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Foreign Direct Investment as Alternative Financial Measure for Africa Development: A Case of Nigeria.

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Abstract: *The growing recognition of Foreign Direct Investment (FDI) as an instrument of economic development has reached a high pitch. This is because many countries and especially developing countries see FDI as an alternative financial measure to fill revenue-generation gap of government in achieving economic development. This paper provides a content review analysis of the foreign direct investment development in Africa with particular reference to Nigeria. The findings of this review suggested that the degree to which foreign direct investment helps or hurts a developing country will be heavily influenced by the policy choice of the host country. Therefore, it is recommended that for Nigeria to attract the desired level of FDI, it must have strong based institutions that promote justice, adherence to regulatory framework, and safe haven for congenial business environment. There must be political stability to encourage inflow of capital flight in diaspora and concerted effort to develop infrastructure.*

Key words: *Foreign Direct Investment, Economic Development, Policy-based, Nigeria*

I. Introduction

There is a growing recognition among developing countries of the crucial role of Foreign Direct Investment (FDI) as an instrument of economic development. In time past, most African leaders and governments in Nigeria have not focused much attention on investment especially foreign direct investment which will not only guarantee employment but will also impact positively on economic growth and development. FDI is needed to reduce the difference between the desired gross domestic investment and domestic savings. According to Adegbite and Ayadi (2010), FDI helps fill the domestic revenue-generation gap in a developing economy, given that most developing countries' governments do not seem to be able to generate sufficient revenue to meet their expenditure needs.

FDI has been defined by many scholars and organizations but for the purpose of this research, it will be referred to as "An investment based in one country acquires an asset in another country with the intent to manage that asset" (OECD, 2000). It is important to understand the significance of FDI in global trade and in economic development. Also it is important to understand the shift in FDI towards the developing world, and the future trends of FDI. The global stock of FDI at the end of 2004 stood at $9 trillion which is equal to the current combined GDP of the four largest economies of the world after USA-Japan, China, Germany, and the United Kingdom. (WIR, 2005). International production is expanding, with foreign sales, employment and assets of transnational corporations (TNCs) all increasing. TNCs' production worldwide generated value added of approximately $16 trillion in 2010- about a quarter of global GDP (UNCTAD 2011).

Falki (2009) while contributing on the effect and advantages of FDI to the host economy noted that the effects of FDI on the host economy are normally believed to be increase in employment, augmenting the productivity, boost in export and amplified pace of transfer of technology. Furthermore, FDI facilitates modern techniques of management and marketing, eases the access to new technologies, foreign inflows can be used for financing current account deficits, finance inflows from FDI do not generate repayment of principal or interests (as opposed to external debt) and increase the stock of human capital via on-the job training.

Many African States are availing and making use of the window opportunity provided by FDI into their economy. Countries like South Africa, Uganda, Nigeria and Zimbabwe are in the fore front of this development. In fact, one of the pillars for launching the new partnership for Africa's development (NEPAD) was to accelerate FDI in-flows to the region (Funke and Nsouli, 2003). In 2006, about 40 African countries introduced 57 new measures affecting FDI, of which 49 encouraged inward FDI (UNCTAD, 2007). The increase in FDI inflows largely reflected relatively high economic growth and strong corporate performance in many parts of the world (UNCTAD, 2008).

Various classifications have been made of foreign direct investment (FDI). For instance, FDI has been described as investment made so as to acquire a lasting management interest (for instance, 10% of voting stocks) and at least 10% of equity shares in an enterprise operating in another country other than that of

investors' country (Mwillima, 2003; World Bank, 2007). Policymakers believe that foreign direct investment (FDI) produces positive effects on host economies. Some of these benefits are in the form of externalities and the adoption of foreign technology. Externalities here can be in the form of licensing agreements, imitation, employee training and the introduction of new processes by the foreign firms (Alfaro, 2006). According to Tang, Selvanathan and Selvanathan (2008), multinational enterprises (MNEs) diffuse technology and management know-how to domestic firms. When FDI is undertaken in high risk areas or new industries, economic rents are created accruing to old technologies and traditional management styles. These are highly beneficial to the recipient economy. In addition, FDI helps in bridging the capital shortage gap and complement domestic investment especially when it flows to a high
Risk areas of new firms where domestic resource is limited (Noorzoy, 1979).

Policy-Based Fdi And The Nigeria State

The Nigeria state had come up with a lot of reforms since 1980s. These reforms according to Ojo (1998) were designed to increase the attractiveness of Nigeria's investment opportunity and foster the growing confidence in the economy so as to encourage foreign investors to invest in the economy. Reacting to the above, Shiro (2009) noted that since the enthronement of democracy in 1999, the Nigerian government has taken a number of measures necessary to woo foreign investors into Nigeria. These measures, he noted, include the repeal of laws that are inimical to foreign investment growth, promulgation of investment laws, and various over sea trips for image laundry by the President among others. Some major policies, institutions and laws established to encourage foreign direct investment were for instance, in 1995, the Nigeria Investment Promotion Commission (NIPC) established through Decree No 16 of 1995. The Law provides for a foreign investor to set up a business with 100 per cent ownership which must be registered with the Corporate Affairs Commission (CAC) in accordance with the provisions of the Companies and Allied Matters Decree of 1990 (NIPC, 2012). The registration is finalized with the NIPC. To ensure adequate protection, the NIPC guarantees foreign investments against Nationalization and expropriation by the government. The NIPC Decree repealed the Industrial Development Coordination Committee (IDCC) Decree No 36 of 1988 and the Nigeria Enterprise Promotion Decree (NEPD) of 1972 as amended in 1977 and 1989 which, hitherto, reserved for Nigerians the ownership of certain business. According to Bello (2003), privatization was also adopted, among other measures, to encourage foreign investment in Nigeria. The establishment of Economic and Financial Crimes Commission (EFCC) and the Independent Corrupt Practices Commission (ICPC) instituted by the Obasanjo administration to fight corrupt practices and other related financial crimes is a form of policy-based institutions to create a conducive environment for citizen and safe heaven for investors.

Literature Review

Foreign direct investment plays a critical role in the economic development of a state. As a result of limited resources that incapacitated many governments in the world, an alternative arrangement to project funding in term of infrastructural development has become a necessity. Given that most developing countries in the world, Nigeria inclusive are in need of infrastructure development, technology, capital base to spur economic growth and development, FDI has become an economic tool, an engine mechanism that brings about this needed change of economic development in many developing and low-income economies. It has been proven to be more stable than any other form of capital flow, for instance, FDI do not generate repayment of principal or interests as opposed to external debt. And perhaps, most importantly, the very positive advantages of FDI made it most embraceable by developing countries. Consequently, reasons why government needs to channel appropriate friendly policies to induce FDI. Taken together, these factors clearly demonstrate that FDI is an important element in the strategy for economic development.

In Africa, most work on FDI has focused on the Macro determinants on investment flows into countries (Opaluwa et al 2012). For instance, Obawona (2001) observed that macroeconomic and political stability and policy consistency are the most important determinants of attracting FDI into Uganda. Anyanwu (1998) noted that the FDI in Nigeria shows a great deal of sensitivity to changes in domestic investment, change in domestic output or market size, indigenization policy and change in the openness of the economy. Why firm engage in FDI? Hymer (1959) was the first one to explore this phenomenon in his doctoral dissertation and stated "FDI as a means of transferring tangible and intangible assets to organize international production".

Renewed research into literature on FDI stems from the change of perspectives among policy makers from "hostility" to "conscious encouragement", especially among developing countries. FDI had been seen as "parasitic" and retarding the development of domestic industries for export promotion until recently. However, Bende-Nabende and Ford (1998) submit that the wide externalities in respect of technology transfer, the development of human capital and the opening up of the economy to international forces, among other factors, have served to change the former image. Caves (1996) observe that the rationale for increased effort to attract more FDI stems from the belief that FDI has several positive effects. Among these are productivity gains, technology transfers, and the introduction of new processes, managerial skills and know-how in the domestic market, employee training, international production networks, and access to markets. Borensztein et al. (1998) see FDI as an important vehicle for the transfer of technology, contributing to growth in larger measure than domestic investment. Findlay (1978) postulates that FDI increases the rate of technical progress in the host country through a "contagion" effect from the more advanced technology, management practices, etc., used by foreign firms.

A lot of research interest has been shown on the relationship between FDI and economic growth, although most of such work is not situated in Africa. The focus of the research work on FDI and economic growth can be broadly classified into two. First, FDI is considered to have direct impact on trade through which the growth process is assured (Markussen and Vernables, 1998). Second, FDI is assumed to augment domestic capital thereby stimulating the productivity of domestic investments (Borensztein et al., 1998: Driffield, 2001**)**. These two arguments are in conformity with endogenous growth theories (Romer, 1990) and cross country models on industrialization (Chenery et al.,1986) in which both the quantity and quality of factors of production as well as the transformation of the production processes are ingredients in developing a competitive advantage. FDI has empirically been found to stimulate economic growth by a number of researchers (Borensztein et al., 1998; Glass and Saggi, 1999). Dees (1998) submits that FDI has been important in explaining China's economic growth, while De Mello (1997) presents a positive correlation for selected Latin American countries. Inflows of foreign capital are assumed to boost investment levels.

Tang, Selvanathan and Selvanathan (2008) explored the causal link between FDI, domestic investment and economic growth in China between 1988-2003. Their results indicate that there is a bi-directorial causality between domestic investment and economic growth, while there is single-directional causality from FDI to domestic investment and to economic growth. They concluded that there is a higher level of complementarities between FDI and domestic resources. Studies on FDI–growth issues in Nigeria include Oyejide (2005) which provided conceptual framework for the analysis of the macroeconomic effects of volatile capital flows. It concluded that capital flows have their pros and cons. This however depends on the initial conditions of the developing economy concerned. It can stimulate growth of the real sectors when the initial conditions are right. It could retard growth however, due to macroeconomic shocks that could undermine the stability of real sector and impose higher adjustment cost on the economy.

A number of studies on the FDI-growth nexus in Nigeria exist in the literature. For example, Otepola (2002), in a work on FDI and economic growth in Nigeria reported a low level of existing human capital suggesting that the human capital (labour) available in Nigeria is not FDI inducing. However, he concluded that FDI contributes significantly to growth especially through export. Akinlo (2004) noted that export, labour, and human capital are positively related to economic growth in Nigeria. This study therefore recommends a knowledge based economy that provides the skill required for FDI.

Ayanwale and Bamire (2001) assess the influence of FDI on firm level productivity in Nigeria and report a positive spillover of foreign firms on domestic firm's productivity. Oyinlola (1995) conceptualized foreign capital to include foreign loans, direct foreign investments and export earnings. Using Chenery and Stout's two-gap model (Chenery and Stout, 1966), he concluded that FDI has a negative effect on economic development in Nigeria. This study is of the opinion that the conceptualization model of Oyinlola is defective because foreign loan and foreign investment is a two major concept meant not to be merged. Hence, the negative result of findings.

Adelegan (2000) explored the seemingly unrelated regression model to examine the impact of FDI on economic growth in Nigeria and found out that FDI is pro consumption and pro-import and negatively related to gross domestic investment. Akinlo (2004) found that foreign capital has a small and not statistically significant effect on economic growth in Nigeria. Aluko (1961), Brown (1962) and Obinna (1983) report positive linkages between FDI and economic growth in Nigeria**.**

II. Methodology

The research design for this study is content analysis. Method of data collection was secondary. Hence, the content validity and reliability of the instruments was tested by the researchers, engaging in observatory method to checkmate and verify information given in order to limit bias and enhance thoroughness of data gathered. Furthermore, retrieval information from various secondary sources that formed experiential knowledge of study by researchers from the literature also served as a validity check.

The secondary data were sourced and extracted from the Nigeria Investment Promotion Commission 2010, Lagos Bureau of Statistics on Lagos State Literacy Survey 2011, National Bureau of Statistics on National Literacy Survey 2010, Central Bank of Nigeria from its Statistical Bulletin, 2009, Manufacturer Association of Nigeria publication on the Blueprint for the Accelerated Development of Manufacturing in Nigeria 2012, Journals, Articles and Books.

III. Findings And Discussion

The findings from this study depict to us the relationship of international trade pattern between the developed and the developing countries. It shows to what extent, how Transnational Corporation or Multinational organization (which are agent of FDI transportation) has helped or underplay the development or underdevelopment of its host country in global economic market. However, since today's world economy needs collaboration and partnership from both public and private participation, and from the simple fact that no state is an island, it behooves on every country in its interaction with others to enhance its comparative advantage so as to gain maximally and not been marginalized or exploited. Basically, one of the avenues to increase and maximize productivity plus economic advancement in emergent economies in Africa is via FDI that provides amalgamation of capital, technology, marketing and management not readily available in the domestic market.
The preference from FDI stem from it's acknowledge advantages (Obwona, 2001, 2004). The effort by several African countries to improve their businesses stems from the desire to attract FDI. In fact, one of the pillar on which the New Partnership for Africa's Development (NEPAD) was to increase available capital to US $ 64 billion through a combination of reforms, resource mobilization and a conducive environment for FDI (Funke and Nsouli, 2003). Foreign direct investment has been discovered by most African state, Nigeria inclusive as the road map to sustainable economic development. Unfortunately, the efforts by many African countries to attract FDI have been futile. Foreign direct investment attraction is not automatic; it is induced by infrastructural development put in place by a country. For instance, Lagos State in Nigeria is a classical example of government structural renewal effort of infrastructural development to enhance and attract investors into its economy.

IV. FDI And Economic Development Issue

In order to do justice to this study, a careful examination of the contributions made by Claude Ake, Bade Onimode and Daniel Offiong was interrogated. Daniel Offiong's position will first be examined. In the book of Daniel Offiong titled "Imperialism and Dependency" obstacle to African Development, the author sees the two related and persistent phenomena of imperialism and dependency as the crucial factors of underdevelopment in Africa, and in the developing world generally. He argues that foreign aid aggravates historical dependency stemming from imperialism and now rooted in poverty, and that the neo-liberal economic order, which promotes investment driven growth by the so- called multi-nationals, compounds the problem. He focuses on the role played by the CIA in the US in promoting the interests of the multinational or rather American dominated companies in underdeveloped areas of the world, in service of the US national economic interest. These processes depend on the collaborating bourgeoisie of the developing world who benefit, to the detriment of meaningful grassroots-led development.

While the above position by Offiong may holds substance, the fact that nations of the world are in a global village cannot be disputed. This international world arrangement determined interactions in term of trade, foreign assistance, communication etc. However, the position of this research is that, though the relationship for interaction might not be even, placing some at advantage (developed countries) and others at disadvantage (developing countries), the basic line is for states to develop their comparative advantages while they interact in the international world order. Those things that are beneficial, for instance, technology transfer from multinationals could be adopted or borrowed in the quest for development while jettison endanger external influences that could bring about exploitation and deepened underdevelopment, hence; government should proffer policies to protect local industry and engage in the establishment of strong institutions of the state. This step, if taken, will offer the platform to disengage from total dependent on the developed world. However, before all the above postulations can work, the element for a democratic setting must be put in place.

This is where the position of Claude Ake comes into being. According to Ake (2004), the driving force of true development is democracy, because, democracy itself is a concept of development. The people, according to him are considered the end of any development paradigm and the means to any democratic progress. Hence, what ever policy government offers, it must be people-centered to improve their socio-economic well being in a community. This position of Claude Ake as far as development is concern in his book Development and Democracy in Africa (1996), he argued that development can only be related to and driven by social will in the context of democracy. Without democracy, the advantages of demarginalizing Africans in the development process and giving them control cannot be realized. It is this people centered factor that defined Claude Ake as an intellectual. The people are considered the end of any development paradigm and the means to any democratic progress. And their only hope of achieving this lies in a social revolution that will enthrone social democracy that represents their interests much more than any ideology or paradigm of political development. This position of Claude Ake is in line with the class struggle argued by Karl Marx which will result in a violent social revolution to upturn the status quo of the bourgeoisies.

According to Bade Onimode (2004), while making his own contribution in the book "Mobilization for the Implementation of Alternative Development Paradigms in 21st Century Africa", he emphasized the development of the individual at the level of economic, social and political empowerment as a sure way of engendering development. The link between capitalism and neo-liberalism finds expression in the logic of economic globalization which denotes, in its pristine form, the widening and intensification of international linkages and interactions in trade, investment and economic policy orientation of the world (Adejumobi 2004, World Bank 1996, Resenau 1997). It also connotes the internationalization of production, capital, and marketing, in which the world is integrated into a global factory, global money market and global shopping centre (Adejumobi 1993).

A critical assessment of the thesis of these scholars mentioned above, though formidable points, the fact still remain that, no country can operate in isolation of others. Hence, global interaction is inevitable. This interaction, uneven, resulted into an unequal arrangement which facilitate dependency of one country on the others; consequently, it defined the state of the developed from the developing. The launching point of this study to this world arrangement is that, the gap toward economic development by developing country most times lies in technology know-how. Developing countries have natural resources to their advantage while the advanced countries are endowed with technology. These natural resources are traded with the advanced world and they turn it into finished product which is being sold again to the Less Developing Countries (LDCs) at high premium thereby amplifying the process of exploitation and marginalization.

Hence, the adoption or borrowing of technology from this advanced world to develop local technology content will boost the domestic industry and better the comparative advantage of such LCDs in the world market. Though, this technology is a product of the transnational corporation or multinational mentioned by Onimode (1982.), Ake (2004) and also amplified by Offiong (1982), but the fact still remain that this huge gap of technology is one major underlining factor in the process towards attaining economic development in most developing countries. It is expected, that while this technology is transferred to the developing countries, it would be modified and made adaptable into local content technology in order to own, control and sell it also. This study, however, agreed with Ake (2004) that democratic process is another interjectory element with development which is derives from the social will of the people, hence, the people are the agent of development and they ought to drive the policies that bring about such development.

V. Conclusion/Recommendations

In summary, considering the wide range of conflicting empirical studies on how foreign direct investment in developing countries affect their economic development and some non-economic indicators like culture and political structures, one cannot draw conclusion from them with any minimal acceptable level of confidence. Perhaps the warning of Arthur Nwankwo (1981) is appropriate in this context where he warned that no nation could provide for the welfare of its citizen as long as its economy is fettered. More so, many studies have shown that multinational corporations are highly adaptive social agents and therefore, the degree to which foreign direct investment helps or hurts a developing country will be heavily influenced by the policy choice of the host country. Consequently, this study, by looking at FDI as an alternative financial measure for economic development in Africa, making Nigeria a case study has established further the frontier of knowledge by adding to existing literature proponent or anti-proponent of the concept. Hence, to increase inflow of FDI and its performance, the following recommendations are postulated:

Ugwuegbe et al (2013) shows that the rate of security challenges in the country are alarming. Hence, the Nigerian government should tackle and arrest the security challenges in the country most especially in the northern part of the country because if the Nigerian economy is distressed, it will affect domestic investment and FDI won't be attracted.

Broensztein et al (1998) proved that there is a high positive relationship between FDI and the level of educational standard in the host economy. Consequently, government should find a synergy between educational institutions and manufacturing sector in order to have a knowledge base for the economy. Therefore, a paradigm shift of attitude is required from government to set up necessary key technical school that will form the basis and foundation of economic growth industry and manufacturing sector.

The development of comparative advantages of the country is paramount in the global market. Despite the various challenges and constraints, it is safe to make optimistic claims about the industrial development potentials of Nigeria because of the country's huge resources base and market. The challenge for government therefore is to convert the resource-based comparative advantages into competitiveness. We should revive our agriculture, mining and tourist areas in addition to oil and thereby excel well in the global market.

The creation of a congenial business environment is an imperative impetus of government towards the attainment of FDI attraction. Hence, government should be proactive in its regulatory framework by channeling friendly economy atmosphere that will better attract investors to invest in the Nigerian economy.

The economic development of a country is the function of its infrastructural development (Osundina, 2014). Based on this, government should therefore provide infrastructural development in terms of road, electricity, rail, and the development of free zone area because such are platforms upon which FDI could be easily attracted.

The establishment of strong institutions is germane to FDI attraction. Without effective strong institutions in place, governance may be a difficult task to practice. Thus, the US President Barak Obama, during a state visit to Ghana in July 2009 stated that what the African Continent needs is not actually a good leader but strong institutions. A process of doing things that can be sustained and internalized. The prevalent nature of corruption in Nigeria is because justice is far from its citizens. Once the Judicial system of a country cannot be guaranteed, it makes impossible for genuine investors to come and invest in the land. Hence, strong institution is needed to safe guide, nurture and protect investment. It is only then that investors will know that they will be protected and secured.

There is need for local content base technology in the country. No country can make a giant leap economically without designing a technology that will form the base of transformation. Nigeria therefore needs a technology that is balanced with the global market. This window of opportunities is the leverage FDI makes available for emerging economy like Nigeria through acquiring, adapting to develop local economy technology.

The attraction of capital flight back into the system is becoming increasingly important because of the magnitude and resource flow implications, especially at a time when developing countries in general are looking for financial resources for development (Ajayi 1999). Many reasons are often adduced for capital flight. While the preponderant causes are economic, there are nevertheless some political factors at play. Therefore, one popular call is for capital flight reversal. One avenue for this reversal is through FDI.

Policy consistency should be emphasized and policy makers should note that any deviation from regulations and policies is a breach of mutual contract entered into with investors.

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