

**CRITICAL APPRAISAL OF FOREIGN DIRECT
INVESTMENT (FDI) IN NIGERIA**

BY

**ORJIAKOR, NWABUEZE VITALIS
(BAF/MBA/2000416038F)**

IN

**DEPARTMENT BANKING AND FINANCE,
FACULTY OF MANAGEMENT SCIENCES,
NNAMDI AZIKIWE UNIVERSITY, AWKA,
ANAMBRA STATE.**

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TITLE PAGE

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**BEING THESIS SUBMITTED TO THE
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APPROVAL PAGE

THIS IS TO CERTIFY THAT THE THESIS, “CRITICAL APPRAISAL OF FOREIGN DIRECT INVESTMENT (FDI) IN NIGERIA” WAS APPROVED, CARRIED OUT AND WRITTEN BY NWABUEZE VITALIS ORJIAKOR FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION (MBA) IN THE DEPARTMENT OF BANKING AND FINANCE, NNAMDI AZIKIWE UNIVERSITY, AWKA, ANAMBRA STATE.

.....
ILOABACHIE
PROJECT SUPERVISOR

.....
DATE

.....
ILOABACHIE, U.
HEAD OF DEPARTMENT

.....
DATE

.....
EXTERNAL EXAMINER

.....
DATE

CERTIFICATION

DEDICATION

This work is dedicated to Almighty God who saw me through all the way, and to my mother Mrs Nnagiaku Orjiakor.

ACKNOWLEDGEMENTS

I thank the heavenly Father for His love, protection and guidance throughout the period of my studies. I thank my supervisor, Mr Iloabuchie for taking pains to go through this work and making the corrections therein.

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God bless you all

ABSTRACT

The research work became necessary because of the huge sum expended as well as the incentive available to foreign investors and yet we have not experienced the much needed to influx of FDI.

FDI being the catalyst for industrial and economic development is needed to develop every fact of the Nigerian policy. Moreover, the tenets of traditional economic theory stated that capital moves from developed economy to under-developed economy where labour is cheap and abundant un-tapped resources. This work seeks to find out why FDI remain low in Nigeria and hence prefer solution. The review of related literature was carried out with emphasis on Nigeria incentives towards attracting FDI and the determinants of FDI; which include market size, openness, political risk etc.

Research Methodology was used which highlighted the approach to the solving of the problems, methods of data collections, research instruments and sources of data. The data collected through questionnaire administration were code into Data Analysis Sheet using liker scale-weight and label. The analysis was carried out using measure of effectiveness. The result arrived at was tested by 5% significance test before its acceptance.

Finally, based on the findings in literature review, interviews and questionnaire, the last chapter focused on summary of these findings, conclusion and recommendations on how to attract FDI in Nigeria.

ORJIAKOR, NWABUEZE VITALIS

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CHAPTER ONE

1.0 INTRODUCTION

The traditional economic theory teaches that capital starved, but generally labour surplus developing countries, should be the net importers of financial resources from advanced countries. This pattern of movement will be informed by the returns on new investment opportunities, which are considered higher where capital is limited (Oyeranti 2003:10). Flows of funds in the opposite direction from individuals and business organizations are considered perverse and exceptionable.

Financial resources enter into a country through any of the followings:

- Foreign direct investment, official flows from bilateral sources (eg. OPEC, Organisation for Economic Co-operation and Development-OECD) and multilateral sources (such as the World Bank, International Development Association-IDA, International Monetary Fund-IMF, International Financial Corporation-IFC) on concessional and non-concessional terms.

- Commercial Bank Loans (excluding export credits)

All of these come in form of investment, loans, grants or aids.

According to World Bank (1997), Foreign Direct Investment is the investment made to acquire a lasting management interest, usually at least 10% of voting stock, in an enterprise operating in a country other than that of the investor.

International Monetary Fund's Balance of Payments Manual defines foreign direct investment (FDI) "investment made to acquire a lasting interest in foreign enterprises with the purpose of having an effective voice in its management". The World Trade Organisation (1996) also observes that foreign direct investment occurs when an investor based in one country (the home country) acquires an asset in another country (the host country) with the intent to manage that asset. The resultant capital relocation will boost investment in the recipient country and according to Summers (2000:16) brings enormous social benefits. It is the process of investing, by foreigners, in the economy of another country. These funds are generated outside the investment recipient country. FDI can be in form of build,

operate and transfer (BOT), turn-key, leveraged buy out, venture capital or starting a new company from the scratch.

Foreign direct investment is viewed as a major stimulus to economic growth in developing countries. Its ability to deal with major obstacles, namely, shortages of financial resources and technology, skills acquisition and training, as well as contribution to corporate tax revenue in the host country, has made it the centre of attention for policy-makers in low-income countries in particular. However, only a few of these countries have been successful in attracting significant FDI flows.

1.1 BACKGROUND OF THE STUDY

Nigeria, like other African countries, recognizes the contribution of FDI to economic development and integration into the world economy. Nigeria since pre-independence era till date has been making considerable efforts to improve its investment climate through liberalization, deregulation, privatization and enabling laws and incentives. Among these are:

1. The Aid to Pioneer Industries Ordinance and the Income Tax (Amendment) Ordinance Act of 1952
2. Industrial Development (Income Tax Relief) Act of 1958
3. Companies Act of 1968, Banking Act of 1969, Petroleum Act of 1969, etc
4. National Office of Industrial Property Act 90 of 1979
5. Nigerian Enterprises Promotion (Issues of Non-voting Shares) Act 1987
6. The Nigerian Enterprises Promotion Act No. 54 1989
7. Nigerian Investment Promotion Commission, etc

However, the much-expected surge in FDI into Nigeria has not occurred. This is particularly worrisome, as Nigeria possesses almost all the attributes of a good FDI destination. These include size of market, availability of natural resources, low labour cost and high productivity, incentives, high level of human capital development, major markets proximity, etc.

Nigeria needs FDI because it is favoured over other forms of private capital flows. Portfolio equity and debt are subject to

reversals in financial crises period, while FDI is more resilient. (Lipsey: 2001).²

FDI is critical to the country as it is the key source of large pool of capital necessary for the development of the country. However, despite several fiscal incentives by the government, foreign direct investment has remained dismal (The Punch 2002) The cost of not having foreign direct investment is high. A decline in investment reduces the expansion of output, variety and quality, leading to a reduced market share and potentially declining non-price competitiveness.

1.2 STATEMENT OF PROBLEMS

The dream of any nation is to attract investment to help it develop its economy through efficient manufacturing of goods and provision of services. Nigeria has been unable to attract enough FDI to develop its economy and reduce unemployment.

The reasons for this include:

1. Perceived political instability;
2. Low Gross Domestic Product (GDP);

3. Bad image of the country overseas due to high financial crime rate;
4. Persistent political and religious crises;
5. Micro-economic instability;
6. High rate of crime in the country;
7. Adverse operating conditions;
8. Erratic power supply and poor infrastructures;
9. High corruption especially in the government;
10. Attendant high cost of doing business in the country; and
11. Inefficient judicial system and general insecurity

1.3 OBJECTIVES OF THE STUDY

This study will among other things, try to:

1. Appraise and find solutions to how to increase the GDP.
2. Look into ways of curbing the menace of high financial crime rate in Nigeria.
3. Examine ways of attracting foreign direct investment in Nigeria.
4. Investigate and analyse the causes of adverse operating conditions in the country.

5. Proffer solutions to the high cost of doing business in Nigeria.
6. Find ways of boosting export of local goods.
7. Analyse the effect of political and religious crises in Nigeria.

1.4 HYPOTHESIS

This study is carried out with certain underlying assumptions upon which observations, findings, comments and suggestions are based.

These assumptions are:

- a. (i) General Hypothesis:

FDI in Nigeria has no direct link to the state of infrastructures in Nigeria.

- (ii) Null Hypothesis:

FDI has direct link to the state of infrastructures in Nigeria.

- b. (i) General Hypothesis:

Size of the market has no impact on the attraction of FDI.

- (ii) Null Hypothesis:

Size of the market has an impact on the attraction of FDI.

- c. (i) General Hypothesis:

Open economies do not encourage FDI.

- (ii) Null Hypothesis:
Open economies encourage FDI.
- d.
 - (i) General Hypothesis:
There is no relationship between incentives/operating conditions and FDI.
 - (ii) Null Hypothesis:
There is relationship between incentives/operating conditions and FDI.
- e.
 - (i) General Hypothesis:
Political risk does not affect flow of FDI.
 - (ii) Null Hypothesis:
Political risk affects the flow of FDI

1.5 SIGNIFICANCE OF THE STUDY

This study is very important as it will contribute immensely towards establishing a viable and vibrant economy that will attract the much needed FDI. The inflow of investments from abroad offers a lot of advantages, which include reduction of risk, faced by investors, enthrone ment of best practices in corporate governance, accounting rules, legal traditions among

others (Fieldstein: 2000). It leads to economic growth and development.

As such, it is important because:

1. It will bring into focus ways of attracting FDI
2. It will reveal the impact of financial crime on FDI and our economy.
3. This study will identify ways of improving the operating environment in the country.
4. It will offer solutions on how to reduce political risks.
5. It will highlight the importance of infrastructures in attracting FDI.
6. It will find ways of producing export-oriented goods.

1.6 SCOPE AND LIMITATIONS

This study was conducted out within Lagos metropolis. Some of the respondents interviewed gave their sincere opinion; however, others were uncooperative, probably due to ignorance.

The major problem experienced during the study was lack of up-to-date data and reliability of the ones got

eventually. There was also the problem of getting the interviewees on seat for personal interviews despite previous appointments by them.

1.7

RESEARCH QUESTIONS

- a.** What is responsible for poor infrastructures despite the huge amount purportedly invested in it?
- b.** Why is foreign Direct Investment in the real sector still very low irrespective of the present regimes concerted effort to wow investors to Nigeria?
- c.** How does privatisation affect FDI?
- d.** What are the possible impact(s) of openness to FDI and the flow of goods and services?
- e.** What are the reasons why FDI has remained low despite the incentives given by the government to attract FDI?

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.0 INTRODUCTION

With arenas of domestic and foreign policies narrowing towards a common international economic order induced by globalisation, foreign direct investment now represents a major form of cross-border resource flow among countries. More than ever before, more firms in numerous industries and many countries are expanding abroad through foreign direct investment. Developing countries are constantly creating a better enabling environment for FDI since mid-1980s through structural adjustment programmes that can lead to increased openness of their economies. These reforms include the progressive lowering of barriers to trade and foreign investment; the liberalisation of domestic financial markets and removal of restrictions on capital movements; and the implementation of privatisation programs, thus strengthening the relevance of private sector in economic growth and development process. This is to enable them attract

FDIs into their respective countries. Indeed countries are going for FDI for obvious reasons. FDI will augment real resources directly because there is wide spread opinion that it is a good 'cholesterol' of the advantages it can confer. It is also, thought to be "bolted down and cannot leave so easily at the first sign of trouble". Sadik and Bolbol (2001:2115) stated the benefits as follows, "FDI inflows are the least volatile of capital flows, and more importantly can have direct and indirect effects on economic growth. The stability of FDI stems from the fact that direct investors have a longer-term view of the market thus making them more resistant to herd behaviour, and from the sheer difficulty of liquidating assets at short notice. The direct on growth arises from human capital formation, and effect is more significant if FDI is complimented with human capital".

Attempts at attracting FDI into Nigeria were based on the need to maximise the potential benefits derived from them; and to minimise the negative effects their operations could impose on the country.

In the 1970s, FDI made up only 12% of all financial flows to developing countries. Between 1981 and 1984 there was a sharp fall in private lending, as international banks lost confidence in borrowing countries' financial stability following the debt crisis of 1982. Since the mid-1980s the growing integration of markets and financial institutions, increased economic liberalisation, and rapid innovation in financial instruments and technologies, especially in terms of computing and telecommunications, have contributed to a near doubling of private capital flows. Most significant has been the steady progression of FDI to a 35% share in 1990-6. Portfolio equity has also emerged as an important component of global private flows - 13.5% of total flows in the 1990s in contrast to a mere 1.2% in the 1980s.

The dramatic increase in FDI over the last decade has had at least three sources. First, technological improvements in communications, information processing and transportation, coupled with new organizational structures, have enabled firms to become more effective in existing firms. Second, the changing framework of international competition has led to the liberalisation of capital flows among developed countries, deregulation of key sectors such as telecommunications, and

further steps towards integration in Europe. Third, developing countries are increasingly liberalising their regimes for inward foreign investment.

2.1. TYPES OF FOREIGN DIRECT INVESTMENT

FDI comes in different forms depending on the objectives of the investor. These are the types of FDI:

2.1.1 GREENFIELD INVESTMENT:

This is a direct investment in new facilities or the expansion of existing facilities. Greenfield investments are the primary target of a host nation's promotional efforts because they create new production capacity and jobs, transfer technology and knowhow, and can lead to linkages to the global marketplace. However, it often does this by crowding out local industry; multinationals are able to produce goods more cheaply (because of advanced technology and efficient processes) and uses up resources (labour, intermediate goods, etc). Another downside of greenfield investment is that profits from production do not feed back into the local economy, but instead to the multinational's home economy. This is in contrast to local industries whose profits flow back into the domestic economy to promote growth.

2.1.2 MERGERS AND ACQUISITIONS

This involves the transfer of existing assets from local firms to foreign firms. Cross-border mergers occur when the assets and operation of firms from different countries are combined to establish a new legal entity. Cross-border acquisitions occur when the control of assets and operations are transferred from a local to a foreign company, with the local company becoming an affiliate of the foreign company. Unlike greenfield investment, acquisitions provide no long term benefits to the local economy--even in most deals the owners of the local firm are paid in stock from the acquiring firm, meaning that the money from the sale could never reach the local economy. Nevertheless, mergers and acquisitions are a significant form of FDI and until around 1997, accounted for nearly 90% of the FDI flow into the United States.

2.1.3 HORIZONTAL FOREIGN DIRECT INVESTMENT

Horizontal FDI is the investment in the same industry abroad as a firm operates in at home.

2.1.4 VERTICAL FOREIGN DIRECT INVESTMENT

This can be in either of these forms:

1. Backward vertical FDI: where an industry abroad provides inputs for a firm's domestic production process, or
2. Forward vertical FDI: in which an industry abroad sells the outputs of a firm's domestic production

FDI can also be, categorized based on the motive behind the investments from the perspective of the investing firm:

2.1.5 RESOURCE SEEKING

Investments that seek to acquire factors of production, which are more efficient than, those obtainable in the home economy of the firm. In some cases, these resources may not be available in the home economy at all (e.g. cheap labour and natural resources). This typifies FDI into developing countries, for example seeking natural resources in the Middle East and Africa, or cheap labour in Southeast Asia and Eastern Europe

2.1.6 MARKET SEEKING

These are types of Investments, which aim at either penetrating new markets or maintaining existing ones. FDI of this kind may also be employed as defensive strategy; (Knickerbocker, 1973) it is argued that businesses are more likely to be pushed towards this type of investment out of fear of losing a market rather than discovering a new one (Dunning, 1993). This is the type of FDI characterized the foreign Mergers and Acquisitions of Accounting, Advertising and Law firms in the 1980's.

2.1.7 EFFICIENCY SEEKING

Investments which firms hope that will increase their efficiency by exploiting the benefits of economies of scale and scope as well as common ownership. It is suggested that this type of FDI comes after either resource or market-seeking investments have been realized, with the expectation that it further increases the

profitability of the firm. Typically, this type of FDI is mostly widely practiced between developed economies; especially those within closely integrated markets (e.g. the European Union) (Dunning, et al 1990).

2.2.1 DETERMINANTS OF FOREIGN DIRECT INVESTMENT

Dunning (1981) came up with a framework used to analyze the determinants FDI – the “eclectic theory”. The theory argues that FDI is determined by three sets of advantages namely:

- a. Firm specific (or ownership) advantages (Hymer, 1960). This set of advantages gives a firm competitive advantage in global markets, including, technological assets, product differentiation, management skills, production efficiencies, size and concentration.
- b. Internationalization advantages (Buckley and Casson, 1976). These advantages exist when the internationalization of the cross-border transactions within a firm becomes a more efficient form of servicing markets than arm’s length transactions. It is the sum of commercial benefits accruing from an FDI or intra-firm activity rather than an arm’s length or licensing relationship.
- c. Locational advantage (Vernon, 1966) or the ‘pull-factor’. These occur when the conditions of the potential host countries make them a more attractive site for FDI operations than the home country. These advantages

include large markets, lower costs of resources or superior infrastructure, among others. It is believed that there are some specific advantages to the investor, which makes the return on investment sufficient to warrant the additional risk and uncertainty that accompanied investment outside the familiar home environment.

Akher (1993) posited that host country specific conditions might embrace a number of socioeconomic and political factors within a country where FDI is made. Some of these conditions are:

2.2.2 MARKET/POPULATION SIZE

This is one of the most important considerations in making investment location decisions, because the larger the potential for local sales, the greater will be the profitability of any given business operation. The size of the Nigerian market, estimated at over 120 million, is a major attraction for potential investors (local and foreign). The size of a country's market plays a vital role in attracting FDI. Broadman and Sun (1997) opined that China's market size undoubtedly was responsible, in large part, for the massive FDI flows it attracted since early 1980s. "Market size is an important consideration for a multi-national corporation (MNC) contemplating a particular FDI. (WTO Press/5:1996).

2.2.3 OPENNESS OF THE ECONOMY TO INTERNATIONAL TRADE

Whilst access to specific markets - judged by their size and growth - is important, domestic market factors are predictably much less relevant in export-oriented foreign firms. A range of surveys suggests a widespread perception that 'open' economies encourage more foreign investment. One indicator of openness is the relative size of the export sector. Singh and Jun (1995)'s study indicated that exports, particularly manufacturing exports, are a significant determinant of FDI flows and that tests show that there is strong evidence that exports precede FDI flows. China, in particular, has attracted so much foreign investment into the export sector. In Bangladesh, on the other hand, foreign investors have been attracted to the manufacturing sector by its lack of quota for textiles and clothing exports to the European Union and US markets. Garment exports, for example, rose from virtually nil in the 1970s to over one-half of its export earnings by the early 1990s. Edwards (1990), Gastanaga et al (1998), Hausmann, and Fernandez-Arias (2000) confirmed in their researches that openness has a positive effect on FDI.

2.2.4 LABOUR COSTS AND PRODUCTIVITY

The demand for low-cost, unskilled labour is becoming less important. There is a greater demand for qualified human capital with diverse modern skills that can cope with emerging technologies. Labour market flexibility is equally very crucial.

Countries with comparative lower cost of skilled labour attract FDI more than those with higher costs. China and Vietnam benefit a lot in FDI due to the low labour in them.

2.2.5 POLITICAL RISK/STABILITY

International investment capital is truly international as it goes to where it is needed, welcomed, safe, appreciated, nurtured and given a free hand to blossom and multiply itself for its owners. A country needs a stable political system to retain existing foreign direct investment and attract new ones.

Where the environment is getting out of hand, firms begin to divest, retrench workers...and at the extreme, close down. (Austin Awuyo 1991).

In some cases, where the host country possesses abundant natural resources, no further incentive may be required, as is seen in politically unstable countries such as Nigeria and Angola, where high returns in the extractive industries seem to compensate for political instability. In general, so long as the foreign company is confident of being able to operate profitably without undue risk to its capital and personnel, it will continue to invest. Large mining companies, for example, overcome some of the political risks by investing in their own infrastructure maintenance and their own security forces.

Moreover, these companies are limited neither by small local markets nor by exchange-rate risks since they tend to sell almost

exclusively on the international market at hard currency prices. However, such companies do everything possible to make sure that their capital and profits are repatriated to a safer country. They care less about the host country economy, but think of how to recoup their investment within the shortest possible time.

2.2.6 INFRASTRUCTURE

Infrastructure covers many dimensions, ranging from roads, ports, railways and telecommunication systems to institutional development (e.g. accounting, legal services, etc.). The typical foreign investor will obviously consider global competitiveness of alternative investee nations, based on the availability of infrastructures.

An efficient communications system, transportation links, power among others are essential attractions to FDI.

The high cost incurred by individual companies in creating and managing fully dedicated infrastructures in Nigeria has reduced the competitiveness of "Made in Nigeria" goods and services in the international market.

Poor infrastructure can be seen, however, as both an obstacle and an opportunity for foreign investment. For the majority of the low-income countries, it is often cited as, one of the major constraints. Nevertheless foreign investors also point to the potential for attracting significant FDI if host governments permit more substantial foreign participation in the infrastructure sector.

Recent evidence seems to indicate that, although telecommunications and airlines have attracted FDI flows (e.g. to Nigeria, India and Pakistan), other more basic infrastructure such as road building, railway remain unattractive, reflecting both the low returns and high political risks of such investments.

Essential infrastructure facilities also include effective assurance and testing, meteorology and calibration services, contract research and technical extension help for small and medium scale enterprises.

2.2.7 INCENTIVES AND OPERATING CONDITIONS

Most of the empirical evidence supports the notion that specific incentives such as lower taxes have no major impact on FDI, particularly when they are, seen as compensation for continuing comparative disadvantages. On the other hand, removing restrictions and providing good business operating conditions, are generally, believed to have a positive effect.

Further incentives, such as the granting of equal treatment to foreign investors in relation to local counterparts and the opening up of new markets (e.g. air transport, retailing, banking), have been reported as important factors in encouraging FDI flows in recent years.

Although, Nigeria has put in place many incentives, it is necessary to ensure that such incentives are given to the investors without undue delays or public servant highjack. The

government should be transparent, equitable and just in dealing with all the investors.

2.2.8 PRIVATISATION

This involves the sale of equities in public enterprises to private investors, with or without the loss of government control in these organisations. Though privatisation has commenced in Nigeria and has attracted some foreign investment flows in recent years, progress is still slow as some of the corporations and businesses ear-marked for sale to private sector are still been run by the government. This is partly because the divestment of state assets is a highly political issue in low-income countries.

Another problem is the state of the assets of the companies earmarked for privatization. The pre-privatisation management of African Petroleum (AP) Nigeria Plc issued false prospectus to the core investor declaring that the company had only N10.2 billion naira total debts. However, post privatization audit conducted by Pricewaterhouse Coopers revealed that AP Plc had a total indebtedness of N25.3billion. Non-disclosure and concealment of information on the financial profile like this casts doubts to credibility of the people as foreign investors may not trust any information coming from Nigeria and hence may not have faith in the privatization documents and process. To this, Mr. Akin Aina of Greenworld Consult said that, "development in AP has put a stamp of caveat emptor (buyers beware) on other

companies advertised for privatization as most of them would now be extra careful before putting their money down to buy any enterprise” BusinessDay (2001).

The labour union may oppose any sale that may threaten their job security. For instance Indian organised labour has fiercely resisted privatisation or other moves, which threaten existing jobs and workers' rights. This is a clog in the wheel of foreign capital inflows because no entrepreneur or investor will risk his fund in such country.

A number of structural problems are constraining the process of privatisation. Financial markets in most low-income countries are slow to become competitive; they are characterised by inefficiencies, lack of depth and transparency and the absence of regulatory procedures, government activities dominate the markets and are often protected from competition. Existing stock markets are thin and illiquid and securitised debt is virtually non-existent. An under-developed financial sector of this type inhibits privatisation and discourages foreign investors.

2.2.9 BUSINESS ENVIRONMENT

The business climate of nature determines the level of foreign investment in it. One of the reasons for capital flight is that the owners of the wealth are seeking for friendly business environment. Investors shy away from environment where

there is high relative risk, exchange rate misalignment, corruption, and extraordinary access to government fund.

Nigeria is notorious in advance free fraud (419) and financial crimes. These cause crowding out of legitimate business. Money launderers, in the process of trying to launder their ill-gotten wealth, dump foreign goods in the economy. This does not allow local production to grow, as people will go for the cheaper imported ones.

The spate of arm robbery and political killings in Nigeria have reached alarming rate. Canadian businessmen and Chinese industrialists planning to invest in Nigeria suddenly suspended their interest and left Nigeria immediately they heard the news of the killing of Bola Ige, the late Minister of Justice and Attorney General of the Federation (Business Day 2001:31).

In addition, the Managing Director of Vodacom Holdings tagged Nigeria, "An investment risk country" due to volatile political climate, corruption and uncertainty of security situation (BusinessDay op cit). Such revelations, from an international company do not tell well about the country.

Other issues in this group include incessant labour strikes, policy summersaults among others; these do not allow investors to make realistic projections. Nigerian business environment is bedevilled with several communal clashes that were ethnic, religious and political in nature. Equally disturbing is the spate

of armed robbery attacks and assassinations of prominent Nigerians. (The Guardian 2002:15).

2.2.10 LEVEL OF CORRUPTION

The weakness in transparency and accountability in Nigerian Society stand out as the most important political factor accounting for the low level of investments. In Nigeria, the years of mismanagement and neglect has starved the economy of investment funds.

“Corruption in Nigeria has passed alarming and entered the fatal stage...and from fairly timid manifestation in the 1960s, corruption has grown bold and ravenous as with each succeeding regime our public servants have become more reckless and blatant” (Chinua Achebe 2000:42).

With corruption, soaring high, national consciousness is gradually dying leading to scramble for public and private sector funds and subsequent transfer of these funds illegally to foreign banks.

Nigeria is, ranked one of the most corrupt nations by Transparency International. This is due to high level of corruption in the public and private sectors. The Obasanjo Administration set up many anti-corruption agencies, such as Economic and Financial Crime Commission (EFFC) and ICPC. However, the impact of these agencies have not been felt in the system as there are still a long list of high net worth and

powerful Nigerians who don't want them to be effective and what observers see as selective fight against corruption.

Table 3 shows the ratings of the countries on the corruption and conflict indices. It could be, observed that Nigeria is viewed as the most corrupt country and the most conflict prone especially after 1998. Corruption tends to raise transaction costs, increase uncertainty and instability, and risks all of which scare foreign investors away.

Table 1: Corruption Perception and Conflicts Ratings

Country	Corruption Perception			Conflicts		
	1998	2000	2001	1998	2000	2001
Nigeria	1.9 (81)	2.1 (80)	2.0 (84)	21.4	44	11.3
Ghana	3.3 (55)	3.5 (50)	3.4 (59)	2.4	3.8	0.3
South Africa	5.2 (32)	5.0 (34)	4.8 (38)	29.8	41.4	2.2
Kenya	2.5 (75)	2.1 (80)	2.0 (84)	48.5	0.0	2.9
Egypt	2.9 (66)	3.1 (53)	3.6 (54)	0	9.2	3.4

Source: World Bank (2001). World Development Indicators 2001 & African Economic Outlook

2.3 FDI AND CUSTOMS MODERNISATION

The modernisation of customs administration is an important catalyst to economic development as it benefits growth and investment. With the reduction or elimination of tariff and other trade barriers through global and regional trade negotiations, customs modernisation becomes more and more important to each country's interest in attracting FDI. The efficient movement of goods to and from a manufacturing facility is critically important. Any excellent (world-class) manufacturing facility must have access to excellent sources of raw materials and components. Some of these inputs may be available locally in

quantities and qualities while others can be sourced abroad. Aided by rapid improvements in the speed of information exchange, global corporations are creating sophisticated international supply chain management systems to move goods quickly and economically around the world. Countries that stop or slow down these supply chains will loose out.

Consequently, access to imported raw materials and components is an important consideration in plant sitting, and customs administration is critically important to this access in many ways: clearance time, predictability and transparency.

The clearance time must be, measured not in weeks, or even in days, but in hours. Any customs administration that can provide reliable, timely customs clearance or immediate release based on pre-clearance creates an enormous competitive advantage in attracting investment in the manufacturing sector.

Delayed delivery of a key input can shut down an entire manufacturing line, at enormous cost. Unpredictable delivery due to customs administration can require the maintenance of excessively large "safety stock" with unacceptable inventory carrying costs. Arbitrary or unpredictable customs clearance delays are incompatible with efficient manufacturing.

There should be transparency in the customs administration. Arbitrary or unexplained changes in classification and valuation of goods can disrupt logistical and marketing plans, thereby seriously detracting from efficient operation.

The Nigerian Ports and Customs cannot be, said to pass the above tests as goods stay weeks or even months before the cumbersome processes were completed. Naiwu Osahon (2001:42), vividly captured the agony of the importer, "Examination uses all sorts of trick language of their trade such as 'you have declared short', or 'your value of goods is low', to cajole, intimidate and exploit the importers. If you refuse to be sucked-in or to grease their palms adequately, they slam a huge Debit Note (DN) on you. In the meantime, days or weeks have rolled by...with the attendant pains of mounting demurrage."¹¹ He maintained that the Nigerian Customs and the government agencies at our ports deserve a special study by the students of Economics worldwide on how to destroy a nation through its ports. They are unique for their primitive crassness, elaborate fraud and the deliberate deep wounds they inflict on those who want to do genuine business in the country through the ports. Countries that fail to keep pace with world class standards for customs administration will find that investors simply cannot afford the high logistics costs imposed by customs inefficiencies. They will find FDI migrating to nations with more sophisticated customs administrations.

2.4 BENEFITS OF FOREIGN DIRECT INVESTMENT (FDI)

Foreign Direct Investment is not only a transfer of ownership from domestic to foreign residents but also a mechanism that

makes it possible for foreign investors to exercise management and control over host country firms - that is, it is a corporate governance mechanism. Nigeria has one of the highest rates of investment returns in the emerging markets, presently estimated to be 30 percent. What are the advantages of FDI to a host country economy? Some of the benefits are:

- **Transfer of Technology:** FDI allows for the transfer of technology to the individual firms and technological spillover to the wider economy.
- **Promotion of Competition:** FDI can also promote competition in the domestic input market. Firms in order to control the market will embark on research and development, which will reduce their cost of production. This will lead to welfare improvement due to lower prices of goods and services and the production of new or better quality goods.
- **Diversification:** According to Feldstein (2000), international flows of capital reduce the risk faced by owners of capital by allowing them to diversify their lending and investment.
- **Accountability and Good Corporate Governance:** Global integration of capital markets can contribute to the spread of best practices in corporate governance, accounting rules, and legal traditions. The global mobility of capital limits the ability of governments to pursue bad policies (Feldstein, 2000)

- **Human Capital Development:** Recipients of FDI often gain employee training in the course of operating the new businesses, which contributes to human development in the host country. This leads to faster growth of output and employment.
- **Increase in Revenue:** Profits generated by FDI contribute to corporate tax revenues in the host country. In addition, the goods produced are, exported thereby creating a healthy balance of payment for the host country.

Apart from the fore going, these are, also identified as benefits of foreign direct investment to the host country. Inflows of FDI increase the amount of capital in host countries. Even with skills and technology constant, FDI will raise labour, productivity and wages, allow more employment at the same level of wages, or even result in some combination of both. For in Mauritius, FDI fuelled the past decade of export-led growth and employment gains (WTO Press: 1996).

In an endogenous growth model, in which the pace of technical progress determines the long-term growth rate, the introduction of new varieties of capital goods enhances productivity. Multinational firms, by investing abroad, help to widen the variety of this type of goods (Borenzstein and de Gregorio, 1995). Technology is concentrated in multinational

firms, and their affiliates generally use more advanced technology than do domestic firms in host countries. Because of market failures, intra-firm technology transfer is in fact the fastest way to transfer new technology. FDI is therefore the best way to fill the technological gap in inefficient sectors.

Foreign affiliates tend to hire workers that are more qualified and manage more efficiently. They help to train the domestic labour force and to spread high standards of management throughout the production system. They also require better infrastructure and communications, which are public goods.

2.5.0 FDI POLICY OBJECTIVES AND STRATEGIES IN NIGERIA

Nigeria's attempts at attracting FDI have been based on the need to maximise the potential benefits derived from them; and to minimise the negative effects their operations could impose on the country. To optimise the impact of FDI, UNCTAD (1999) suggests that developing countries like Nigeria need to address the following issues:

- a. Information and coordination failure in the international investment process,
- b. Infant industry considerations in the development of local enterprises, which can be jeopardised if FDI crowds out those enterprises,

- c. The static nature of advantages transferred by Transnational Corporations (TNCs) in situations where domestic capabilities are low and do not improve over time, and
- d. Weak bargaining and regulatory capabilities, on the part of the host country governments, which can result in an unfavourable distribution of benefits from perspectives of the society.

Aremu (2003) noted that the developing countries should note the following when formulating policy objectives towards FDI:

- That the difference between developed and developing countries in terms of possible role and impact of FDI in their economies.
- That the technological difference between the domestic and foreign enterprises is generally more accentuated in developing countries than in developed countries.
- That in formulating FDI policies, commitment can be sought from home countries of foreign investors to support development objectives. This is necessary because some of international agreements limit the autonomy of the contracting parties to the agreement.

Therefore, in formulating policy objectives and strategies, the overall question concerning International Investment Agreements (IIAs) shall be how it would assist developing

countries to attract appropriate FDI inflow, while simultaneously allowing sufficient policy space for these countries to regulate them in the interest of benefiting as much as possible from such FDI inflow.

Some of the policy and strategies adopted in Nigeria over time are:

2.5.1 PERFORMANCE OF FDI IN NIGERIA

2.5.1.1 Trend in FDI in Nigeria

FDI flow to developing countries grew astronomically in the past three and half decades. Unfortunately, Nigerian economy has continuously missed from this extra-ordinary surge in foreign direct investment. The problem is not lack of international contacts because the Nigerian economy has long established trading and investment relationships with the industrialized countries of the world since 19th centuries. A look at the components of FDI in Nigeria from 1970 showed that it lacks production-oriented investment that could help to integrate the economy into international production chains. The partner composition of the foreign investors also lacks those with factor proportions relatively close to what occur in other developing economies of South East Asia and Latin American developing countries. These gaps tended to limit the benefit of investment flows into the country from the viewpoint of technology transfer and export market development. Flows of FDI had undergone tremendous shift

since independence in terms of level of inflow and outflow: the components of the net flow, the source of the flows, and the economic sectors where the flows are concentrated.

2.5.1.2 Inflows and Outflows of FDI

Table 2 below shows annual aggregate inflows and outflows of FDI in Nigeria between 1970 and 2002 in millions of Naira. It also showed the net flows (i.e. inflows minus outflows) from the four major sources where the FDI came from. On the aggregate, at N42.625 million and N9,630.5million, the naira equivalent of FDI inflows and outflows for the year 1993 was the highest for the 35 years under review. This is the equivalent of US\$1,883.49million and US\$425.5million at the exchange rate of N22.6309 to US\$1. This is mere money illusions, as the US dollar value of FDI in 1982 was far higher as it US\$3,272.5million and US\$848.3million for inflow and outflow respectively and net flow of US\$2,424.5million. This is attributable to the over-valuation of the naira. However, due to the exchange rate of N0.6702 to the dollar, the value stood at N2,193.4million and N568.5million for inflow and outflow respectively. The least dollar inflow of FDI ever in Nigeria was \$43.89million in 2001, while the least outflow was \$129.4million in 1970. The fluctuations in the exchange rate had a phenomenal effect on FDI in Nigeria. The huge net inflows were due to un-remitted profit from UK companies and other foreign companies' affiliates operating in Nigeria.

Further analysis of the data showed that activities of foreign investors resulted in Nigeria being the net exporter of capital for two consecutive years (1989 and 1990) to the tune of N439.4million (US\$57.44million) and N464.3million (US\$51.59million) respectively. In the international scene this was the time of the Gulf War. It was observed that the in reaction to the Gulf crises, Transnational Corporation (TNCs) used their parent companies to siphon substantial investments out of the country.

Analysis of the regional investment flows showed that the American foreign investors were the most inconsistent in the Nigerian economy. In the 33 years under review, they recorded 16 years of net outflows, while the UK investors and other Western Europe recorded three and five years of net outflows respectively.

TABLE 2: FLOW OF FOREIGN DIRECT INVESTMENT

FLOW OF FOREIGN DIRECT INVESTMENT					
YEAR	INFLOW N'Million	% Inc/(Dec)	OUTFLOW N Million	NET FLOW N'Million	% Inc/(Dec)
1970	251.0	100.0	129.4	121.6	100.0
1971	489.6	95.06	170.0	319.6	162.83
1972	432.8	(11.60)	184.5	248.3	(22.31)
1973	577.8	33.50	385.2	192.6	(22.43)
1974	507.1	(12.24)	458.8	48.3	(74.92)
1975	757.4	49.36	282.0	475.4	884.27
1976	521.1	(31.20)	474.8	46.3	(90.26)
1977	717.3	37.65	519.7	197.6	326.78
1978	664.7	(7.33)	332.9	331.8	67.91
1979	704.0	5.91	414.1	289.9	(12.63)
1980	786.4	11.70	319.4	467.0	61.09

1981	584.9	(25.62)	447.1	137.8	(70.49)
1982	2,193.4	275.00	568.5	1,624.9	1,079.17
1983	1,673.6	(23.70)	1,116.9	556.7	(65.74)
1984	1,385.3	(17.23)	850.6	534.7	(3.95)
1985	1,423.5	2.76	1,093.8	329.7	(38.34)
1986	4,024.0	182.68	1,524.4	2,499.6	658.14
1987	5,110.8	27.01	4,430.8	680.0	(72.80)
1988	6,236.7	22.03	4,891.1	1,345.6	97.88
1989	4,692.7	(24.76)	5,132.1	(439.4)	(132.65)
1990	10,450.2	122.69	10,914.5	(464.3)	5.67
1991	5,610.2	(46.31)	3,802.2	1,808.0	(489.40)
1992	11,730.7	109.10	3,461.5	8,269.2	357.37
1993	42,624.9	263.36	9,630.5	32,994.4	299.00
1994	7,825.5	(81.64)	3,918.3	3,907.2	(88.16)
1995	55,999.3	615.60	7,322.3	48,677.0	1,145.83
1996	5,672.9	(89.87)	2,941.9	2,731.0	(94.39)
1997	10,004.0	76.35	4,273.0	5,731.0	109.85
1998	32,434.5	224.22	8,355.6	24,078.9	320.15
1999	4,035.5	(87.56)	2,256.4	1,779.1	(92.61)
2000	16,453.6	307.72	13,106.6	3,347.0	88.13
2001	4,937.0	(69.99)	1,560.0	3,377.0	0.90
2002	8,988.5	82.06	781.7	8,206.8	143.02

Source: Central Bank of Nigeria Statistical Bulletin 2003

2.5.1.3 Cumulative Foreign Direct Investment by Sector

Cumulative FDI in the five major economic sectors in Nigeria stood at \$7,194.5million in 1984 (see table..). The naira was N5,815.5million at the exchange rate of N0.8083 to the dollar. The breakdown of the sectoral distribution revealed that the foreign investors were insensitive to the various incentives put in place to lure them into the manufacturing and processing sector. Although, the cumulative contribution rose to 60.7% in 1990 and peaked at 71% in 1991, it dropped to 47.5% in 1992 and thereafter dropped to below 25% up to

2003. The might be attributed to the huge investment in mining and quarrying operations which saw a more stable, although not much increase in cumulative capital from 1992 upwards. Also, the problem may not be unconnected to the infrastructural decay in the areas of power generation, water supply and roads.

Despite the comparative advantage the nation has in Agriculture, Fishing and Forestry sector, foreign investors are yet to show interest in the preference given to those interested in investing in the sector. The highest investment in the sector was \$221.3million in 1980. This amounted to N120.5million (3.3% of total cumulative FDI) at the rate of N0.5445 to the dollar. The sectoral share of FDI peaked at 4.1 % in 1978 from 1.1% in 1970. As at 2004, the sector's was 0.5%. According to Aremu (2003:81), "This suggests a low level of vertical backward integration of foreign investment activities to utilize the abundant factor of resources (arable land) in Nigerian economy".

2.5.2 RELATIVE PERFORMANCE OF FDI IN NIGERIA

Although the theoretical literature identified various sizeable benefits from FDI, empirical evidences had established that such benefits are not randomly available globally (Blomstrom, 1992, de Mello, 1997 and Hanson, 2001). Borenszlein, De Gregorio and (1998) discovered that a positive impact of FDI

on development is possible only for those economies that have accumulated a minimum level of stock of human capital. Lensik and Morrisey (2001) were able to establish a positive impact with a warning that such benefits may not be entirely robust as expected.

Various regimes of governance in Nigeria have not been able to appropriately, understand the close relationship between the costs and benefits of FDI when designing their general economic policies. The role, which FDI could play in helping to achieve the development objectives of Nigeria, depends on the policies pursued at the sectoral level and on sectoral development programs. A sectoral development program is capable of being used to determine which investments can be envisaged and what the concrete investment opportunities are. The more comprehensive and detailed the program, the easier it will be for government to decide in advance about the need for foreign investors for individual projects at their various stages of their preparation and to decide number and size of projects and the backward and forward vertical integration among them giving attention to economies of scale. This never happened in our case.

Nigeria had, over the years offered a wide range of incentives to foreign investors unconditionally without special sectoral performance requirements. In most cases, most of the

incentives create more economic distortions by merely compensating disincentives. It is also, observed that investment decisions of Trans National Corporations (TNCs) are more influenced by the general and sectoral policies pursued by host countries than the general offer of incentives granted by the past and present regimes in Nigeria.

Potential foreign investors are usually attracted by having from the very beginning a clear idea of entry and operational conditions into the host economy. Such conditions are embodied within general framework of laws, rules or regulations required in attracting and controlling foreign investment. Such general framework in addition to providing a sound economic policies as well as direct assistance in the pre-investment phase offers the potential investor clear, unambiguous and reliable information about conditions well in advance and avoiding crisscross policies.

2.5.3 GLOBAL PERFORMANCE

The IMF (2002) revealed that World FDI inflows grew rapidly and faster than world GDP and world exports during the period 1981 – 2000 (see table...). The world FDI inflows over the period 1981 – 2000 increased to 4.8 fold as compared to the previous ten years, and surpassed the 4.5 fold attained between the 1970s and the 1980s. World FDI inflows also increased more rapidly than the world GDP and exports over

the 1970s and 1980s. FDI as a percentage share of GDP rose rapidly since early 1990s until the peak attained in 1997 – 1998. The surge in FDI toward the second half of 1990s was, largely related to the sharp increase in investments in high-tech and telecommunication sectors in the advanced economies that were in part facilitated, by the equity market boom. These FDI flows largely took the form of a growing number of cross border Mergers & Acquisitions (M&As), mostly in the advanced economies. Accordingly, UNCTAD (2001) reported that World inflows of cross-border M&As reached a peak of US\$1,143.8billion in 2000, from US\$531.8billion in 1998 and US\$768.0billion in 1999.

2.6 FDI INCENTIVES IN NIGERIA

Positive developments have occurred in Nigeria since May 29, 1999 when democracy replaced the spate of military governments. This has resulted in a number of spirited moves to attract investors - local and foreign - into the country. The President, Olusegun Obasanjo in a bid to achieve this end embarked on a globetrotting mission that saw him interacting with other fellow Presidents and the business community of different countries. With a more relaxed taxing system, incentives and the creation of Nigerian Investment Promotion Commission (NIPC), the country was set to lure private sector finance. As a first step the

Government took a bold move to privatise all the ailing public enterprises, Decree No. 25 of July 1996 backs this scheme. The Government set up the Bureau of Public Enterprise (BPE) to oversee this crucial venture and the National Council on Privatization (NCP) headed by the Vice-President to formulate pragmatic policies in this area.

One striking feature of FDI flows is that their share in total inflows is higher in riskier countries, with risk measured either by countries' credit ratings for sovereign (government) debt or by other indicators of country risk. There is also some evidence that its share is higher in countries where the quality of institutions is lower. Presently, Nigeria is enjoying reasonable level of foreign investment, but caution must be the watchword because the domestic investment undertaken by FDI establishments is heavily leveraged owing to borrowing in the domestic credit market. As a result, the fraction of domestic investment actually financed by foreign savings through FDI flows may not be as large as it seems (because foreign investors can repatriate funds borrowed in the domestic market), and the size of the gains from FDI may be reduced by the domestic borrowing done by foreign-owned firms.

It is important that the Government concentrate on providing the basic infrastructures to support the local organised private

sector (OPS) that are ready to invest domestic funds into the economy. The response to private initiatives by the Government is quite commendable, but there is need for more favourable policies targeting specifically the locals as opposed to the foreigners. The recent creation of the Bank of Industry and the Small and Medium Industries Equity Investment Scheme (SMIEIS) is a pointer to better things to come in the future.

As part of the efforts to provide an enabling environment that is conducive to the growth and development of industries, inflow of foreign direct investment, shield existing investments from unfair competition, and stimulate the expansion of domestic production capacity; the federal government of Nigeria has developed a package of incentives for various sectors of the economy. These incentives, it is hoped, will help revive the economy, accelerate growth and development and reduce poverty.

Nigerian government accepts the private sector as the engine of growth and the creator of wealth, while the government's major responsibility is to provide the enabling environment for the private investors to operate. In this regard, laws which had hitherto, hindered private sector investments have been either amended or repealed and a national council on privatisation has been established to oversee orderly

divestment to private operators in vital areas of the economy such as mining, transportation, electricity, telecommunications, petroleum and gas.

Nigerian government's policy of economic deregulation and liberalisation has opened up new windows of opportunity to all investors wishing to invest in the country's economy. In this connection, an interest rate regime

Supportive of the real sector of the economy as well as an exchange rate that is market determined are the object of government policy. The security of life and property of the citizens are being vigorously pursued with the reorganisation and strengthening of the Nigerian Police Force.

In addition, the Nigerian Investment Promotion Council (NIPC) had been strengthened to enable it serve as a one-stop office for clearing all the requirements for investment in the country. The tariff structure is being reformed with a view to boosting local production.

Government has introduced a new visa policy to enable genuine foreign investors to procure entry visa to Nigeria within 48 hours of submission of required documentation.

Existing "expatriate quota" requirement for foreign nationals working in Nigeria is in the process of being replaced with

"work permit" which will be administered by the Nigerian Investment Promotion Council (NIPC).

Within the past few years following the end of military dictatorship in Nigeria, government has progressively introduced a number of incentives designed to promote investments. These are grouped as follows:

2.6.1 INDUSTRIAL SECTOR

Taxation: Fiscal measures have been drawn to provide for deductions and allowances in the determination of taxable income of manufacturing enterprises, including:

Pioneer status, which is a concession to pioneer companies located in economically disadvantaged areas, providing a tax holiday period of five to seven years. The government must consider these industries, to be beneficial to the country's economy and in the interest of the public. Companies that are involved in local raw material development; local value added; labour intensive processing; export oriented activities; in-plant training; are also qualified for additional concessions.

Tax relief for Research and Development (R&D): Up to 120% of expenses on R&D are tax deductible provided, that such R&D activities are carried out in Nigeria and are connected with businesses to which allowances are granted. The result of such research could be patented and protected in

accordance with internationally accepted industrial property rights.

Local Raw Materials Utilisation: 30% tax concession for five years to industries that attain minimum local raw materials utilisation as follows: - Agro 80% - Agro Allied 70% - Engineering 65% - Chemical 60% - Petro-Chemical 70%

Labour Intensive Mode of Production: 15% tax concession for five years. The rate is graduated in such a way that an industry employing one thousand persons or more will enjoy 15% tax concession while an industry employing one hundred will enjoy only 6%, while those employing two hundred will enjoy 7%, and so on.

Local value added: 10% tax concession for five years. This applies essentially to engineering industries, while some finished imported products serve as inputs. This is aimed at encouraging local fabrication rather than the mere assembly of completely knocked down parts.

In-Plant Training: 2% tax concession for five years, of the cost of the facilities for training.

Export Oriented Industries: 10% tax concession for five years. This concession will apply to industries that export not less than 6% of their products.

Infrastructure: 20% of the cost of providing basic infrastructures such as roads, water, electricity, where they do not exist, is tax deductible, once and for all.

Investment in Economically Disadvantaged Areas: 100% tax holiday for seven years and additional 5% depreciation over and above the initial capital depreciation.

Abolition of Excise Duty: All excise duties were abolished with effect from January 1st, 1999.

Import Duty Rebate: A 25% import duty rebate, was introduced in 1995 to ameliorate the adverse effect of inflation and to ensure increase in capacity utilisation in the manufacturing sector. Investors are however, advised to ascertain the current operative figures at the time of making an investment, because these concessions have undergone some amendments in the past few years.

Re-Investment Allowance: This incentive is given to manufacturing companies that incur capital expenditure for purposes of approved expansion of production capacity; modernisation of production facilities; diversification into related products. This is to encourage reinvestment of profits.

Investment Tax Allowance: Under this scheme, a company would enjoy generous tax allowance in respect of qualifying

capital expenditure incurred within five years from the date of the approval of the project.

Dividends derived from manufacturing companies in petrochemical and liquefied natural gas sub-sector are exempted from tax.

Companies with turnover of less than N1 million are taxed at a low rate of 20% for the first five years of operation if they are into manufacturing.

Dividend from companies in manufacturing sector with turnover of less than ₦100 million is tax-free for the first five years of their operation.

2.6.2 INVESTMENT GUARANTEES/EFFECTIVE PROTECTION

Transferability of funds, section 24 of NIPC decree provides that a foreign investor in an enterprise shall be guaranteed unconditional transferability of funds through an authorised dealer in freely convertible currency of:

Dividends or profit (net of taxes) attributable to the investment; payments in respect of loan servicing where a foreign loan has been obtained; remittance of proceeds (net of all taxes) and other obligations in the event of a sale or liquidation of the enterprise or any interest attributable to the investment.

There are guarantees against expropriation. Section 25 of the NIPC Decree provided that, no enterprise shall be nationalised or expropriated by any government of the federation, unless the acquisition is in the national interest or for public purpose; and no person who owns either wholly or in part, the capital of any enterprise shall be compelled by law to surrender his interest in the capital to any other person.

The above guarantee can only work under a law that provides for payments of fair and adequate compensation; and right of access to the courts for the determination of the investor's interest or right and the amount of compensation to which he is entitled. In addition to all these safeguards, the Nigerian government is prepared to enter into investment protection agreement with foreign enterprises wishing to invest in Nigeria.

Access to land: Any company incorporated in Nigeria can have access to land rights for the purpose of its activity in any state in the country. There is, however, a requirement that industrial companies comply with regulations on use of land for industrial purposes and with environmental regulations. Land lease is usually for a term of 99 years unless the company stipulates a shorter duration.

2.6.3 OIL AND GAS

Government has approved the following fiscal incentives in the gas production phase:

Tax rate under Petroleum Profit Tax (PPT) Act to be at the same rate as company tax which is currently at 30%; capital allowance at the rate of 20% per annum in the first 4 years, 19% in the 5th year and the remaining 1% in the books; investment tax credit at the current rate of 5%; royalty at the rate of 7% on shore and 5% offshore. Gas transmission and distribution – capital allowance is as in production phase; tax rate as in production phase; tax holiday under pioneer status.

2.6.4 LNG PROJECTS

Applicable tax rate under Petroleum Profit Tax (PPT) is 45%; capital allowance is 33% per annum in straight-line basis in the first three years with 1% remaining in the books; investment tax credit of 10%; royalty of 7% on shore, 5% offshore tax deductible.

2.6.5 GAS EXPLOITATION (UPSTREAM OPERATIONS)

All investments necessary to separate oil from gas from the reserves into suitable products is considered part of the oil field development; capital investment facilities to deliver associated gas in usable form at utilisation or transfer points will be treated for fiscal purposes as part of the capital

investment for oil development; capital allowances, operating expenses and basis for assessment will be subjected to the provisions of the PPT Act and the revised Memorandum of Understanding (MOU).

2.6.6 GAS UTILISATION (DOWNSTREAM OPERATIONS)

Incentives for encouragement of exploitation and utilisation of associated gas for commercial purpose include: An initial tax free period of three years renewable for an additional two years; 15% investment capital allowance which shall not reduce the value of the asset; all fiscal incentives under the gas utilisation down-stream operations in 1997 are to be extended to industrial projects that use gas in power plants, gas to liquid plants, fertiliser plants and gas distribution/transmission plants; the initial tax holiday is to extend from three to five years; gas is transferred at 0% PPT and 0% royalty; investment capital allowance is increased from 5% to 15%; interest on loans for gas projects is to be tax deductible provided that prior approval was obtained from the Federal Ministry of Finance before taking the loan; all dividends distributed during the tax holiday shall not be taxed.

2.6.7 OIL & GAS FREE ZONE

Incentives and fiscal measures approved by the government that favour and encourage large investment in the region

include: No personal income tax; 100% repatriation of capital & profit; no foreign exchange regulation; no pre-shipment inspection for goods imported into the free zone; no expatriate quota; initial tax holidays period has been extended from 3 to 5 years and renewable for another 2 years; investment capital allowance has been increased from 5% to 15%; all dividends distributed during the tax holiday shall be tax-free, etc.

2.6.8 PETROLEUM INDUSTRY

Very similar generous incentives package was granted the joint venture system and is contained in the MOU signed with oil companies.

2.6.9 AGRICULTURE

Without prejudice to government's deregulation of the financial sector, banks have been enjoined to recognise the differences in the gestation periods within each category of agricultural loans ranging from 6 months to 10 years, for crops, livestock, fisheries, forestry and wild life. In addition, the following incentives are also available;

Companies in the agro-allied business do not have their capital allowance restricted to 60% but graduated in full - 100%; agro-allied plant and equipment enjoy enhanced capital allowances of up to 50%.

2.6.10 SOLID MINERALS

Nigeria is, richly endowed, with a variety of solid minerals of various categories ranging from precious metals, stones and industrial minerals such as barytes, gypsum, kaolin and marble.

The ministry of solid minerals has worked out a package of attractive incentives for potential investors in the solid minerals sector. These include 3 to 5 years tax holiday; deferred royalty payments depending on the magnitude of the investment and strategic nature of the project; possible capitalisation of expenditure on exploration and surveys; provision of 100% foreign ownership of mining companies or concerns; in addition to roll-over relief under the capital gains tax (CGT), companies replacing their plants and machinery are to enjoy a once-and-for-all 95% capital allowance in the first year with 5% retention value until the asset is disposed of, etc.

2.6.11 TOURISM

The tourism sector was accorded preferred sector status in 1991. This makes it to qualify for such incentives as tax holidays, longer years of moratorium and import duty exemption on tourism related equipment. State governments are prepared to facilitate acquisition of land through the

issuance of certificate of occupancy for the purpose of tourism development. Also, 25% of income derived from tourists by hotels in convertible currencies are tax-exempt provided such income is put in a reserve fund to be utilized within 5 years for expansion or the construction of new hotels, conference centres, etc that are useful for tourism development.

2.6.12 ENERGY SECTOR

All areas of investment in this sector are, considered as pioneer product or industry. As a result, there is a tax holiday of 5 to 7 years for investments in the sector.

There has been deregulation of this sector resulting in the emergence of independent power producers (IPP) that will soon start operation in Nigeria.

2.6.13 TELECOMMUNICATIONS

Government provides non-fiscal incentives to private investors in addition to a tariff structure that ensures that investors recover their investment over a reasonable time, bearing in mind the need for differential tariffs between urban and rural areas. Rebate and tax reliefs are provided for the local manufacture of telecommunications equipment and provision of telecommunication services.

2.6.14 TAX INCENTIVES FOR OTHER LINES OF TRADE

Companies' profits in respect of goods exported from Nigeria are exempted from tax provided the proceeds are repatriated to Nigeria and used exclusively for the purchase of raw materials, plants equipment and spare parts.

Profits of companies, whose supplies are exclusively input to the manufacturing of products for exports, are excluded from tax.

All new industrial undertakings including foreign companies and individuals operating in an Export Processing Zone (EPZ) are allowed full tax holidays for three consecutive years.

As a means of encouraging industrial technology, companies and other organisations that engage in research and development activities for commercialisation are to enjoy 20% investment tax credit on their qualifying expenditure.

All companies engaged wholly in the fabrication of tools, spare parts and simple machinery for local consumption and export are to enjoy 25% investment tax credit on their qualifying capital expenditure while any tax payer who purchases locally manufactured plants and machinery are similarly entitled to 15% investment tax credit on such fixed assets bought for use.

2.6.15 EXPORT INCENTIVES FOR NON-OIL SECTOR

Export proceeds, can be retained in foreign currency in a domiciliary account with any authorised bank in Nigeria.

A special export development fund has been set up by the government to provide financial assistance to private sector exporting companies to cover a part of their initial expenses in some export promotion activities, including training courses, symposia, seminars and workshops, export market research, advertising and publicity campaigns in foreign markets, trade missions, etc.

There is also an export adjustment fund scheme, which serves as supplementary export subsidy to compensate exporters for the high cost of local production arising mainly from infrastructural deficiencies, and other negative factors beyond the control of the exporter.

Finally, Nigerian government established in 1991, an Export Processing Zone (EPZ), which allows interested parties to set up industries and businesses within demarcated zones, with the objective of exporting the goods and services manufactured or produced within the zones. Calabar in Cross River State has been designated as the primary EPZ territory in Nigeria. Incentives within the territory include, tax holiday relief; unrestricted remittance of profits and dividends earned by foreign investors; no import or export licenses are required; up to 100% foreign ownership of

enterprises; sale of up to 25% of production is permitted in domestic market; etc,

All exports under the Nigerian value added tax (VAT) system are zero-rated and dividends received from investment in export-oriented businesses are to be free of tax.

2.8 REFORMS AND INITIATIVES

Hausmann & Fernandez (2000:5) ¹² said, "Countries should concentrate on improving the environment for investment and the functioning of markets. They are likely to be rewarded with increasingly efficient overall investment as well as with more capital inflows". Developing countries face the challenge of designing economic policies that secure the most benefits from capital inflows while reducing their vulnerability to sudden reversals Ramon Moreno (2000:22)¹³.

If capital flows are driven largely by domestic factors, developing countries can attract steady and predictable flows of foreign capital and minimise cycles by adopting sound macro-economic and financial policies. On the other hand, if capital flows are driven, largely by external factors, developing countries are vulnerable to unexpected shocks even if they maintain prudent policies.

Milesi-Ferretti & Razin (1998) ¹⁴ identified some things that can lead to reversals of capital flows as: worsening terms of trade, large current account deficit or foreign borrowing, a

smaller ratio of exports plus imports to Gross Domestic Product (GDP), lower foreign reserves; and a smaller proportion of concessional debt. Among the steps to improve the FDI climate taken by African governments are:

- **Improved environment**

Trade liberalization, strengthening of the rule of law, improved legal and support institutions, better governance, improved transparency and better transport and telecommunications have helped make it easier to do business in many African countries. Over 40 African countries are now members of the WTO, with more in the process of joining.

- **Economic Reforms**

Many African countries have stabilized their economies, sometimes through the devaluation of overvalued currencies. They are reducing inflation rates and cutting budget deficits. Others are raising educational standards and, more generally, upgrading their human resources.

- **Private Sector Encouragement**

Many countries are stimulating economic growth by making life easier for the private sector. At least 17 have broad-based privatization programmes in place. When one looks at particular sectors, the number is

even bigger: some 25 countries in sub-Saharan Africa are transferring all or part of their telecommunications ownership from the state to the private sector. In South Africa, for example, Telekom Malaysia, together with SBC Communications from the United States, has invested US\$1.2 billion in Telkom South Africa. The results of the privatization efforts in Africa are already visible. Countries in which privatization has attracted significant FDI include Ghana, Mozambique and Uganda.

- **Better FDI Regulatory Framework**

The great majority of countries have substantially improved their FDI regulatory frameworks. Many more countries now allow profits to be repatriated freely or offer tax incentives and similar inducements to foreign investors. Many African countries have investment promotion agencies (IPAs), to assist these investors.

At the international level, 37 African States are now members of the Convention Establishing the Multilateral Investment Guarantee Agency (and seven are in the process of fulfilling their membership obligations), 42 are signatories to the Convention on Investment Disputes between States and Nationals of Other States, and 26 to the Convention on Recognition and Enforcement of Foreign Arbitral Awards. Fifty countries have concluded bilateral investment treaties

aimed at protecting and promoting FDI, and 41 have signed double taxation treaties.

2.9 FDI FLOW INTO SOME SECTORS IN NIGERIA

FDI in Africa and Nigeria stabilized in 1994. Before then, FDI inflows in Africa increased only moderately from an annual average of US\$81.7billion for the period 1981-85, \$2billion in 1986-1990 and \$3.8billion in 1991-95. The gap between Africa and other regions was wide in the 1990s, when the world-wide surge in FDI flows to developing countries bypassed the region (Fabayo, 2003:184).

This notwithstanding, FDI in Nigeria has increased indicating that many multinational corporations invested in Nigeria even in politically and economically difficult times. In table ... below, the growth of FDI has been notable from 1.1% per GDP in 1970 to about 10% of GDP in 1975. FDI/GDP ratio declined considerably in the 1990s before rising in 1993 to about 9% before declining again to about 4% in 1996.

YEAR	AFRICA	ASIA	LATIN AMERICA	NIGERIA
1970	5.2	2.6	7.4	1.1
1975	3.2	3.9	10.7	10

1980	0.9	3.8	9.9	7.2
1985	8.6	4.6	10.1	9.4
1990	8.3	12.2	8.6	4.0
1991	7.9	12.2	13.5	3.7
1992	9.1	14.2	14.3	3.7
1993	10.5	21.6	12.2	9.9
1994	17.5	24.8	17.8	7.7
1995	14.5	24.5	18.6	6.0
1996	13.2	27.5	23.7	4.3

Source: UNCTAD, FDI/TNC Database

Nigeria received significant inflows in terms of absolute size, (though it fluctuated from year to year), and accounted for a high proportion of total inflows into Africa, nevertheless, this share declined from 62% in the second half of 1980s to 50% in the 1990s.

2.10 CONCLUSION

FDI flows into countries can yield significant benefits. They allow investors to diversify their risks and increase returns, and they allow residents of recipient countries to finance rapid rates of investment and economic growth, as well as to increase consumption. However, sudden shifts in capital flows can be devastating for recipient countries.

Nigeria can tap from the enormous potentials of FDI by not only the putting appropriate legal framework in place, but allow the proper structures to be in place through decisive and consistent implementation of policies earmarked for encouraging foreign investment inflow (Sofowora).

There should be in place among other things, macro-economic stability, stable political system, recognition and protection of private ownership of property, fair and efficient legal system, respect for rule of law and human rights, efficient social infrastructure, security of life and property, etc.

Foreign direct investment arena is highly competitive and for Nigeria to be more attractive we must create a good image, create a conducive political and economic climate, and invest adequately in power.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 INTRODUCTION

This chapter examines the method adopted in carrying out this research work. In discussing the research approach employed, research strategy used and the instruments of data collection and data analysis, my immediate concern in this work was to work in the frame work of my research questions discussed in chapter one.

3.2 RESEARCH APPROACH

In the course of this study, the "Ground Theory" (Glassier & Strauss:1968) ¹ was adopted. The school of thought which favours this approach opines that the knowledge sought in any research is 'grounded' in the data the researcher is able to collect and as such the findings of research emerge from the analysis of the result achieved.

The Ground Theory approach encourages the use of research questions, although the use of prior hypotheses has also been used. Thus, prior sets of hypotheses are also stated. Therefore, this work can be regarded as an exploratory work combined with prior set of hypotheses.

3.3 RESEARCH STRATEGIES

In carrying out this work, the case study method was employed as opposed to survey method.

According to Ahiazu (1981:13), "the case study involves the study of one group at a point in time, and arriving at a conclusion in relation to the situation of that one group, while survey method is one in which the representative sample of the population is studied and the entire result is generalised". Seltize et al (1959:82) opined that case study approach provides a simulating insight in a research study. Case study is used to gain in-dept understanding replete with meaning for the subject, focusing on process rather than outcome, on discovery rather than confirmation (Osuala 2001:186).

Due to the secrecy nature of Africans (Osuala) op cit, and difficulty in data collection in Nigeria, the strategy of anonymity was adopted in this work to enhance easy access to information needed for the study as those who agreed to contribute preferred to be anonymous.

3.4 SOURCES OF DATA AND RESEARCH INSTRUMENT

A period of thirty-five years (1970 – 2004) was chosen as case study to bring a clearer picture of the problem in a determinable period of time. Personnel of financial institutions, Nigeria Investment Promotion Council (NIPC), stockbrokers, members of the Organised Private Sector (OPS), the foreign operations and research departments of the Central Bank of Nigeria were

interviewed. Primary and secondary data were used in the study.

Primary data were obtained through the administration of questionnaires consisting of both structural and open-ended questions. Part one deals with biostatistics, while part two deals with the variables that are being investigated.

The questionnaires were used to elicit information from the respondents and took into consideration the nature of my research, which fundamentally concerned with the critical analysis of foreign direct investment in Nigeria.

Secondary data on the other hand, were obtained from textbooks, magazines, journals, unpublished works, seminars papers, periodicals and CBN statistical bulletins.

3.5 METHOD OF INVESTIGATION

Considering the series of data analysis techniques available, the univariate and bivariate procedures were adopted in this research. The univariate analysis used, involved relative fre

CHAPTER FOUR

4.0 ANALYSIS OF DATA AND PRESENTATION OF FINDINGS

4.1 INTRODUCTION

This chapter deals with the critical analysis of data gathered during the study of the "Critical Analysis of Foreign Direct Investment in Nigeria".

Each of the questions in the questionnaire has been coded using the "Likert Scale: Label and Weight. A label is an identifier and cannot be processed further statistically. On the other hand, a weight is valuable which has meaning in accounting sense, and so, can be further processed statistically, with the computation, for example, of total means and standard deviation. The data collected are further interpreted by employing the formulated hypotheses as contained in Chapter One.

4.2 DATA ANALYSIS

This focuses on the provision of empirical evidence on the substantive findings of this study.

As indicated earlier, the instrument used, Likert scale and each question were coded according to the nature of responses. One hundred and fifty (150) copies of questionnaires, each containing thirty-four questions, were sent out. A total of one hundred and ten (110) were returned out of which eighty-five (85) were properly filled, while twenty-five (25) have irregularities and as such were rejected.

However, the sample used in the study was fifty respondents.

4.3.0 HYPOTHESIS TESTING

This is the procedure for deciding whether to accept or reject the hypothesis. In testing the hypotheses on the "Critical Analysis of Foreign Direct Investment in Nigeria" the mean responses to all weighted questions in the questionnaire were calculated and this was compared with the measure of effectiveness

4.3.1 MEASURE OF EFFECTIVENESS

In testing the hypotheses in the Critical Analysis of the Foreign Direct Investment in Nigeria. The mean response to all weighed questions in the questionnaire had been calculated.

This was compared with the measure of effectiveness of the topic examined. However, it was observed in Tables B1 and B3 (Appendix 2), that the mean response is 2.87 when this was compared with the scale of effectiveness, one-point scale gave 2.86 when the two point scale was used, the value 2.72 and 3.00. Hence, the value 2.87 falls within 2.72 and 3.00. The various calculations are shown below and they reflect medium effectiveness.

4.3.2 COMPUTATION OF MEASURE OF EFFECTIVENESS

The measure of effectiveness of this work was determined using the 'modified median formula'. Here, the median of grouped data is given by:

$$Md(1/2) = \frac{Lc + (1/2N - fc^{-1}) \times hc}{Fc}$$

Where:

Md(1/2) is the median

N = number of observations

hc = width of the c-th class

Fc = frequency of the c-th class

fc⁻¹ = cumulative frequency penultimate to the c-th class.

Using table B2 in Appendix 2, the frequency distribution of the means of the questions in the questionnaire used for the measure of effectiveness is given as follows:

Highest range = 3.88

Lowest range = 1.94

Range = 1.94

Class width = $\frac{1.94}{5} = 0.388$

TABLE 4.1

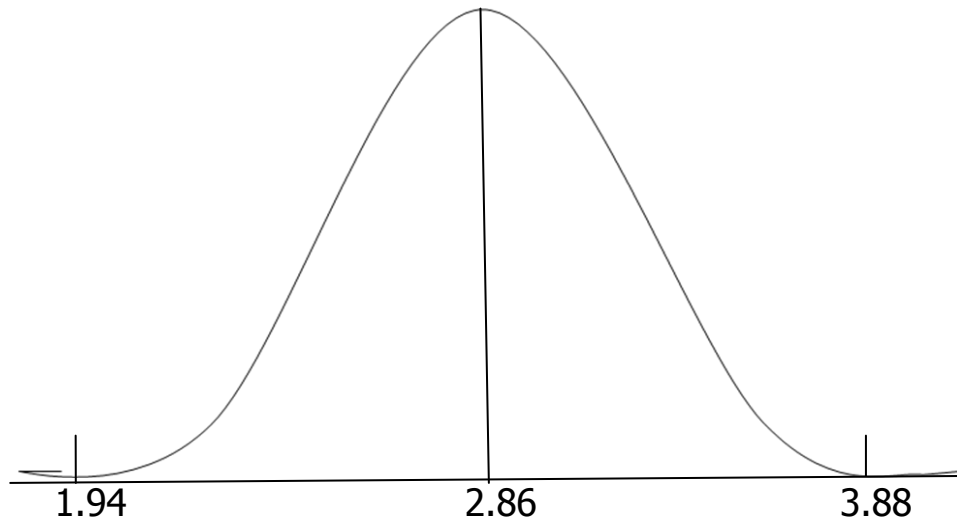
FREQUENCY DISTRIBUTION OF THE MEAN

S/NO	CLASS INTERVAL	FREQUENCY	CUMMULATIVE FREQUENCY
1	1.94 – 2.33	1	1
2	2.33 – 2.72	4	5
3	2.72 – 3.10	7	12
4	3.10 – 3.49	2	14
5	3.49 – 3.88	1	15
	TOTAL	15	-

Using a one-point scale of effectiveness:

$$\begin{aligned} \text{Md}(1/2) &= L_c + \frac{(\frac{1}{2}N - f_{c-1})}{F_c} \times h_c \\ &= 2.72 + \frac{(15/2 - 5)}{7} \times 0.388 \\ &= 2.72 + (0.36 \times 0.388) \\ &= 2.86 \end{aligned}$$

Figure 1: **SAMPLING DISTRIBUTION OF A SAMPLE MEAN USING ONE POINT SCALE OF EFFECTIVENESS**



Any of the means can be, classified as follows:

(i) Low effectiveness = 1.94 – 2.86

(ii) High effectiveness = 2.86 – 3.88

4.3.3 SIGNIFICANCE TEST OF THE MEAN

Sample mean (X) = 2.87 (see Table B3)

Calculated mean (μ) = 2.86

Standard Deviation = 1.27

The question to be answered here is whether the sample mean (X) is significantly different from the calculated mean (μ)?

Hence, 5% level of significance which is 1.96 (see Appendix 3), has been used in arriving at the decision taken here.

This calculated using:

$$Z = \frac{X - \mu}{\text{S.E.}}$$

S.E.

$$\begin{aligned} \text{Where S.E. is the standard error of X} &= \frac{\text{S.D.}}{\sqrt{n}} \\ &= \underline{1.27} \end{aligned}$$

√15

$$\text{S.E.} = \frac{1.27}{3.87} = 0.33$$

$$Z = \frac{2.87 - 2.86}{0.33}$$

$$Z = 0.03$$

4.3.4 INFERENCE

Since 0.03 calculated above is less than 5% level of significance, which is 1.96, it has, therefore, been proved beyond reasonable doubt that there is no significant difference between 2.87 and 2.86.

4.3.4 A TWO-POINT SCALE OF EFFECTIVENESS

$$\text{Md} (1/3) = Lc + \frac{(1/3N - fc^{-1})}{Fc} \times hc$$

$$\text{Md}(1/3) = 2.33 + \frac{(1/3 \times 15 - 1)}{4} \times 0.388$$

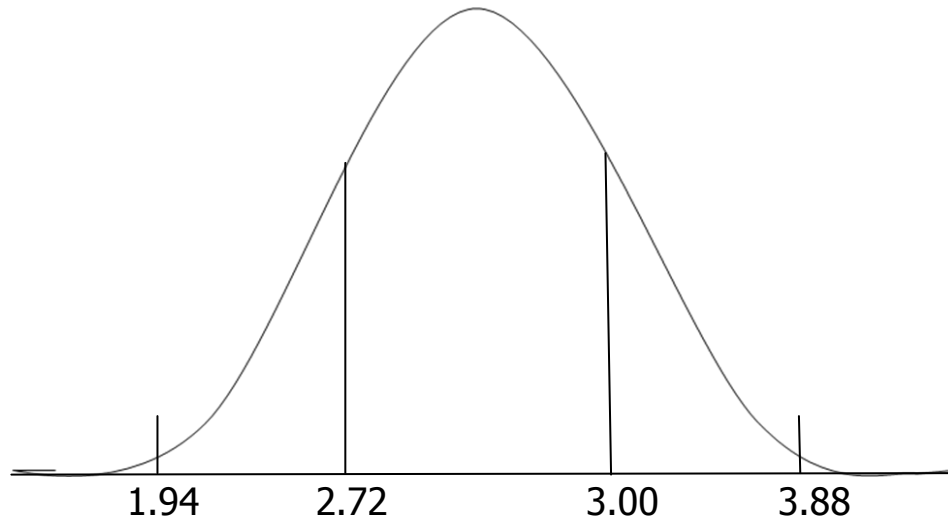
$$\begin{aligned} \text{Md}(1/3) &= 2.33 + 1 \times 0.388 \\ &= 2.72 \end{aligned}$$

$$\text{Md}(2/3) = Lc + \frac{(2/3N - fc^{-1})}{Fc} \times hc$$

$$\text{Md}(2/3) = 2.72 + \frac{(2/3 \times 15 - 5)}{7} \times 0.388$$

$$\text{Md}(2/3) = 2.72 + 0.71 \times 0.388$$

$$Md(2/3) = 2.995 \approx 3.0$$



Therefore, any mean can be classified as follows:

- i. Low effectiveness 1.94 - 2.72
- ii. Medium effectiveness 2.72 - 3.00
- iii. High effectiveness 3.00 – 3.88

The inference to be drawn from the above distribution is that the sample mean 2.87 lies between 2.72 and 3.00. Therefore, the effectiveness of the distribution is high.

4.4 CONCLUSIVE INFERENCE

The aim of this work is to analyse Foreign Direct Investment in Nigeria. For this purpose sets of hypotheses have been tested and these are:

1. Null Hypotheses: $H_0 = B_{1...5}$, which state that:
 - (i) FDI has direct link to the state of infrastructures in Nigeria.

- (ii) Size of the market has an impact on the attraction of FDI.
 - (iii) Open economies encourage FDI.
 - (iv) There is relationship between incentives/operating conditions and FDI.
 - (v) Political risk affects the flow of FDI.
2. General Hypotheses: $H_A = B_{1...5}$, which state that:
- (i) FDI has no direct link to the state of infrastructures in Nigeria.
 - (ii) Size of the market has no impact on the attraction of FDI.
 - (iii) Open economies do not encourage FDI.
 - (iv) There is no relationship between incentives/operating conditions and FDI.
 - (v) Political risk does not affect flow of FDI.

From the numerical evidence in the one-point and two-point scale for effectiveness there is a significant evidence to reject the General/Alternative Hypotheses, which assume that there are relationships between the explanatory variables, mentioned above and Foreign Direct Investment.

Consequently, the Null Hypotheses $H_0 = B_{1...5}$ which state that there are relationships between the explanatory variables investigated and Foreign Direct Investment are accepted because the mean 2.87 lies between 2.72 and 3.00 which is medium effectiveness of the distribution.

Hence, this suggests the acceptance of the afore-mentioned hypotheses.

CHAPTER FIVE

5.0 SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY OF MAJOR FINDINGS

In chapter four, the data obtained from questionnaire sent completed and returned concerning the "Critical Analysis of Foreign Direct Investment in Nigeria" was analysed and the following results were obtained:

- a. There had been low flow of FDI into Nigeria making it very hard to develop the real sector and depend less on imported goods.
- b. Political crisis in Nigeria impaired the easy flow of FDI because investors were apprehensive of the situation.
- c. The cost of doing business in Nigeria is very high, compared with other developing nations.
- d. The level of corruption, especially in the public sector remained unprecedented making transparency International LTD to rate us high in corruption year after year.
- e. It takes weeks or even months to clear goods from our plots. This adds to the cost of doing business in the country and can lead to serious downtimes.
- f. High rate of unresolved assignments and political killings in Nigeria makes the Nigeria an unwanted bride to investors.

g. Although Nigeria has a big market, this does not translate to high demand due to high level of poverty.

The continuous government involvement in business and monopoly granted government corporations do not allow private sector participation in certain sectors of the economy.

5.2 CONCLUSION

This work "The Critical Analysis of Foreign Direct Investment in Nigeria" was carried out with ten (10) major hypotheses as stated on page 4 of Chapter One. By the use of "DATA ANALYSIS SHEET", (Appendix 2), it was observed that the mean (X) of the weighted questions in the questionnaire is 2.87. On the other hand, the calculated mean (U) is 2.86. After testing, it was found that there are no significant differences between the two, using 5% level of significance. To lend credence to the above, a two-point scale measure of effectiveness was used where it showed that the impact of the explanatory variables was medium.

More so, the review of related literature which was basically journals, and periodicals confirmed the low level of FDI in Nigeria despite all the efforts to attract it coupled with natural endowment.

Some of the investors divested and potential ones left due to the harsh business environment occasioned, poor infrastructures, corruption, monopoly, political crisis and high crime rate.

Consequently, the economy is starved of the much needed inflow of investment especially in the real sector. This translates

to weak industrial base and uncompetitive product prices due to lack of funds and the operators pay high interests whenever such funds come their way.

Obviously, the dearth of FDI in Nigeria has left hundreds of kilometres away from the much-needed industrialisation. Apart from lack of funds, there is also lack of technical know-how and modern technologies. This has cyclical effects as employment spurs, people resort all sorts of illegalities to survive and hence worsening the situation.

5.3 RECOMMENDATIONS

From the fore-going analysis and discussions, the following recommendations are suggested:

- a. Macroeconomic stability is desirable because it shapes the overall investment climate and determines the degree of confidence investors have in an economy. This requires re-establishment of price stability, policy, adoption of market determined interest rate etc. (CBN 2000).
- b. To engender efficiency in economic management, government should gradually remove all monopolistic hindrances and divest its equity holdings in all the sectors of the economy.
- c. Government should provide adequate social and economic infrastructures such as education, health, electricity, water, transportation and telecommunication.

- d. The rule of law should be allowed to operate, Government should channel more resources to maintenance of law and order; focusing on protecting lives and property.
- e. There should be part reforms to move in place with current international standards. The Nigeria Custom Service should be re-oriented to face reality. Customs modernisation is since over due and must be carried out now.
- f. Government should try to eradicate corruption, which had been deep into the fabrics of the nation. ICPC and EFCC should be empowered and given free hand to operate. Our judicial system should, also be made to rise up to the challenges of making sure that culprits are punished accordingly.
- g. There is the need for adequate training and skills development programmes in order to make workers employable and earn a reasonable income. (CBN 2003).

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APPENDIX 1

Department of Banking & Finance,
Faculty of Management Sciences,
Nnamdi Azikiwe University,
Awka, Anambra State.

Dear Sir or Madam:

THE CRITICAL ANALYSIS OF FOREIGN DIRECT INVESTMENT IN NIGERIA

I am a post graduate student (MBA) of the above named institution conducting a research on the above mentioned topic.

In order to carry out an un-biased research, I have drawn up a series of questions relating to the subject of my research study which I am asking for your response.

I wish also to guarantee that any information given would be considered confidential and used solely for the purpose of this research work.

Yours faithfully,

Orjiakor, Nwabueze Vitalis

**QUESTIONNAIRE ON THE CRITICAL ANALYSIS OF FOREIGN
DIRECT INVESTMENT (FDI) IN NIGERIA.**

INSTRUCTION: Please tick (✓) the appropriate option and fill the spaces provided where applicable.

SECTION ONE (BIO-STATISTICS)

1. Sex
 - a. Male
 - b. Female

2. Marital Status
 - a. Married
 - b. Single
 - c. Divorced
 - d. Widowed
 - e. Separated

3. Age
 - a. 18 – 28
 - b. 28 – 38
 - c. 38 – 48
 - d. 48 – 58
 - e. Above 58

4. Specialisation
 - a. Accounting/Finance
 - b. Management
 - c. Marketing
 - d. Banking
 - e. Law/Humanitarian
 - f. Others, please specify.....

5. Level of Education
 - a. HND/BA/BSc
 - b. Masters Degree
 - c. Doctoral Degree
 - d. Others, please specify

6. Membership of Professional body
 - a. ICAN/ ANAN

- b. CIBN
 - c. Institute of Administration/Institute of Management
 - d. FITC
 - e. NBA/NMA
 - f. MAN
 - g. Others, please specify
7. Level of Management Occupied
- a. Low Level Management
 - b. Middle Level Management
 - c. Top Level Management

SECTION TWO

8. What are the causes of low foreign direct investment in Nigeria?
- a. Political instability
 - b. Insecurity
 - c. Poor infrastructures
 - d. Lack of incentives
 - e. Corruption and financial crime
 - f. Others please specify.....
9. What are effect(s) of foreign direct investment in the country?

- a. Good corporate governance
- b. Training of local work force
- c. Transfer of technology
- d. Increase in standard of living
- e. Increase in GDP

10. How can you classify the level of FDI in Nigeria?

- a. Very low
- b. Low
- c. Average
- d. High
- e. Very high

11. Do you think that it is necessary to attract FDI?

- a. Yes
- b. No

12. How would you describe the effect of government incentives on FDI?

- a. Very effective
- b. Effective
- c. Ineffective
- d. Very ineffective

13. What are effects of delays in clearing of goods in the Nigerian Ports?
- a. Increase in the cost of the goods.
 - b. Delays in getting raw materials.
 - c. Increase in down time.
 - d. Shortage of goods in the market
 - e. Bad image for the nation.
14. How do you think that the clearing period in the ports can be reduced?
- a. Through customs' administration modernisation and reforms
 - b. Reducing the number of agencies in the ports
 - c. Automation of the port clearing and inspection systems
 - d. Training and re-orientation of the operatives in the ports
 - e. Punishing corrupt government agents in the ports
15. How would you rate the performance of the customs and other agencies in Nigerian ports?
- a. Very low
 - b. Low
 - c. High
 - d. Very high
16. How do you think that infrastructures can be improved in Nigeria?

- a. Through privatization of government corporations
- b. Injection of more money into the government corporations
- c. Breaking of the monopoly powers of government companies
- d. Increase in taxes
- e. Others, please specify.....

17. What are the possible effect(s) of privatization to the economy of the Nigeria?

- a. Reduction in government waste of resources
- b. Better management of privatised companies
- c. Better and efficient supply of goods and services
- d. Healthy competition and better pricing
- e. Attraction of private sector investment
- f. Others, please specify.....

18. How does FDI respond to privatisation in Nigeria?

- a. Very positively
- b. Positively
- c. Indifferent
- d. Negatively
- e. Very negatively

19. What are the effects of financial crimes and corruption on FDI?

- a. Crowding out of investors
 - b. Raises interest rates
 - c. Causes macroeconomic distortions
 - d. Affection the availability of foreign exchange
 - e. Fosters bad image for the country
20. What do you is the cause of corruption and financial crime in Nigeria?
- a. Bad and greedy leaders
 - b. Moral decadence
 - c. Poor legal and judicial system
 - d. Bad orientation
 - e. Crass materialism
21. How would you describe the Nigerian business environment?
- a. Conducive
 - b. Un-conducive
 - c. Harsh
 - d. Hostile
22. How do you think that the business environment can be improved upon?
- a. Through good macroeconomic policies

- b. Availability of development and efficient capital and money markets
 - c. Good infrastructures
 - d. Adequate security for life and property
 - e. All of the above
23. What do you think is responsible for high crime rate in Nigeria?
- a. High rate of unemployment
 - b. Poverty
 - c. Frustration
 - d. Greed
 - e. Materialism
24. How do you think that crime rate can be reduced in Nigeria?
- a. Provision of jobs to graduates
 - b. Poverty alleviation
 - c. Good and efficient law enforcement agencies
 - d. Sound legal system
 - e. Introduction of moral instructions in schools
25. How do you rate the security condition in Nigeria?
- a. Very bad
 - b. Bad

- c. Good
 - d. Very good
 - e. Nothing to write about
26. Do you think that trade liberalisation will increase the inflow of FDI?
- a. Yes
 - b. No
27. What are the possible advantages of trade liberalisation to Nigeria?
- a. Free movement of goods and services
 - b. Increase in export/import of goods and services
 - c. Diversification of export products
 - d. Opens the gate for foreign investments
 - e. Dumping of foreign goods in Nigeria
28. How would rate the impact World Trade Organisation treaties on flow of FDI in Nigeria?
- a. Very low
 - b. Low
 - c. High
 - d. Very high
 - e. No impact

29. What are the effects of political instability in an economy?
- a. Divestment
 - b. Macroeconomic instability
 - c. Business uncertainty
 - d. Investors apathy
 - e. Low capital formation
30. What are the reasons for low productivity in Nigeria?
- a. Poor infrastructures
 - b. Lack of modern production equipments
 - c. Lack of qualified/skilled labour
 - d. Low demand for finished goods due to high poverty level
 - e. Lack of funds to increase production
 - f. Others please specify.....
31. How do you think that production would be increase in Nigeria?
- a. Through increased investment in the manufacturing sector
 - b. Acquisition of modern equipment
 - c. Improved infrastructural facilities
 - d. Training of local work force
 - e. Through liberalisation and privatisation
 - f. Others please specify.....

32 Do you agree that labour cost affects foreign direct investment in any country?

- a. I strongly agree
- b. I agree
- c. I disagree
- d. I strongly disagree
- e. I am indifferent

33. What are possible effects of industrial action to economic activities?

- a. Down times
- b. High cost of labour
- c. Loss of profits
- d. Distortions in macroeconomic variables
- e. Cripples economic activities

34 Do you agree that population size can attract FDI?

- a. Agree
- b. Strongly agree
- c. Disagree
- d. Strongly disagree

35 How do you think that population size can affect FDI?

- a. Through provision of large consumers
- b. Provision of cheap labour
- c. Availability of different ages and market sectors
- d. Greater profitability
- e. Large sales of products