections: section one, is the introduction. Section two, reviews related literatures, while Section three contains the methodology adopted for the study. Section four is the empirical analysis, and Section five is the Conclusion and Recommendations.

2.0 REVIEW OF RELATED LITERATURES

As noted earlier, there seems to be divergent views among scholars with regard to the contribution of FDI to the economic growth of recipient economies. However, a reasonable consensus in empirical literatures appear to be that FDI increases growth through productivity and efficiency gains by local firms. Caves (1996) notes that the rationale for increased efforts to attract more foreign direct investment by host countries emerges from the belief that foreign direct investment brings about productivity gains, technology transfers, introduction of new processes, management skills, and know-how in the domestic market, employee training, international production networks and access to markets. Also, Borenszten, De Gregorio and Lee (1998) in their work on the effect of FDI on economic growth in a cross country regression, observes that FDI is an instrument for technological transfer, contributing more to growth than domestic investment. They however noted that this is only possible where the recipient country possesses a sizable stock of human capital and the capability to absorb advanced technologies. This is because it takes a well-educated population to understand and spread the benefits of new innovations to the whole economy.

OECD (2002) concludes that there is a positive relationship between FDI and economic growth by positing that FDI adds to efficiency of resources of host countries by increasing their factor productivity. Also, Papanek (1973) asserts that all three components of FDI – foreign aid, foreign private investment, and foreign loan have a statistical significant positive impact on economic growth, but that foreign aid exerted greater influence than others.

Using a sample of 282 pairs of companies from 80 industries in Brazil, Willmore (1986) found out that the ratio of value added to output was higher for foreign firms than their domestic counterparts. He therefore concludes that FDI has a significant positive impact on growth because foreign firms are more efficient than their local counterparts. In similar vein, Moss, Ramachandran and Shah (2005) in the study of the exports of Uganda, Kenya and of Tanzania, conclude that the ratio of export from foreign investment is far more than the exports from domestic investment in these three countries. Akinlo (2004) in his study on the impact of FDI and the Nigerian economic growth, using data for period 1970 – 2001, discovered that both private and lagged foreign capital have small and insignificant impact on the economic growth in Nigeria.

Notwithstanding these encouraging findings, some researchers discover negative relationship between FDI and the economic growth of developing economies. Adelegan (2000), studied the impact of FDI on economic growth in Nigeria, using a regression analysis and concluded that FDI is pro consumption and pro import and negatively related to GDP. Similarly, Ayadi (2009) compared growth rate of gross domestic product with FDI growth rate and discovered a negative, non- significant relationship, indicating that FDI has no significant contribution to economic growth in Nigeria.

Espinoza-Vega, et al (2000) argues that the volatile nature of foreign capital inflows exert an impact on development. Duasa (2007), applying the GARCH and causality tests to analyze the impact of FDI on the stability of economic growth and causal relationship between FDI and growth respectively, found no strong causal relationship between FDI and growth. He however, observed that FDI provides stability to economic growth. In the same vein, Oyinlola (1995) while x-raying the contributions of FDI to the poverty of least developed countries (LCDs), conceptualized foreign capital as foreign loans, foreign direct investment and export earnings. He adopted a two-gap model of Chenery and Stout (1996) and concluded that FDI has a negative effect on economic growth and development in Nigeria.

Drawing from the contradicting positions of research findings it could be concluded that the impact of FDI on economic growth of countries varies from country to country and is heavily dependent on institutional and macro-economic policies of host countries as well as the variables considered in the analysis. According to UNCTAD (1999), FDI has either a positive or negative impact on output depending on the variables that are entered alongside it in the test equation. These variables include gross domestic product, educational attainment, domestic investment ratio, political instability, terms of trade, black market exchange rate premiums, and the state of financial development.

3.0 METHODOLOGY

The research design adopted for this study is the *ex-post factor* research design. This is because the data used for the analysis was obtained from the World Bank for periods ranging from 1980 to 2013. The Ordinary Least Square (OLS) Regression technique was employed in testing the causal relationship between foreign capital inflow and GDP, domestic investment and domestic savings in Nigeria.

3.1 Model Specification.

The models for this study were specified to indicate the effect of foreign capital inflow on economic growth rate, savings and investment and thus the models are specified as follows.

$$a = b_0 + b_1 + u \dots\dots\dots (1)$$

$$GDP_t = b_0 + b_1 \text{ foreigncapitalinflow}_t + u \dots\dots\dots (2)$$

$$\text{Domestic Investment} = b_0 + b_1 \text{ foreign capital inflow}_t + u \dots\dots\dots (3)$$

$$\text{National Savings}_t = b_0 + b_1 \text{ foreign capital inflow}_t + u \dots\dots\dots (4)$$

Where u = error term.

3.2 Objectives:

1. To determine the effect of foreign capital inflow on Nigeria's economic growth rate (GDP)
2. To ascertain the effect of foreign capital inflow on gross national savings.
3. To determine the effect of foreign capital inflow on domestic investment.

3.3 Definition of Variables

Foreign direct investment, net inflows (% of GDP): Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows (new investment inflows less disinvestment) in the reporting economy from foreign investors, and is divided by GDP.

Gross savings (% of GDP): Gross savings are calculated as gross national income less total consumption, plus net transfers.

Investment (gross fixed): This entry records total business spending on fixed assets, such as factories, machinery, equipment, dwellings, and inventories of raw materials, which provide the basis for future production. It is the gross measure of the depreciation of the assets, i.e., it includes investment that merely replaces worn-out or scrapped capital.

GDP per capita (current US\$): GDP per capita is gross domestic product divided by midyear population. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in current U.S. dollars.

4.0 Data Analysis and Results

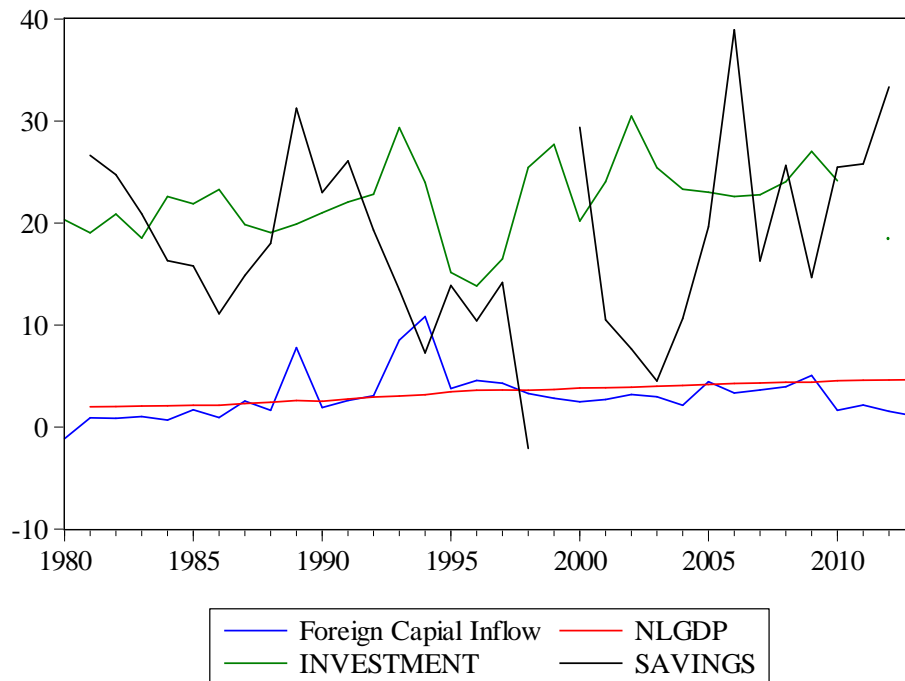


Fig. 1 Representation of the Dataset

Unit Root test result.

A time series is considered to be stationary if its mean and variance are independent of time. If the time series is non-stationary, that is, having a mean and or variance changing over time, it is said to have a unit root (Johannes et al, 2011). Stationarity is important in econometrics as most time series data exhibit unit root problem. If a time series is non-stationary, the regression and/or correlation analysis carried out in a conventional way will produce misleading results. A misleading regression and/or correlation results occur when after regressing a time series variable on others, the tests statistics show a positive relationship between these variables even though no such relationship exist.

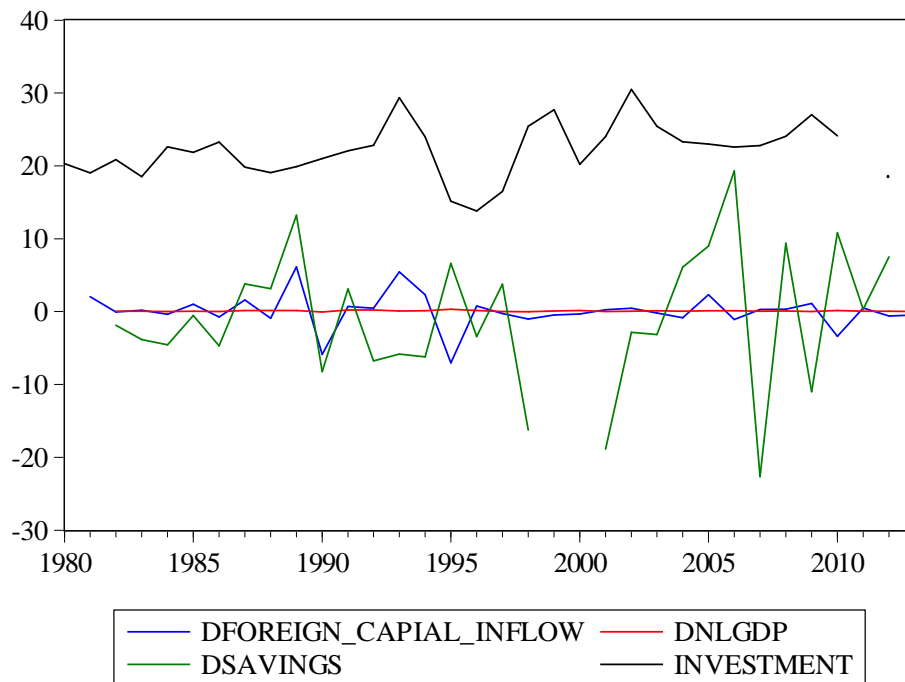
To guard against spurious result, this study took caution by checking the unit root properties of the variables using the Augmented Dickey Fuller test. The representation of the dataset in figure 1 above confirms the non-stationarity status of our dataset and hence the ADF stationary test whose result is presented below.

Table 1: Augmented Dickey Fuller Unit Root Test.

Variables	Critical value* at 1%.	ADF Test statistic @ level	Status	ADF Test Statistic (t*)
Foreign Capital Inflow	-4.262735	-3.542768	1(1)	-7.918825
GDP	-4.273277	-1.132648	1(2)	-6.942004
Investment	-4.309824	-4.782156	1(0)	
Savings	-4.374307	-2.670450	1(1)	-7.207624

Source: Author's E-view output.

The above table is the Augmented Dickey Fuller (ADF) test reports the unit root properties of the operational variables of the study. The table reveals that data for foreign capital inflow, GDP, and savings were not stationary at level while data for investment was stationary at level. This is evidenced by their ADF Test Statistic at level of -3.542768, -1.132648 and -2.670450 for foreign capital inflow, GDP and savings respectively been > the critical value of the ADF at 1% and thus the acceptance of the null hypotheses of a unit root or non-stationarity, while the ADF Test Statistic at level of -4.782156 for investment is < the critical value of the ADF at 1% thus indicating stationarity. However, a non-stationary time series can be converted into a stationary time series by differencing (Johannes et al, 2011). The DSP (Difference-Stationary Process) was applied to the non-stationary data to make them stationary at 1st difference for foreign capital inflow and savings, and 2nd difference for GDP. This is evidenced by the critical values and the ADF test statistic t* at 1%, of -7.918825, -6.942004 and -7.207624 for foreign capital inflow, GDP, and savings respectively been less than the ADF test statistic at level of -4.262735, -4.273277, and -4.372307 for foreign capital inflow, GDP, and savings, we conclude that there is no unit root with the time series. Therefore, all the time series are stationary and hence further analysis.



Covariance Analysis: Ordinary
 Date: 03/29/15 Time: 11:58
 Sample (adjusted): 1982 2012
 Included observations: 28 after adjustments
 Balanced sample (list wise missing value deletion)

Correlation t-Statistic Probability	FOREIGNCAPIALINFLOW	LGDP	SAVINGS	INVESTMENT
FOREIGNCAPIALINFLOW	1.000000 ----- -----			
GDP	0.007090 0.036151 0.9714	1.000000 ----- -----		
SAVINGS	-0.016222 -0.082728 0.9347	0.442631 2.516977 0.0183	1.000000 ----- -----	
INVESTMENT	0.301440 1.612033 0.1190	-0.304761 -1.631599 0.1148	-0.285583 -1.519471 0.1407	1.000000 ----- -----

Source: Author's E-views 7.2 Output

The correlation result displayed in the table above indicates that foreign capital inflow suggests a positive relationship with economic growth (GDP) and domestic investment indicating that an increment in foreign capital outflow brings about increments in economic growth as captured by GDP as well as domestic investment. However, the table also suggests a negative relationship between foreign capital inflow and national savings indicating that an increase in foreign capital inflow discourages savings thus bringing about a decrease in savings.

Following the correlation analysis result, the study tested the effect of foreign capital inflow on investment, economic growth and gross national savings using ordinary least squares on Nigerian dataset ranging from 1980 to 2013.

Table of Ordinary Least Squares Result

<i>Variables</i>	<i>Coefficients</i>	<i>t-Statistics</i>
DNLGDP	0.000171	0.029260 (0.9769)
DSAVINGS	-0.056813	-0.079985 (0.9368)
DINVESTMENT	0.380371	1.406324 (0.1703)

Source: Author's Eviews 7.2 Output with Data from Appendix B.

Probability of t- Values in parenthesis

* Significant at the 10%

** Significant at the 5%

*** Significant the 1%

The table above supports the covariance analysis table and indicates a positive relationship between foreign capital inflow and economic growth and domestic investment while a negative relationship exists between foreign capital inflow and national savings. The regression analysis results presented above also suggests that foreign capital inflow has a positive and insignificant effect of on economic growth (GDP) and domestic investment while having a negative and insignificant effect on national savings. These results were strengthened by the t-Statistics of the coefficients of GDP, investment and savings < 2 and the probability of the t-Statistics $> 10\%$ or 0.1 respectively.

5.0 Conclusion

This study examines the causal relationship between FDI and Economic growth with regards to GDP, Investment and Savings in Nigeria between 1980 and 2013. The results from the regression analysis show that foreign capital inflow has a positive and insignificant effect of on economic growth (GDP) and domestic investment while having a negative and insignificant effect on national savings. The study therefore, recommends a re-assessment of government's foreign direct investment policies as well as institutional and general macro-economic policies to make them more hospitable to foreign funds.

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Appendix A: Raw Data for Analysis

Obs	FOREIGN INFLOW	CAPIAL	INVESTMENT	NLOGGDP	SAVINGS
1980	-1.150856		20.301	NA	NA
1981	0.887948		19.030	1.974627	26.61919
1982	0.837806		20.874	2.004370	24.73895
1983	1.027979		18.514	2.041645	20.88781
1984	0.663717		22.604	2.065476	16.30841
1985	1.681726		21.872	2.128999	15.78496
1986	0.932437		23.268	2.129056	11.08250
1987	2.534126		19.835	2.285841	14.86190
1988	1.627125		19.064	2.420442	18.00121
1989	7.776141		19.879	2.582361	31.23100
1990	1.911375		20.990	2.516676	22.97330
1991	2.600578		22.052	2.736932	26.06916
1992	3.060113		22.806	2.942178	19.29276
1993	8.520921		29.340	3.037299	13.44697
1994	10.83256		23.977	3.146036	7.249833
1995	3.780688		15.145	3.463499	13.85798
1996	4.554308		13.816	3.605553	10.41423
1997	4.297446		16.481	3.622136	14.16885
1998	3.284921		25.437	3.600913	-2.097764
1999	2.801490		27.698	3.670173	NA
2000	2.457935		20.190	3.826954	29.36441
2001	2.697521		24.035	3.838547	10.49506
2002	3.170063		30.474	3.891858	7.644419
2003	2.964105		25.430	3.996228	4.502688
2004	2.133331		23.315	4.057326	10.61624
2005	4.438849		22.998	4.164676	19.62310
2006	3.337979		22.583	4.268685	38.93277
2007	3.625670		22.773	4.315074	16.27369
2008	3.939450		24.041	4.385541	25.64333
2009	5.047661		27.006	4.394351	14.66057
2010	1.638899		24.138	4.531284	25.46756
2011	2.147440		NA	4.572986	25.79490
2012	1.533769		18.400	4.607928	33.31881
2013	1.074926		NA	4.627333	NA

Source: World Bank Data Bank.org

Appendix B: Differenced or Processed Dataset

obs	DFOREIGN CAPIAL INFLOW	DNLGDP	DSAVINGS	INVESTMENT
1980	NA	NA	NA	20.301
1981	2.038803	NA	NA	19.030
1982	-0.050141	0.029743	-1.880240	20.874
1983	0.190172	0.037276	-3.851144	18.514
1984	-0.364262	0.023830	-4.579403	22.604
1985	1.018009	0.063523	-0.523448	21.872
1986	-0.749290	5.72E-05	-4.702454	23.268
1987	1.601689	0.156785	3.779394	19.835
1988	-0.907001	0.134601	3.139308	19.064
1989	6.149016	0.161919	13.22979	19.879
1990	-5.864766	-0.065685	-8.257700	20.990
1991	0.689203	0.220256	3.095859	22.052
1992	0.459535	0.205246	-6.776401	22.806
1993	5.460808	0.095121	-5.845791	29.340
1994	2.311637	0.108737	-6.197134	23.977
1995	-7.051870	0.317463	6.608148	15.145
1996	0.773620	0.142054	-3.443753	13.816
1997	-0.256863	0.016583	3.754621	16.481
1998	-1.012525	-0.021223	-16.26661	25.437
1999	-0.483431	0.069260	NA	27.698
2000	-0.343555	0.156781	NA	20.190
2001	0.239586	0.011593	-18.86935	24.035
2002	0.472543	0.053312	-2.850640	30.474
2003	-0.205958	0.104369	-3.141731	25.430
2004	-0.830774	0.061098	6.113549	23.315
2005	2.305519	0.107350	9.006859	22.998
2006	-1.100870	0.104009	19.30968	22.583
2007	0.287691	0.046388	-22.65908	22.773
2008	0.313780	0.070467	9.369641	24.041
2009	1.108211	0.008810	-10.98276	27.006
2010	-3.408762	0.136933	10.80699	24.138
2011	0.508541	0.041702	0.327337	NA
2012	-0.613671	0.034942	7.523908	18.400
2013	-0.458843	0.019405	NA	NA

Source: Appendix A

Appendix C. Regression Output

Dependent Variable: DNLGDP
 Method: Least Squares
 Date: 03/30/15 Time: 02:21
 Sample (adjusted): 1982 2013
 Included observations: 32 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DFOREIGN_CAPIAL_INFLO				
W	0.000171	0.005860	0.029260	0.9769
C	0.082896	0.014142	5.861568	0.0000
R-squared	0.000029	Mean dependent var		0.082897
Adjusted R-squared	-0.033304	S.D. dependent var		0.078701
S.E. of regression	0.080001	Akaike info criterion		-2.153102
Sum squared resid	0.192003	Schwarz criterion		-2.061493
Log likelihood	36.44963	Hannan-Quinn criter.		-2.122736
F-statistic	0.000856	Durbin-Watson stat		1.811419
Prob(F-statistic)	0.976851			

Source: Author's E-views 7.2 Output with Data from Appendix B.

Appendix D. Regression Output

Dependent Variable: DSAVINGS
 Method: Least Squares
 Date: 03/30/15 Time: 02:23
 Sample (adjusted): 1982 2012
 Included observations: 29 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DFOREIGN_CAPIAL_INFLO				
W	-0.056813	0.710289	-0.079985	0.9368
C	-0.850996	1.798051	-0.473288	0.6398
R-squared	0.000237	Mean dependent var		-0.853881
Adjusted R-squared	-0.036791	S.D. dependent var		9.507533
S.E. of regression	9.680851	Akaike info criterion		7.444649
Sum squared resid	2530.410	Schwarz criterion		7.538945
Log likelihood	-105.9474	Hannan-Quinn criter.		7.474181
F-statistic	0.006398	Durbin-Watson stat		2.421582
Prob(F-statistic)	0.936839			

Source: Author's E-views 7.2 Output with Data from Appendix B.

Appendix D. Regression Output

Dependent Variable: INVESTMENT
Method: Least Squares
Date: 03/30/15 Time: 02:24
Sample (adjusted): 1981 2012
Included observations: 31 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DFOREIGN_CAPIAL_INFLO				
W	0.380371	0.270472	1.406324	0.1703
C	22.16894	0.669757	33.09997	0.0000
R-squared	0.063844	Mean dependent var		22.19565
Adjusted R-squared	0.031563	S.D. dependent var		3.787808
S.E. of regression	3.727552	Akaike info criterion		5.531721
Sum squared resid	402.9446	Schwarz criterion		5.624236
Log likelihood	-83.74168	Hannan-Quinn criter.		5.561879
F-statistic	1.977747	Durbin-Watson stat		1.100080
Prob(F-statistic)	0.170254			

Source: Author's E-views 7.2 Output with Data from Appendix B.