

## **Horizontal and backward Foreign Direct Investment spillovers: Evidence from manufacturing firms in Nigeria**

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In the last few decades, developing countries across the globe in Africa, Asia, and Latin America have regarded Foreign Direct Investment (FDI) as a good source of capital and technology to fast-track industrial development. In pursuit of this, drastic policy changes in favour of FDI inflows, especially into the manufacturing sectors, were implemented by developing countries, including Nigeria. This has drawn the attention of many researchers; hence, several studies have examined the FDI spillover effects on the productivity of domestic firms in different countries. However, we observe a paucity in FDI spillover studies in the manufacturing sector in Nigeria. Distinct from previous studies in Nigeria, this study is inspired by the standard methodology suggested in the literature by Javorcik (2004) and constructs the horizontal and backward spillover variables to examine the FDI spillover effects. This study uses a rich firm-level panel dataset collected by the World Bank's Enterprise Survey on manufacturing firms in 2007, 2009, and 2014 in Nigeria. The study finds evidence in support of positive FDI spillover effects through the horizontal channels. The result shows that a unit increase in horizontal FDI is associated with an increase of 2.50 units in the productivity of domestic firms. The coefficients are strongly significant at 1% level and the result remains consistent for different estimation techniques. This result may not be surprising in the case of manufacturing firms in Nigeria as there are highly competitive domestic firms on par with, or even better than, many foreign subsidiaries. They react to the competition posed by the foreign multinationals positively. However, there is no evidence of a backward FDI spillover effect possibly due to insufficient backward linkages. The study recommends that a local content requirement policy be made in all industries of the manufacturing sector in Nigeria to enhance domestic linkages and facilitate backward spillover benefits.

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