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Foreign Direct Investments: A Periscopic View of Nigeria's International Economic Relations

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Abstract

A country's relations with other economies can be assessed through the confidence reposed on such a country and the quantum of Foreign Direct investments in such a country. This paper assessed the extent and rate of Foreign Direct investments in Nigeria. Specifically, the paper focused on foreign direct investments in the areas of agriculture and transport. Data was obtained from secondary sources such as books, journals, periodicals, newspapers, and the internet etc. Content analysis constituted its mode of analysis while the customs theory by Tinbergen (1984) was adopted as the theoretical framework. The analysis showed that foreign direct investments are flowing into the country in the areas of agriculture and aviation but at a low and slow pace. The paper recommended that government should do what it takes to improve on the confidence it earns from the international community.

Keywords: *International economic relations, FDI, Customs theory, Periscopic view, Confidence*

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Background to the Study
The camp of the classical economists holds tenaciously to the belief that, given general laissez faire assumption, free trade will lead to improved welfare for countries which engage in it. Current theoretical studies have shown that," international trade and investment are complementary rather than substitute, if trade between two economies is based on their absolute advantage" (Aizeman and Noy, 2005, Ayowale 2007). If however, trade between the two countries is based on their absolute advantage, there may be substitution between trade and investment, as business decides to supply products and services through exports or foreign direct investments (FDI). The degree of complementarity between trade and investment therefore, remains empirical.

Orthodox trade theories such as the theory of comparative advantage had earlier addressed the issue of the relevance of trade to economic development. In this vein, a consensus had hitherto, been reached to the effect that the classical and neoclassical theories could be used to address the issue of economic development by using the technique of comparative statics. Hence, Haberler (1988) and others have stressed that "traditional trade theories confer both static gains (direct benefits) and dynamic gains (also called indirect benefits) on trading countries". According to Haberler (1988), "there are four vital points regarding the 'dynamic' benefits of trade on participating less developed countries" (LDCs).

First trade provides material means (capital goods, machinery, raw and finished materials) indispensable for economic development. Secondly, and even more important, trade is the means and vehicle for the dissemination of technological knowledge, the transmission of ideas, for the importation of know-how, skills, managerial talents and entrepreneurship. Thirdly, trade is also the vehicle for the international movement of capital especially from the developed to the underdeveloped countries. Fourthly, free international trade is the best anti-monopoly policy and the best guarantee for the maintenance of a healthy degree of free competition. (Habeler, 1988).

Over the past few decades, the magnitude of external trade between nations of the world has increased significantly. In particular, Nigeria has experienced a sharp increase in the value and volume of trade with other countries of the world. The nation recorded a trade surplus of N 197, 187.70 million in September, 2015. Balance of trade in Nigeria averaged N 201, 370.76 million from 1981 until 2015, reaching an all-time high of N 217, 7553.08 million in March, 2011. The Nigerian Bureau of Statistics (NBS,2012) reported this balance of trade and this tendency is expected over the long term due to the unrelenting calls for heightened trade liberalization to foster economic growth across the globe.

Statement of the Research Problem
Foreign direct investments (FDI) are generally known to enhance the growth process of developing countries as they help the job situation in addition to providing the much needed capital inflows, managerial skills and job creation. These obvious benefits inform the concerted efforts by Nigerian authorities in introducing reforms which included

economic deregulation, new industrial policy of 1989, the establishment of the Nigeria Investment Promotion Commission (NIPC) in early 1990s, and the signing of Bilateral Investment Treaties (BIT) in the late 1990s. These efforts notwithstanding, FDI flows to Nigeria have remained low compared to other developing countries.

Table 1
Foreign Direct Investment inflows into selected countries in Dollars in 2002

S/N	Country	FDI inflows (millions)
1	Nigeria	1, 005.0
2	Malaysia	23,823.0
3	Indonesia	11,641.0
4	Tunisia	14,060,0
5	Turkey	18,846.0
6	Venezuela	38,080.0
7	Morocco	12,481.0
8	Kazakhstan	15, 464.3
9	Hungary	35,890.0
10	India	20,326.0
11	Thailand	38,180.0
12	Argentina	32,394.0
13	Brazil	100,847.0
14	South Africa	29,611.0

Source: International Financial Statistics (2005)

How much the government policies have enhanced the inflow of FDIs into Nigeria particularly in the areas of Agriculture and transport is a matter of concern to this study.

Objectives of the Study

The broad objective of this study is to carry out an assessment of the Nigeria's International Economic Relations vis-à-vis inflow of foreign direct investments into the country. Specifically, the study seeks to:

1. Ascertain the level of foreign direct investment into the agricultural sector of Nigeria.
2. Estimate the quantum of FDI inflows in the nation's aviation industry.

Research Questions

Answers would be provided to the following questions:

1. What is the extent of foreign direct investment in agriculture in Nigeria?
2. To what extent has the nation witnessed Foreign Direct Investments in the nation's aviation industry?

Literature Review

Concepts

Foreign Direct Investments: Foreign direct investment (FDI) is investment made to acquire a lasting interest or effective control over an enterprise operating outside of the economy of the investor.

FDI is generally defined as "an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate" (OECD, 1996).

FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. FDI may be undertaken by individuals as well as corporate/public business entities.

International Economic Relations

The global economy is currently facing damage following economic, environmental, and political crisis, crashes on financial markets, etc. Such problems of sustainable development as climate change, water scarcity or food insecurity become an integral part of the global economy. Coping with them requires international cooperation. International economic relations as an academic discipline offer the necessary platform in theory and practice to address these global issues.

The concept of the system of international economic relations is a system (integral) ratio, which expresses the unity-the integrity of the system: the overall objective of the whole system and its subsystems, as well as the norms of behaviour of its subjects-the motivation of activity, decision-making, the criterion of efficiency, etc.

From the standpoint of contemporary realities, those shifts that have occurred in the development of the world community, serve as the backbone to ensure the unity, integrity of international economic relations, the two properties:

1. Variety of market-based economic relations, called "socially oriented market system".
2. Internationalization of economic relations, which grows the integration and globalization, that is, the formation of a single supranational economic (trade, production and investment, monetary and fiscal) space.

These properties determine the specificity of the content and structure of international economic relations. The definition of international economic relations as a socio-driven market system vividly portrays its current state:ie market orientation, tangible effect of non-market, institutional controls at both the regional and inter-regional and global levels; desire to control the world market and an active influence on the domestic national markets by international institutions, multinational corporations, with the help of various tools, including the market.Thus, international economic relations are capable of self-regulation of the market for corrective role of TNCs, international and supranational institutions. This is an essential feature of the system of international economic relations.

The literature

A plethora of studies have been conducted on the relationship between foreign direct investment and economic growth in Nigeria. Akanegbu and Chizea (2017), investigated foreign direct investment and Nigeria's economic growth. The paper began by observing that FDI is a macro-economic variable which has a positive relationship with economic theories. It employed unit root and Granger-causality tests using E-views in determining the impact of FDI on economic growth in Nigeria. The results of the estimation analyses revealed that there exists a positive relationship between Foreign Direct Investment and output growth in the Nigerian economy. The paper recommended that policies which encourage the increase of FDI should be enunciated.

Nwakobi and Ezeabasili (2016) studied foreign direct investment and Nigeria's economic growth. The study examined the impact of Foreign Direct investment inflows on the growth of Nigerian economy from 1977-2011. The ADF result showed that all the variables in the study are stationary. Again, the co-integration test showed that there is a long run relationship between the variables in the study. The data for the study was tested for unit root using Augmented Dickey-Fuller (ADF) test. Econometric evidence further shows that FDI has positive relationship with economic growth in Nigeria. It was recommended that Nigeria evolves investor friendly policies that can attract foreign direct investments.

Enimola (2011) studied Foreign Direct Investment and export growth in Nigeria. The purpose of the study was to examine the link between foreign direct investments (FDI) in Nigeria from 1970 to 2008. The stationarity properties of the data and the order of integration of the data were tested using the augmented Dickey Fuller (ADF) and the Philip-Perron (PP) tests. The co-integration results showed at least one cointegrating equation in the export function. The Granger-causality results suggest unidirectional causality running from (i) foreign direct investment to export, (ii) real exchange rate to export and bi-directional causality from external market indicator to export. The study suggested that more policies should be channeled towards improving export oriented foreign direct investment and at the same time, efforts should be geared towards improving basic infrastructure which will not only lower production costs but improve upon the competitiveness of the economy which invariably, will attract more foreign direct investment into the economy.

Theoretical Framework

Linder's theory of volume of Trade and Demand pattern (1961)

This theory constitutes the theoretical framework of the study. It was propounded to explain the volume of trade in manufactures as a proportion of national income between the different pairs of trading countries. Linder argues that as a country's per capita income grows, its representative-demand pattern causes an expansion in the domestic production of certain manufactures. This expansion causes such reductions in the cost of these manufactures that they become the country's new comparative advantage exports. In this way, a country comes to export its representative demand product.

The theory is based on a number of assumptions.

1. A country's potential trade is limited to those goods which have a domestic demand
2. The potential trade between two countries is limited to those goods for which demand exists in both countries.
3. The goods for which domestic trade exists, is determined by per capita income.
4. The potential trade between two countries depends on broadly similar income levels.

The Theory: Linder begins by making a distinction between trade in primary products and in manufactures while trade in primary products can be explained in terms of relative natural-resources endowments that in manufactures cannot be so explained. For the latter, there are many complex factors such as technological superiority, managerial skills and economies of scale which cannot be put into a precise and predictable pattern. He therefore, does not explain the precise composition of trade in manufactures. Instead he propounds a theory concerning the volume of trade in manufactures as proportion of national income between different pairs of trading partners.

The analytical framework of Linder's theory can be explained as follows. The pre-condition for trade in manufactures as an export is the presence of home demand. This is due to several reasons:

a) Foreign trade is only an extension of domestic trade.
b) There are innovating centres on existing industries and,
c) It is domestic demand which gives manufacturers export possibility. But the main reason is that foreign market is risky and the home market is not so. Therefore, producers do not wish to depend on foreign market alone. It follows that the internal demand pattern determines the range of potential export commodities.

A country will export only those products for which it has a large and active domestic demand. It is only when the production for the domestic market is large that firms are able to achieve economies of scale, reduce costs and enter the foreign market. Such entry could be by foreign direct investment.

Data source/Analysis

The methodology of content analysis is employed in analyzing data obtained from secondary materials in the following sequence:

Research Question One (1): what is the extent of foreign direct investment inflow into Nigeria over the years in the agricultural sector?

Table one (1) on FDI shows a general trend whereby FDI inflows into the country is nothing to write home about when compared with 13 other countries.

Going by figures available from the Central Bank of Nigeria Statistical Bulletin, CBN (2009), sectoral decomposition of Foreign Direct Investment in Nigeria has traditionally been in favour of extractive industries. However, in recent years there has been some diversification into manufacturing and telecommunication sectors.

Table 2
Sectoral decomposition of FDI in Nigeria form 1980-2009

Year	Mining & Quarrying	Manufacturing	Agriculture	Transport & Communication	Building & Construction	Trading & Business	Miscellaneous
1980-1984	14.1	38.3	2.6	1.4	7.9	29.2	6.5
1985-1989	19.3	35.3	1.4	1.2	5.1	32.6	5.3
1990-1994	22.9	43.7	2.3	1.7	5.7	8.4	15.4
1995-1999	43.5	23.6	0.9	0.4	1.8	4.5	23.3
2000-2004	34.7	27.4	0.7	1.1	2.5	7.6	26.0
2005-2009	22.6	40.7	0.4	2.1	2.2	8.2	23.9

Source: Central Bank of Nigeria Statistical bulletin, 2009.

The table shows an abysmally low 0.4 average inflow into the agricultural sector over the period. This is worrisome in view of the sector's strategic position in the nation's economy. The sector is known to employ about two thirds of the nation's workforce and provides the means of livelihood for about 90 percent of the rural population. It is an irony for such a sector to attract the least FDI inflow with its obvious implications for the economy.

The above evidence is backed up by empirical studies on the trend of FDI inflows into Nigeria. Particularly, the study by Kola and Olalekun (2011) examined the effect of FDI on the development of small and medium scale enterprises in Nigeria. Using GLM multiple regression estimation technique on selected businesses like agriculture, transportation and small and medium scale businesses, they found that FDI has negative influence on the development of SMEs.

Research Question Two (2): To what extent has Nigeria witnessed FDI inflows into the aviation industry?

The table on sectoral decomposition on FDI also shows that transport (aviation) and telecommunication attracted only 2.1 percent of FDI inflows between 2005 and 2009. However, Lall cited in Adeleke (2014), the privatization policy which involved the transfer of state-owned enterprises (manufacturing, agriculture, telecommunication, transport, electricity and water supply), to be completely or partly owned by or managed by private individuals or companies was adopted to attract foreign direct investment. Shiro (2009), also noted that, "since the inception of democracy in 1999, governments have continuously been repealing laws that are inimical to the growth of foreign direct investment and have made trips overseas to launder the image of the country as an investment friendly destination". These policy changes are beginning to bear the desired fruit. The United Nations Conference on Trade and Development (UNCTAD, 2013) observes that, (the inflow of FDI to Nigeria grew from $4978.26 million in 2005 to $6098.96 million in 2010. Although the flow declined to $5609.00 million in 2013, Nigeria still ranked third in the African top five recipients of FDI inflow). It needs be noted that the study by Olalekan (2011) on FDI and development of a SMEs in Nigeria, revealed that, "such investments contributed negatively to the development of such business enterprises in Nigeria." Similarly, Yusuf, Afolayan and Adamu (2015), in their analysis of FDI on Agricultural sector and its contribution to GDP in Nigeria, attributed the unattractive posture of the Nigerian economic scene to FDIs, to the poor/inadequate state of infrastructure. The study recommended that adequate infrastructure be put in place to attract the inflow of FDIs into Nigeria.

Findings

The analyses in this study yielded the following:

1. Sectoral decomposition of foreign direct investments in Nigeria has traditionally been in favour of extractive industries. However, in recent years, there has been some diversification into manufacturing and telecommunication sectors.
2. Between 2005 and 2009, the general trend shows that FDI inflows into Nigeria has been nothing to write home about when compared with thirteen other nations.
3. Within the period under review, FDI inflows into Agriculture, Transport and Communication was the least (0.4 and 2.1 respectively)
4. The lack of adequate infrastructure was revealed as a major factor militating against the inflow of FDIs into Nigeria.
5. Efforts of governments since the return of democracy in 1999 seem to be succeeding in restoring the confidence of foreign investors. This is evident in the increase in FDIs since the period. Nigeria recently ranked third (3rd) in the top five beneficiaries from FDIs in Africa.

Conclusion

The benefits of international trade abound. However, several factors count to enable a country reap such benefits. Among such factors are good international economic relations, the provision of necessary and adequate infrastructure, a good measure of investors' confidence etc. One measure of a robust international economic relation is the flow of foreign direct investments (FDI). It is disheartening to observe the apparent total loss of confidence of foreign investors in the Nigerian economy which manifested and dropped to its lowest ebb in the period before the return of democracy in 1999. This led to a situation where the inflow of FDI into the country dropped so low that the country witnessed the least of such inflows among thirteen other nations of the world. More worrisome was the situation whereby the agricultural sector which employs about two thirds of the nation's population had a share of 0.4% of FDI inflows with its obvious implications for the economy.

It is however, heartwarming to observe the improvement and increase of FDIs following the economic diplomacy of the current democratic dispensation to a point where the nation now ranks third (3rd) among the top five favored nations in Africa. This diplomacy should be sustained alongside the anti-corruption campaign.

Suggestions

Consequent upon the findings of this study, the following suggestions suffice:

1. Adequate infrastructure should be emplaced to create a conducive and attractive environment to foreign investors.
2. The war against corruption should be intensified and sustained to earn the much-needed investor-confidence.
3. Efforts towards economic diplomacy must also be sustained.
4. Agriculture and communication should be made more attractive and profitable to foreign investors.
5. More policies should be enunciated by government to enhance investor-friendliness in the economy.

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