МІНІСТЕРСТВО ОСВІТИ І НАУКИ УКРАЇНИ
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Вплив транснаціональних корпорацій на соціально-економічний розвиток Нігерії / Impact of Multinational Corporations on Social and Economic Development of Nigeria

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CONTENT

INTRODUCTION

Actuality of the research. The primary factors which stimulate economic growth are investments that improve the quality of existing physical and human resources, that increase the quantity of these same productive resources and that raise the productivity of all or specific resources through invention, innovation and technological progress. FDI is regarded to have made a meaningful contribution to GDP growth rates and it is also seen as a vital tool for economic progress. It is widely believed that economic growth depends critically on several factors. Notably it must be said that economic growth is reliant on both domestic and foreign investments. Equally, economic growth is the basic determinant of the rate of inflow of foreign direct investment in the country. Fabayo (2003) and Aremu (2005) attempt to establish a better relationship between investment and growth in Nigeria. The various effect of FDI in the country has always been topical issues to different authors. Many suggested the positive aspects of FDI and some are of critical criticism of its operation in the country. Attempts shall be made to discuss the view of different writers and scholars on the effect of FDI both positively and negatively in the developing countries generally and Nigeria in particular.

Some empirical evidence has shown that foreign direct investment responds to economic fundamentals, official policies and financial market practices (Dinda, 2009). Among the benefits that are said to be associated with the inflow of properly utilized FDI are the assistance if offers developing counties to acquire advanced technology and critical managerial skills which can increase local productivity, create additional jobs, lower production costs and provide workers with higher wages (Cohen, 2007). In addition, it has been argued that FDI helps developing countries in supplementing their domestic savings by making available capital from overseas, which is very important because domestic capital markets in such countries are usually inadequate for the financing of the corporate sector (Adeoye, 2009). It is further argued that FDI helps developing countries to gain access to foreign markets for goods and services for the people of the recipient country (Obiwona, 2001). The realization of the importance of FDI had informed the radical and pragmatic economic reforms introduced since the mid-1980s by the Nigerian government. But the made reforms were not enough to encourage foreign investors to invest in the Nigerian economy.

The main features of MNCs activity, including theoretical and analytic aspects, impact of international company on socio-economic development of FDI host country are researched by the following **authors** such as: Adaramola Kehinde, Adjaye, J., Ajayi, S.I., Akinlo, A.E.., Akor, M.E., Asiedu, E., Bakan, J., Bartkus, V. O., Davis, J. H., Birkinshaw J., Hood N.C., Narula R., Dunning J.H., Nwankwo, A., Razin, A., Resmini, L., Ugwu, B., Wells, L.T., Wiig, A., Kolstad,I., Yang, Q., Mudambi, R., Meyer, K. E., Yasin M.

The goal of thesis is to analyze positive and negative effects of inward FDI at Nigerian economy and to suggest more effective macroeconomic policy attracting foreing investor.

The specific objectives of the study included attempts to:

- to consider the essence and main features the activity of MNCs;
- to research theories of MNCs and FDI;
- to estimate the effects the activity of MNCs for both countries;
- to research FDI trends and factors affecting of MNCs operation in Nigeria;
- to analyze government regulations and risk of the MNCs activity in Nigeria;
- to envestigate the contribution of MNCs activity to the economic development of Nigeria;
- to ground the role of multinational corporations in sustainable development and and to take into account strategic FDI decisions by international companies;
- to suggest the business environment improvement for foreign investor of FDI inward to Nigeria.

The object of the research is activity of national and multinational companies in system of FDI flows.

The subject of the research is effective macroeconomic policy formation in purpose to strengthen foreign capital flows to Nigeria.

The following **methods** are used in this research paper: inductive and deductive analysis, comparative, quantitative, qualitative analysis, statistical analysis, benchmarking etc.

Database of the research are articles of foreign authors, reports, books, monographs, special journals, information data on the Internet, statistics data, data of international organizations.

Novelty of research is to develop business environment in Nigeria in purpose FDI involvement through MNCs activity, taking into account positive and negative effects of international corporation operation.

Practical importance of thesis: The result of this research can be used by the Nigerian government, local authorities, foreing enterprises, managers, chief, staff of MNCs.

The scope and structure of master's work. Thesis contains 170 pages, 7 tables, 20 figures, and list of sources with 127 titles.

CHAPTER 1. THE THEORETICAL FOUNDATIONS THE INVESTIGATION OF MNCS ACTIVITY AND ITS IMPACT ON SOCIO-ECONOMICAL DEVELOPMENT OF COUNTRY

1.1. The essence and role of MNCs in terms of Global Business Environment

International business means the buying and selling of the goods and services across the border. These business activities may be of government or private enterprises. Here the national border are crossed by the enterprises to expand their business activities like manufacturing, mining, construction, agriculture, banking, insurance, health, education, transportation, communication and so on. A business enterprise who goes for international business has to take a very wide and long view before making any decision, it has to refer to social, political, historical, cultural, geographical, physical, ecological and economic aspects of the another country where it had to business. International business by its nature is a primary determinant of international trade, one of the results of the increasing success of international business ventures is globalization (figure 1.1).

International Business is the process of focusing on the resources of the globe and objectives of the organisations on global business opportunities and threats. International business is defined as global trade of goods/services or investment.

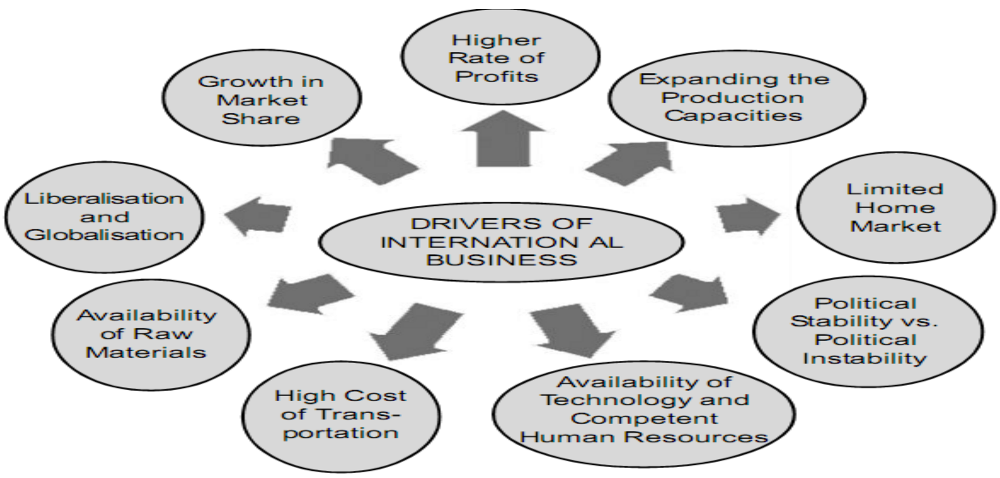

Figure 1.1. Drivers of international business

Companies of all types and sizes and in all sorts of industries become involved in international business, yet they vary in the extent of their involvement. A small shop owner might only import supplies from abroad, while a large company may have dozens of factories located around the world. Large companies from the wealthiest nations still dominate international business, but firms from emerging markets (such as Brazil, China, and India) are increasingly important in international business activity. Small and medium-sized companies also account for a greater portion of international business largely because of advances in technology (figure 1.2).

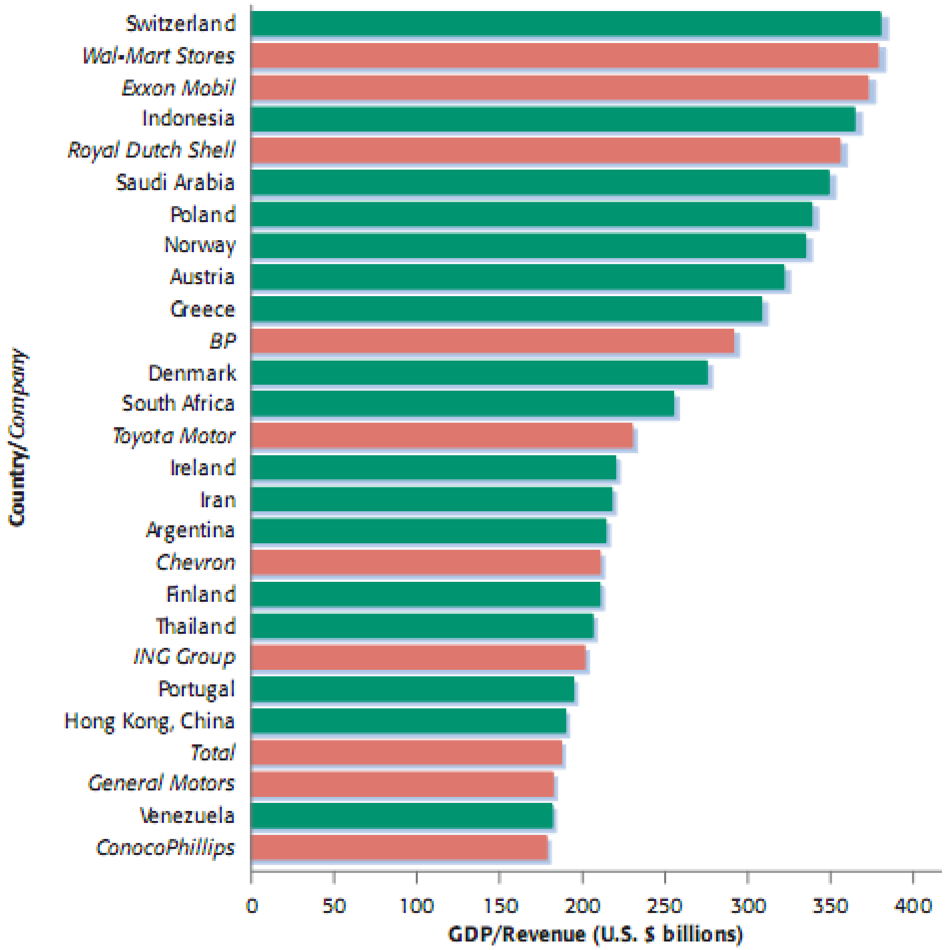

Figure 1.2. Comparing the Global 500 with Selected Countries

International business differs greatly from business in a purely domestic context. The most obvious contrast is that nations can have entirely different societies and commercial environments (figure 1.3).

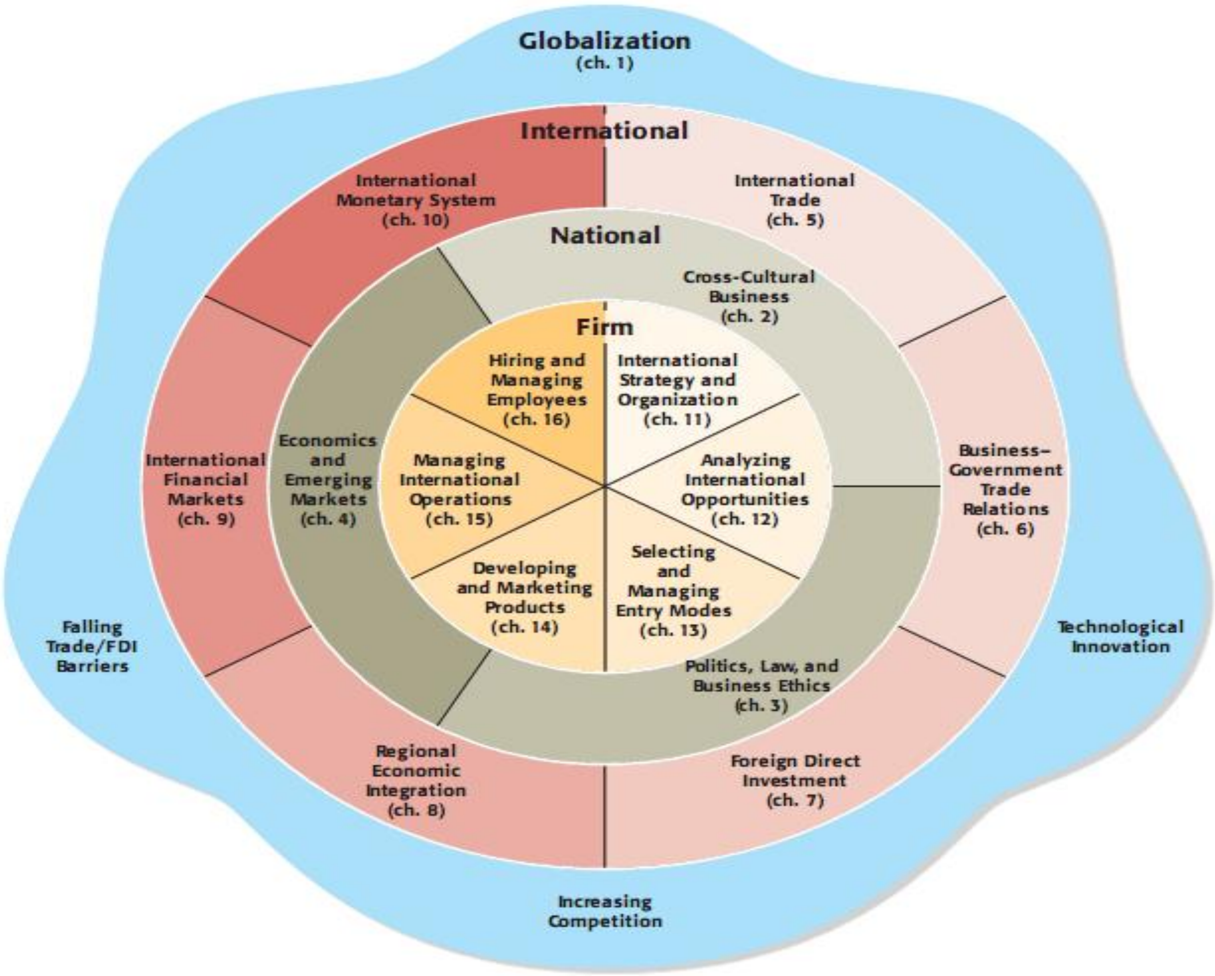

Figure 1.3. The Global Business Environment

International business is special because it occurs within a dynamic, integrated system that weaves together four distinct elements:

1.The forces of *globalization.*

2.The *international* business environment.

3.Many *national* business environments.

4.International *firm* management.

Globalization is a potent force transforming our societies and commercial activities in countless ways. In this way, the drivers of globalization (technological innovation and falling trade and investment barriers) influence every aspect of the global business environment. The dynamic nature of globalization also creates increasing competition for all firms everywhere, as managers begin to see the entire world as an opportunity. At home and abroad, firms must remain vigilant to the fundamental societal and commercial changes that globalization is causing.

The **international business environment** influences how firms conduct their operations in both subtle and not-so-subtle ways. No business is entirely immune to events in the international business environment, as evidenced by the long-term trend toward more porous national borders. The drivers of globalization are causing the flows of trade, investment, and capital to grow and become more entwined—often causing firms to search simultaneously for production bases *and* new markets. Companies today must keep their finger on the pulse of the international business environment to see how it may affect their business activities.

PEST analysis is an analysis of the political, economic, social and technological factors in the external environment of an organisation, which can affect its activities and performance. PEST analysis (Political, Economic, Social and Technological analysis) describes a framework of macro-environmental factors used in the environmental scanning component of international business management. It is a part of the external environmental analysis, and gives an overview of the different macro environmental factors that the company has to take into consideration. It is a useful strategic tool for understanding market growth or decline, business position, potential and direction for operations.

1. Political factors are basically to what degree the government intervenes in the economy. Specifically, political factors include areas such as tax policy, labour law, environmental law, trade restrictions, tariffs, and political stability. Political factors may also include goods and services which the government wants to provide or be provided (merit goods) and those that the government does not want to be provided (demerit goods or merit bads). Furthermore, governments have great influence on the health, education, and infrastructure of a nation.

2. Economic factors include economic growth, interest rates, exchange rates and the inflation rate. These factors have major impacts on how businesses operate and make decisions.

3. Social factors include the cultural aspects and include health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety. Trends in social factors affect the demand for a company's products and how that company operates.

4. Technological factors include technological aspects such as R&D activity, automation, technology incentives and the rate of technological change. They can determine barriers to entry, minimum efficient production level and influence outsourcing decisions. Furthermore, technological shifts can affect costs, quality, and lead to innovation.

Each **national business environment** is composed of unique cultural, political, legal, and economic characteristics that define business activity within that nation's borders. This set of national characteristics can differ greatly from country to country. But, as nations open up and embrace globalization, their business environments are being transformed. Globalization can cause powerful synergies and enormous tensions to arise within and across various elements of a society. Company managers must be attentive to such nuances, adapting their products and practices as needed.

International firm management is vastly different from managing a purely domestic business. Companies must abide by the rules in every market in which they choose to operate. Therefore, the context of international business management is defined by the characteristics of national business environments. Because of widely dispersed production and marketing activities today, firms commonly interact with people in distant locations within the international business environment. Finally, managers and their firms are compelled to be knowledgeable about the nations in which they operate because of the integrating power of globalization. Businesses should try to anticipate events and forces that can affect their operations by closely monitoring globalization, national business environments, and the international business environment.

In recent years there has been a growing quest for improving the economic and social conditions of emerging economies, in the face of the realization that dependent on grants, aids, loans and other form of arms could not improve the lot of the people. Many of these emerging economies natural resources, cheap labor availability, numerous business opportunities and ever-growing market for goods and services. Governments of emerging economies begun to seek antidote to their developmental challenges despite the increasing flow of grants and other supports and one of these alternatives that has proven to be the solution is the Foreign Direct Investment (FDI). Where the doors of the country is opened widely to foreign investors who wants to investment and do business in the country.

Growth of foreign direct investment (FDI) to developing countries is one most visible feature of globalization. Since FDI has now become an important source of private external capital for developing countries. It is not only helps in filling the saving-investment gap and the foreign exchange gap in these developing countries but is also a means of transferring to them production, modern technology, skills, innovative capacity and organizational and managerial practices. A foreign direct investment is the amount invested by resident of a country in a foreign enterprise over which they have effective control (Ragazzi, 1973). FDI is an important tool for the economic growth and development. Most of the governments enhance FDI as priority, particularly in low income and transition economies (figure 1.4). FDI not only encourages capital formation but also because it can attract the quality of the capital stock (Gorg and Greenaway, 2004).

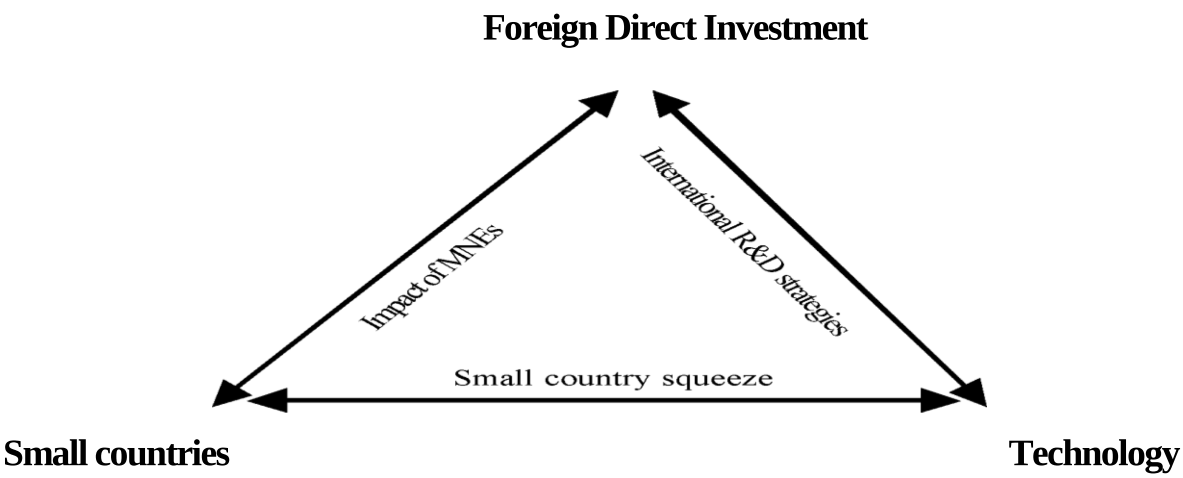

Figure 1.4. FDI in transition economies

It is usually believed that FDI is vital source of capital, that it complements local investment, generates new jobs opportunities and transferring technology, which indeed bolstered economic growth. While the positive FDI-growth relationship is not unambiguously accepted, macroeconomic studies nevertheless support a positive role for FDI especially in particular environments.

Available literature indicates three main channels through which FDI can bring about economic growth. *The first* is through the release it affords from the binding constraint on domestic savings. In this case, foreign direct investment augments domestic savings in the process of capital formation. *Second*, FDI is the main channel through which technology transfer takes place. The transfer of technology leads to an increase in factor productivity and efficiency in the utilization of resources, which leads to economic growth. *Third*, FDI leads expand exports as a result of increased capacity and competitiveness in domestic production (Ajayi, 2006).

Normally investment is regarded as imperative factors of aggregate demand, which eventually affects the level of aggregate supply in the economy. An investment is usually done to accelerate the available resources aiming a future returns (See Andrew Gil-lespie p.319).

According to Andrew Gillespie (2007), foreign investments are classified in the form of either foreign portfolio investment or a direct investment. Foreign portfolio investment or the indirect investment is a mere investment in equity of enterprises, which eliminates management practices. On the other hand, Foreign Direct Investment (FDI) is a direct investment in an economy (other than investors) where the investors practices management skills along with the inclusion of technology, resources and skilled work force.

According to The World Bank, “Foreign Direct Investment are the net inflows of in-vestment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor”. Here, a lasting management interest reflects the long-term relationship between the investor and the investing enterprises with an active involvement of investor in the management of enterprises.

FDI is not just about buying equity rather it is about management practices utilizing the resources with the inclusion of a technology in a foreign economy. FDI in least developed countries is usually practicing 80%-100% ownership. The International Monetary Fund‟s Balance of Payments Manual (IMF) defines FDI as “an investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor, the investor’s purpose being to have an effective voice in the management of the enterprise”.

The United Nations (1999) World Investment Report (UNCTAD, 1999) defines FDI as “an investment involving a long term relationship and reflecting a lasting interest and control of a resident entity in one economy (foreign direct investor or patent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise, affiliate enterprise or foreign affiliate)”.

Economy-watch defines FDI, as “Foreign Direct Investment, or FDI, is a type of investment that involves the injection of foreign funds into an enterprise that operates in a different country of origin from the investor. Investors are granted management and voting rights if the level of ownership is greater than or equal to 10% of ordinary shares.

Foreign Direct Investment (FDI) – investment by foreign companies in overseas subsidiaries or joint ventures – has a traditional reliance on natural resource use and extraction, particularly agriculture, mineral and fuel production.

Though this balance has shifted in recent years, the poorest countries still receive a disproportionate amount of investment flows into their natural resource sectors.

So, investments have to fulfill two criteria in order to be classified as FDI: first of all, FDIs are only shares and acquisitions that involve a long-term relationship between a resident entity and a non-resident one. A second precondition for FDIs is the control over the investment. Thus, the investor needs to exert "a significant degree of influence on the management of the enterprise resident in the other economy"; a mere financial obligation of the subsidiary is not sufficient to meet the control criteria for FDI.

FDI has three components: *equity capital, reinvested earnings and intra-company loans.*

The most common FDI component is **equity capital**. This is defined as the shares purchased by the investor abroad. It includes equity in all branches, subsidiaries and associates as well as other capital contributions abroad that meet the FDI criteria mentioned above. FDIs can also consist of **earnings that are not distributed** (e. g. as dividends) but reinvested in host country activities by the foreign investor. Finally, **intra-company loans** and debt transactions between parent companies and foreign affiliates are potential FDI components.

FDI can occur in different forms or market entry modes. Therefore, the FDI investment can consist of (a) greenfield investments, (b) acquisitions, (c) privatizations, or (d) other forms of FDI investment.

(a) Greenfield investments describe the set-up of new facilities and new affiliates as well as expansions of existing entities in a host country in which the foreign investor possesses partial or complete legal and operational responsibility.

(b) acquisitions or "brownfield investments" refer to the purchase of an existing local company or company part in the host country by a foreign company. Mergers with local companies are also subsumed under this category. Whether companies decide for a greenfield investment or an acquisition depends on factors such as the degree of its vertical integration, its risk-aversion and the attractiveness of the investment conditions.

(c) Privatizations are also acquisitions, the only difference being that the state is the owner of the company being sold. In Eastern Europe privatization has been the most important driver of FDI.

(d) In addition, other forms of investment can fulfill the requirements of FDIs. Examples are joint ventures, licensing, franchising, management contracts, marketing contracts, turnkey contracts, international subcontracting deals, production agreements, product sharing, and risk-sharing agreements. In these cases the investor generally gains sufficient control over the management to be defined as foreign direct investor without acquiring equity shares of the foreign company. However, these data often do not appear in the countries'.

Choice of entry modes can be fruitfully divided into the following:

1. Non-equity modes:

- exporting,
- licensing,
- franchising,
- contract manufacturing and service provision.

2. Equity modes:

- joint ventures,
- fully owned subsidiaries.

These modes vary in terms of the risk they involve. They also differ in terms of their organizational, management and resource demands as well as the amount of control that can be exercised over foreign operations.

Most international business literatures focused on three distinct entry modes, (Kim&Hwang,1990; Agarwal & Ramaswami, 1992; Anderson & Gatignon, 1986) they are licensing, joint venture, and wholly owned subsidiary (table 1.1). They provide vary degrees of control, dissemination risks and resource commitment over operation in foreign countries.

Table 1.1

Entry strategies

Variables / *Entry mode*	*Control*	*Dissemination risk*	*Resource commitment*
Licensing	**Lowest**	**Highest**	**Lowest**
Joint Venture	**Middle**	**Middle**	**Middle**
Wholly owned subsidiary	**Highest**	**Lowest**	**Highest**

The level of control and resource commitment is the lowest in the case of licensing, since the licensee owns all the revenue-generating assets, but the level of dissemination risk is the highest since the granted specific know-how might be leaked out by a licensee (Kim&Hwang, 1990). In Joint venture mode, the level of control is dependent on the ownership split and the number of parties involved, it requires much time and energy to manage local partners who might lack the product or market knowledge to match MNC's inspirations, dissemination risk might arise if the partners steal or imitate the technologies and know-how (Kim &Hwang, 1990). When it comes to wholly owned subsidiary, which is often done through establishing new operation or acquiring an existed firm in host country (Hill, 2007). The degree of control and resource commitment is the highest while the dissemination risk is the lowest (Kim&Hwang, 1990), by this entry mode, MNCs can enhance organizational control and protect the company's tacit knowledge or technologies in an environment where intellectual property rights systems were underdeveloped (Lou,1997).

The difficulties in providing a general theory of FDI also stem from the observation that the motives are differing considerably between the different markets in which foreign investors are engaged (Agarwal, 1991). The traditional literature has focused on market access as the main motive for FDI. It states that there is an optimal timing for starting FDI: a company should have reached a certain market share in a foreign market by means of exporting before becoming an investor there (table 1.2).

Since 1960, there are several empirical studies about the approaches of the managers to direct investment into foreign countries with motives lists. However, it is possible that the managers are not able to define the real motives and/or are not ready to term the real motives, but solely say that ones, which care for their image (Rubinstein, 1975).

Table 1.2

List of Motives for direct investment

Protection and expansion of a present market	2.38
Protection and control of the distribution in the host country	2.05
Political Stability of the host country	1.68
Export basis for products of the parent company	1.32
Overcoming of trading and export restraints	1.31
Expectation of a higher rate of return on investment	1.14
Supplier for company of the host country	1.03
Low costs of wages	1.01
Protection of the maintenance in the host country	0.97
Employment creation	0.73
Fortification of the economic autonomy of the host country	0.64
Saving of transportation costs	0.58
Government aid's arrangements of the host country for direct	0.53
Production for the parent company (re-import)	0.52
Realization of technologies, which were developed for the special needs of the host country	0.51
Processing of domestic raw materials for the inland needs of the host country	0.42
Shifting rated on conditional on Exchange rate	0.42
Supplier for a domestic corporate, which likewise operate in the host country	0.41
Low prices for raw materials and utilities	0.39
Government aid's arrangements of the country (what company come from), for direct investments	0.32
Protection and extension of the raw material basis	0.30
Other reasons	0.17
Protection of the energy supply	0.15
International Institutions' Aid's arrangements for direct investments	0.08

In the literature, there exists mainly two scholarly camps on corruption and its effect on FDI. One negative (corruption decreases the inflow of FDI) where corruption is viewed as sand in the machinery, decreasing FDI because it could increase costs in terms of risk and outright uncertainty. The other is positive (corruption increases FDI inflow) where corruption is viewed as grease in the machinery, increasing FDI because it allows for short-cuts, lower taxes, beneficial regulations and rules, and in fact, less uncertainty and risk. These two camps are contradictory in their findings on effects, but their proposed causal mechanisms are essentially the same, which is that corruption has characteristics that decision makers in MNCs analyze in their cost – benefit analysis (Cuervo-Cazurra 2008, 13).

Kaufmann argues that corruption forces firms to devote human and financial resources to manage bribes, when these resources could be more productively employed elsewhere on other tasks. Thus, the MNC invests somewhere else (Kaufmann 1997). Payment of bribes is also prone to a certain degree of risk because it implies that the receiver of the bribe will do what he or she promises, which they might not, there is no enforceable agreement. In addition, since bribery is an illegal action there is no security net, such as the courts, to adjudicate if promised or “paid for” services are not delivered, as one can do with legitimate contracts (Cuervo-Cazurra 2008, 14). In his seminal article, Wei finds that corruption decreases the amount of FDI flows to a country, as does several others (Busse and Hefeker 2007; Cuervo-Cazurra 2008; Habib and Zurawicki 2002; Lambsdorff 2007; Shapiro and Globerman 2002; Wei 2000).

However, as indicated above, several scholars also find a positive relation between corruption and FDI. Corruption can act as a grease, speeding up transactions, creating incentives for action, and making procedures happen that would otherwise not (Huntington 1968). According to Leff, corruption can thus work as a market correcting incentive against ineffective regulation and bureaucracy, bringing competition into a non-existing or monopolistic sector/market (Leff 1964). Empirically, Wheeler and Mody found no significant relation between corruption and FDI (Wheeler and Mody 1992). Hines found no relation either, except for US based MNCs (James R. Hines 1995). Egger and Winner found that corruption increases FDI in both the short and long run, and particularly so in developing countries (Egger and Winner 2005).

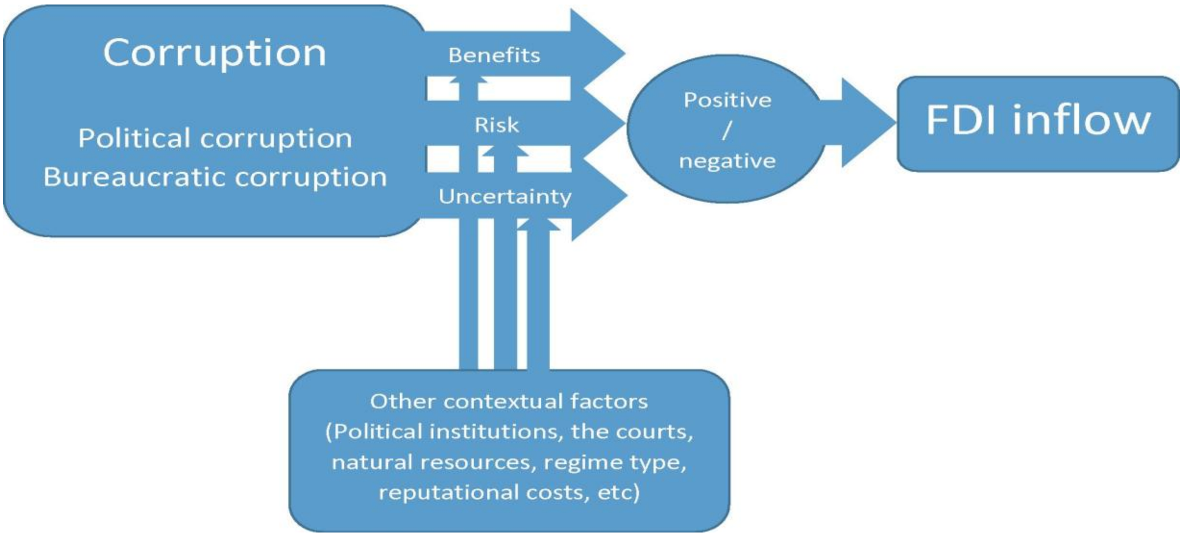

Figure1.5. Corruptions effect on FDI inflow

Currently, much of the debate on FDI and the environment centres around the 'pollution havens' hypothesis. This basically states that companies will move their operations to less developed countries in order to take advantage of less stringent environmental regulations. In addition, all countries may purposely undervalue their environment in order to attract new investment. Either way this leads to excessive (non-optimal) levels of pollution and environmental degradation.

Generally, statistical studies show that this effect cannot be clearly identified at the level of aggregate investment flows.

The past decade has also seen all trends of environmental degradation accelerate – for example, greenhouse gas emissions, deforestation, loss of biodiversity. Such patterns of environmental destruction have been driven by increased economic activity, of which FDI has become an increasingly significant contributor. Flows of natural resource based commodities and investment are predicted to rise faster than economic output over the next twenty years.

FDI can be measured in different ways depending on the type of FDI and the aim of the analysis. The most common measurements are *inflows, outflows and stocks.*

FDI inflows (or inward FDI) are defined as the capital provided by an investor to its foreign affiliate. The money can be channeled through the foreign direct investor directly or through related companies. FDI outflows (or outward FDI) on the other hand, are known as the activities of affiliates of national firms abroad.

When statistics display FDI stocks they usually indicate the accumulated FDI net stock, which is defined as:

net stock year N+1 = (stock year N) + (inflow year N+1) - (outflow year N+1).

This thesis looks at policies that *attract* FDIs (*see title)* and therefore focuses on FDI inflows and stocks without covering the FDI outflows of the analyzed countries.

Most FDI is carried out by multinational corporations (MNCs) which have become household names. Examples (without any particular order in mind) are Toyota, IBM, Phillips, Nestle, Sony, Royal Dutch Shell, IBM, GM, Coca-Cola, McDonald's, Daimler-Benz, and Bayer. It is, however, difficult to pinpoint what constitutes an MNC, and there is not even an agreement on what to call these firms.

The literature shows various 'labels' for these firms, consisting of the words 'international', 'transnational', or 'global' followed by any of the words 'corporations', 'companies' and 'enterprises'. What is more important is that there is no single definition for an MNC. For example, the United Nations (1973) lists twenty-one definitions for MNCs, or whatever they may be called (the UNCTAD in fact calls them TNCs).

Sometimes, however, a distinction is made between the terms 'international', **'multinational' and 'transnational'**. The term 'multinational firm' has evolved from changes in the nature of international business operations. The term 'international business firm' referred traditionally to the cross-border activity of importing and exporting, where goods are produced in the domestic market and then exported abroad, and vice versa. The financial implications of these transactions pertain to the payment process between buyers and sellers across national frontiers. As international operations expand, the international firm may feel that it is desirable, if possible, to expand in such a way as to be closer to foreign consumers. Production will then be carried out both at home and abroad.

Under MNC understand firm which controls production across national boundaries through intra-firm (non-market) operations. MNCs is an organisation which produces commodities for sale in the market for a profit, and allocates resources (such as capital and labour) without direct reliance on the price mechanism (the market) on the basis of internal entrepreneurial decisions (hierarchy). An MNC is a firm which controls production in countries other than (and including) its home base. FDI is the control of production which takes place in one country (‘host country’) by a firm based in another country (‘home country’).

Intergrated definition of MNCs is following “A transnational corporation is any enterprise that undertakes foreign direct investment, owns or controls income gathering assets in more than one country, produces goods or services outside its country of origin, or engages in international production”.

According to the definition of *UNCTAD (2005)* Multinational Corporations (MNCs) “are incorporated or unincorporated enterprises comprising parent enterprises and their foreign affiliates”. The literature has created several synonyms for companies with activities abroad, including “Transnational Corporations”, “Multinational Enterprises” and MNCs; this thesis exclusively uses the term MNC.

Thus, a multinational firm carries out some of its production activity abroad by establishing a presence in foreign countries via subsidiaries, affiliates and joint ventures. Foreign affiliates may be subsidiaries, associates or branches. UNCTAD (1999) distinguishes between them as follows:

- A *subsidiary* is an incorporated enterprise in the host country in which another entity directly owns more than a half of the shareholders' voting power and has the right to appoint or remove a majority of the members of the administrative, management or supervisory body.
- An *associate* is an incorporated enterprise in the host country in which an investor owns a total of at least 10 per cent, but not more than a half, of the shareholders' voting power.
- A *branch* is a wholly or jointly-owned unincorporated enterprise in the host country, which may take the form of a permanent office of the foreign investor or an unincorporated partnership or a joint venture. A branch may also refer to land, structures, immovable equipment and mobile equipment (such as oil drilling rigs and ships) operating in a country other than the investor's country.

The financial implications become more significant. The foreign 'arms' of a multinational firm normally have a different base or functional currency, which is the currency of the country where they are located. This setup results in a greater currency and financial risk in general. As cross-border activity expands even further, the distinction between 'home' and 'abroad' becomes blurred, and difficulties arise as to the identification of the 'home country'. What is created in this case is a 'transnational firm'. It remains the case that the relationship between multinationals and FDI is very simple: firms become multinational (or transnational) when they undertake FDI. Thus, FDI represents an internal organizational expansion by multinationals (figure 1.6).

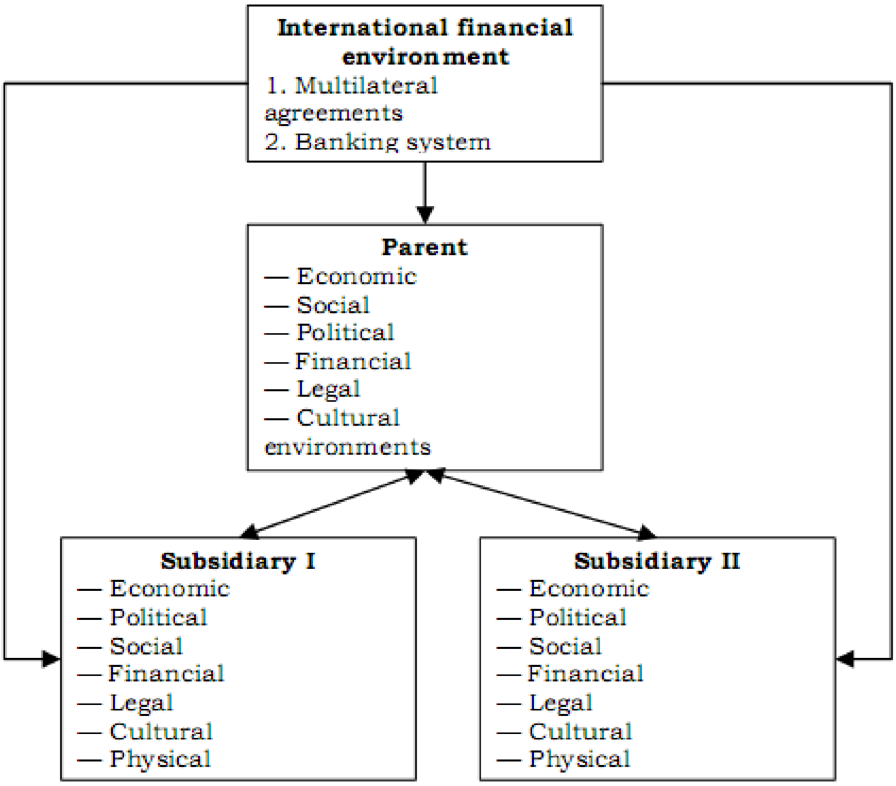

Figure 1.6. The organisational structure of MNCs

Political system of the host country. The political system of a country can be defined as a persistent pattern of human relationship, which involves control, influence, power, or authority (Dahl 1976, 4). The political system includes the polar cases of authoritarianism and democracy, and all the various conditions between them. However, the political system as such does not have an impact on the firm's investment decision as long as the system is stable and predictable. Instead, political instability blocks the possibilities of TNCs and thus, they tend to avoid countries with an unstable political climate (Luostarinen 1982, 35).

The host government's international political. TNCs are not independent to choose the investment location, as they operate under a global political system composed of nation states. TNC investing in a particular host country is always a foreign actor and thus, involved with the host country's international relations (Terpstra 1978, 124). The host country is a part of the international political system and its role there may vary from isolated to integrated. TNCs have to be aware of the host country's commitment to international organisations and agreements, regional arrangement, and bilateral relations.

The host government's economic relations. The host government's relation to the international market may vary from independent to dependent. If the country is dependent on trade, it is also vulnerable to market fluctuations regardless of sound macroeconomic fundamentals or any stabilisation policy. These constraints in the world economy are mostly beyond the host government's intervention. In addition, it has been argued that due to the globalisation process, national governments are going to lose part of their traditional functions and power to intervene in the traditional ways. This is because globalisation is making the world's economic system and society increasingly uniform, integrated, and interdependent.

Economic system of the host country. Economic policies can be defined as government activities to promote economic development. In creating the welfare of the country, the government aims to achieve a number of other economic objectives, such as a high and sustained level of economic growth, full employment, low inflation, and a sound balance of payments and a strong currency value in foreign exchange markets (Nellis & Parker 1996, 12) The role of the government in this context varies between the interventionist and non-interventionist. The free market approach demonstrates that the market mechanism guarantees economic efficiency and thus, the less the state intervenes, the better the market works. The governed market approach claims that the economy is inherently unstable and requires active government intervention to achieve stability. In a governed market, TNC needs special skills in order to convince the host government of the benefits of the FDI for the host country.

Various elements have contributed to the growth of TNCs and their activities, specifically the following: (a) The developments in transportation and in communications technologies and costs. (b) The organisational innovation within large companies and institutions. (c) The favourable political environment after the

Second World War. (d) The liberalisation and privatisation programmes of many developed and developing countries in the last 30 years.

Some attempts have been made to measures the extent of being 'multinational' according to a set of indicators. Dorrenbacher (2000) proposes a measure based on the following indicators*: i) structural indicators; (ii) performance indicators; and (iii) attitudinal indicators.* Structural indicators include the number of countries where the firm is active, the number of foreign subsidiaries, the number of foreign employees, and the number of stock markets on which the firm's shares are listed. Performance indicators include foreign sales and operating income of foreign subsidiaries. The attitudinal indicators include management style and international experience of top management.

Indices (or composite indicators), which are calculated by combining individual indicators, can also be used as measures of multinationalization. These include the following measures:

1. The transnational index of the UNCTAD. This indicator, which first appeared in UNCTAD's 1995 *World Investment Report*, aims to capture fully the extent of involvement in the world economy. It is based on three different ratios: (i) foreign sales to total sales; (ii) foreign assets to total assets; and (iii) foreign employment to total employment.

2. The transnational spread index of Ietto-Gillies (1998). This index is calculated by multiplying the average of the ratios used to calculate the transnationality index by the number of foreign countries in which a firm is active, as a proportion of the total number of countries where FDI has occurred minus one (the home country).

3. The degree of internationalization scale, which was suggested by Sullivan (1994). This indicator is based on (i) the ratio of foreign sales to total sales; (ii) foreign assets to total assets; (iii) the number of foreign subsidiaries to total subsidiaries; (iv) the international experience of top managers; and (v) the dispersion of international operations.

So, a multinational corporation (MNC) is a business that has direct investments (in the form of marketing or manufacturing subsidiaries) abroad in multiple countries. Multinationals generate significant jobs, investment, and tax revenue for the regions and nations they enter. Likewise, they can leave thousands of people out of work when they close or scale back operations. Mergers and acquisitions between multinationals are commonly worth billions of dollars and increasingly involve companies based in emerging markets.Lall and Streeten (1977) identify the following 'salient features' of MNCs:

1. MNCs are predominant in certain monopolistic or oligopolistic industries characterized by the importance of marketing and technology.
2. The products of MNCs are new, advanced and cater for consumers who have relatively high incomes and sophisticated tastes, and who are responsive to modern marketing techniques.
3. The techniques of production MNCs use are the most advanced in their respective fields.
4. The expansion of an MNC tends to reproduce the oligopolistic conditions of the MNCs domestic market.
5. The maturing of MNCs may bring with it various commercial practices to bolster market dominance.
6. MNCs are attracted by large and growing economies with reasonably stable political conditions.
7. The organizational evolution of MNCs leads to a centralization of functions such as finance, marketing and research.
8. MNCs prefer complete or majority ownership of subsidiaries.
9. The increasing international role of MNCs has important implications for the structure of socio-political power in developed and developing countries.

1.2. Theories of MNCs and FDI

Foreign Direct Investment (FDI) acquired an important role in the international economy after the Second World War. Theoretical studies on FDI have led to a better understanding of the economic mechanism and the behavior of economic agents, both at micro and macro level allowing the opening of new areas of study in economic theory.

Nowadays the issue of foreign direct investments is being paid more attention, both at national and international level. There are many theoretical papers that examine foreign direct investments (FDI)'s issues, and main research on the motivations underlying FDI were developed by J. Dunning, S. Hymer or R.Vernon. Economists believe that FDI is an important element of economic development in all countries, especially in the developing ones. Internalisation theory provides an explanation of the growth of the multinational enterprise (MNE) and gives insights into the reasons for foreign direct investment.

The theories are summarized in Table 1.3. These theories are classified into macro-level theories, micro-level theories and an integrated framework that combines the macro and micro frameworks.

Table 1.3

Economic Theories of MNCs

Macro-level Theories	Micro-level theories	An integrated framework
International trade theory • Neoclassical trade theory (Hecksher, 1919; Hecksher & Ohlin, 1933; Ohlin, 1935;Ricardo, 1817; Smith, 1776) • New Trade theories and the knowledge capital model.	*The Global Reach School* • Industrial organization theory (Hymer,1960; 1970) • The product life cycle hypothesis (Vernon, 1966; 1979) • Transaction cost economics/Internalization theory (Buckley & Casson, 1976;	*The Eclectic Paradigm* • OLI factors O - Ownership L – Location I – Internalization • Investment development path theory (Dunning, 1977; 1981; Dunning & Rugman, 1985;
	Hennart, 1977)	Dunning, 1986; 1993)

The macro theory of FDI compares the costs and benefits of producing in different locations. At a macro-economic level, the FDI flow of a firm can be considered a function of the desired capital stock in a given foreign location, or rather the difference between the desired stock of capital at time *t*, given the actual stock at time *t-1*. The desired capital stock depends upon the profitability of the firm. The profitability of production in any specific location in turn depends upon the general level of technological development, the level of human and the more general business environment. This includes political instability (risk), liberalisation, privatisation, taxes (including corruption). As FDI is generally considered irreversible, these flows are sensitive to changes in the economic environment and to uncertainty. Changes in the environment change the flow of FDI temporarily while MNCs adjust to the new level of desired stock of foreign holdings. Reaching a new level may be associated with substantial adjustment costs, implying time lags driving a wedge between the desired and actual stock of FDI. Anticipated as well as real changes can influence the choice of desired stock and thereby the changes in FDI flow. Temporary changes may inhibit long-run implications for the stock of FDI due to the path dependence of the economy and the phenomenon of hysterisis. "The failure of investment decisions to reverse themselves when the underlying causes are fully reversed can be called economic hysterisis" (Dixit 1994, pg. 17). After having entered the market and undertaken sunk costs an enterprise will not necessarily withdraw immediately following a negative change in profitability.

The *classical mode* of explaining FDI has its roots in the works of *Adam Smith* and *David Ricardo* who first recognized the advantages of production specialization and who established early models of trade movements. However, their models assume production factor immobility which excludes FDI by definition.

The *neo-classical Trade Theory* extended these early studies that had been based on goods trade to capital flows. This so-called "differential rate of return theory" is based on the Heckscher-Ohlin theorem and asserts that capital will flow from capital-abundant countries (with expected low financial returns) to countries with relatively little capital (with expected high financial returns). Thus, FDI occurs in countries with higher returns as a result of arbitrage. Empirical trade research showed on the basis of U.S. data that U.S. firms had higher returns abroad than at home.

While the differential rate of return theory found many supporters in the 1950s, this approach has been rigorously contested since the 1960s. Especially International Business scholars argued that the classical Trade Theory does not overcome the deficiencies of the classical view of *Smith (1776)* etc. and unrealistically assumes perfect markets and an immobility of production factors; hence, a distinction between FPIs (pure financial flows) and FDIs (which assume the set-up of operations abroad) is not possible.

This approach has also been criticized for viewing trade and FDI as substitutes for one another while empirical studies show a different picture. In addition, the "differential rate of return theory" cannot explain why FDI volumes vary across industries and why FDIs flow not only from Germany to the U.S. car industry, for example, but also from the U.S. to the German car industry. Moreover, more recent empirical studies cannot confirm the above mentioned findings that higher returns lead to higher FDI flows. In fact, on a global scale, returns of MNCs declined significantly in the late 1950s while FDI flows continued to surge. Finally, the classical trade theory widely neglects firm-specific factors, preferences and strategies.

The *Neoclassical economists* argue that capital seeks the highest return; they argue that where rates of returns on investment differ across countries, the result is opportunity for arbitrage profit; hence capital holders seek to invest in countries where returns are higher (Kim, 2011). According to Cockcroft and Riddell (1991). future investment flows are directly related to the incentive package which also has an effect on the expected rate of return on the investment, the security of the investment, scope and speed of disinvesting, tax regimes and overall macroeconomic policies. However, other macroeconomic issues also inhibited investment; for example price legislations in countries affected investment from foreign companies hence there was the need to improve the investment climate in countries for foreigners (Kim, 2011). Based on this theory, the major supply-side factor that influences FDI in developing countries is the expectation amongst the investors of a higher return or higher profits; hence developed countries will continuously invest in poorer countries that basically have higher risk levels and in turn require higher rates of return (Ekpo, 1996).

The 1980s saw the development *of New Trade theories* (Krugman, 1985; 1991a; 1998) in which the trade pattern could be linked to increasing economies of scale and its advantages for countries on the basis of their factor endowments. These developments gave way to a considerable amount of research in which the New Trade theories and their models could be used to explain regional development and agglomeration as well as developed versus developing countries' trade. They were also used to draw policy implications from those analyses.

Agglomeration of economic activity is studied within the framework of *economic geography* (Krugman 1992; Krugman and Venables 1994). Fixed costs within the industry, regional dispersion of markets and costs of transportation determine industry-concentration. Thus, industrial structure appears to be a major determinant of inward FDI. For example, banks and consultants are traditionally believed to follow their customers upon entering new markets. However once established these also provide services to other investors. Suppliers and a technologically specialised work force may act as comparative advantages to related firms and competitors (Silicon Valley). This would warrant a strategic asset or capacity building type of investments as described by Dunning (1993).

The *new trade theory* (industrial organisation approach to trade) represented by Markusen (1998) allows for MNCs to arise endogenously. MNCs are found to hold an advantage over national enterprises when the overall market is large (world income is high), markets are similar in size (countries are similar in income) and relative factor endowments, firm level economics of scale are large relative to plant-level economics of scale and transportation costs are high.

With the emergence of multinationals in the 1960s, and the inability of neoclassical theories to explain their behaviour, a new set of theories was proposed, aimed primarily at explaining the behaviour of MNCs. These theories refer to microeconomic analysis of MNCs based on industrial organization theory (Cantwell, 2000; Vasyechko, 2012).

The first modern theory of FDI can be traced back to *Stephen Hymer*. In his 1960's dissertation (published posthumously in 1976), he uses industrial organization and imperfect competition theories to explain firms' motivation to perform FDI. Hymer (1960) starts his theory with an analysis of the special features of the multinational corporations (MNCs) that are not possessed by their domestic counterparts. Those MNCs specific advantages include but are not limited to brand names, trademarks, management and marketing skills, restricted or advanced technologies, access to low-cost financing, and economies of scale.

The possession of these advantages is indispensable for foreign firms to perform FDI because they are at a disadvantage compare to local firms. Local firms have advantages over foreign firms because they know the local environment better. They have knowledge of local market conditions, the legal and institutional framework of doing business, and local business customs. Of course, foreign firms can get all the knowledge possessed by local firms, but only at cost and this cost may be considerable.

Furthermore, foreign firms incur costs from operating at a distance because they are concerned with the difficulties of operating in the host country's unfamiliar business practices. Therefore, if FDI should occur and be profitable, it must be the case that foreign firms have certain advantages over the local firms. And some market imperfections must impede local firms' access to foreign firms' advantages. Therefore, FDI can be considered as a strategic action by the firm to take advantage of market imperfections and also an instrument to avoid market imperfections.

Since, in contrast to this hypothesis, MNCs and FDIs have constantly risen after World War II, *Hymer* concluded, market imperfections had to be the reason why MNCs evolve. In order to endure in foreign markets MNCs have to possess, according to *Hymer*, specific advantages compared to their competitors in the host country. Therefore, firm-specific or “ownership” advantages are economies of scale, but also a superior technology or specific managerial and marketing skills. These advantages may lead to a quasi-monopolistic position of the MNCs in the host economy that can, however, only be fully exploited if the MNC has significant control over its foreign activities and therefore decides in favor of FDIs instead of FPIs.

Being the first to distinguish between portfolio and direct investments *Hymer* (1960) focused on the difference in terms of control by investor and in development over time. Control is defined as occurring if the investors own twenty five percent of the equity of the foreign firm (Hymer 1976: 1). If the investor directly controls the foreign enterprise, Hymer called it a direct investment. On the other hand, if the investor has less than twenty five percent of the equity or does not control it, the investment is termed a portfolio investment. It is carried out mainly to exercise gains from interest rate differentials, capital gains, and diversification of market risk through purchases of bonds and stocks.

Hymer (1976: 33) claims that the circumstances causing a firm to control an enterprise in foreign countries are for one minor reason and two major reasons. The minor reason is *diversification*. He considered it minor because it is not necessarily to establish control. It is primarily to smooth shocks by promoting risk sharing. By diversifying their portfolios, firms own not only the income streams from their own capital stocks, but also income streams from capital stocks of foreign firms. On the other hand, the major reasons are as follows:

1. Often it is profitable to control firms in more than one country in order to eliminate competition between them.

2. Some firms have advantages in some certain activities and they may find it tempting to exploit these advantages by establishing foreign operations.

According to the theory, the motivation for OFDI is not simply better rates of return, it is based also on the desire to exploit the firms' *ownership advantages* *and market power abroad* to increase its profits (Hymer, 1976; Ietto-Gillies, 2005, p.197), which suggests it is expansionary FDI (Chen and Ku, 2000). The firm first develops market power in the home market, acting on its own or through mergers or collaboration with others, and eventually dominates the home market. When it is clear that there is no more space for the company to grow domestically it expands abroad and eventually dominates the foreign market (Hymer, 1976; Cantwell, 2000). To achieve this, MNCs need to possess *"monopolistic advantage"* (Hymer, 1976), based primarily on non-financial and ownership-specific intangible assets. In sum, the true driver for FDI flows for *Hymer* is the leverage of companies' *market power* and not the host country's availability of capital or return advantages. The decision to engage in FDI was determined by the firm-specific advantages of the firm, and hence primed by market imperfection.

Kindleberger (1969), (as cited in Forsgren, 2008, p.17) contributes to this theory and proposes a number of potential advantages that the firm should possess in order to invest abroad. However, he does not explain which of these advantages is the most important for the retention of market power. The theory assumes that large companies have control or market power (Faeth, 2009, p.167). Kindleberger (1969: 33) also argues that FDI occurs in the absence of conditions of perfect competition because when perfect competition conditions exist, local firms would have advantages over foreign firms due to the proximity of their operation to their decision making centers. Therefore, no firms could survive in foreign operation. For FDI to flourish there must be some imperfections in markets for goods or factors. Kindleberger (1969) presents the characteristics of *monopolistic advantages* that induce FDI as follows:

1. Imperfections in the goods markets associated with product differentiation, superior managerial and marketing skills and collusion in pricing.

2. Imperfections in factor markets because of patented and proprietary technology, preferential access to borrowed capital and management and engineering skills.

3. Internal and external economies of scale that lead to no other choice for

MNCs but to expand by producing and marketing on a multinational basis.

4. Market distortions created by government that influence monopolistic advantages, for instance tariffs, quotas, subsidies to favored industry or other nontariff barriers.

The more significant the advantages due to those market imperfections, the greater the likelihood that monopoly profits will be earned and the more the firms are motivated to engage in FDI. When there are no imperfections, FDI will not occur. International production would be undertaken through some market arrangements, for example export and import, licensing, turnkey projects, management and marketing contracts, franchising and offshoring.

Caves (1974, 1971) considers *product differentiation* in the home market as the vital element giving rise to FDI. The MNC's possession of intangible assets allows it to differentiate products in different markets and secure cash flows streams. These intangible assets are termed "unique assets". The connection between the firm's unique assets, including its technology and management superiority, and the level of foreign involvement is confirmed (Caves 2007). The firms that aggressively seek overseas investment are generally the leading firms in their industries. They invest more in research and development, put massive effort into marketing and advertising, employ many scientists, engineers, and professional staff, sell some distinctive products and have easy access to market distribution networks.

In 1966, *Raymond Vernon* proposed the product life cycle (PLC) approach, which argues that a product's development goes through stages. The advantage of this theory is that it explains the relationship between product, technology (R&D), trade and FDI and describes it is as an orderly sequential process (Ietto-Gillies, 2005). The key idea is that a product can be conceptualized, standardized and matured in a developed, high income country such as the USA.

In fact, while Hymer's point of departure is the firm, Vernon's is the product. How new products emerge; how they impact on the innovating firm and to the industry structure in which the firm operates; how the firm is affected by the progress of the product through its life; how the product progresses through its life in national and international markets and production locations.

Vernon begins with the assumption that enterprises in any one of the advanced countries of the world have equal access to knowledge. However, this does not mean an equal probability of application of such knowledge to the development of new products. It is the consciousness of opportunities and the responsiveness to such opportunities that vary from one entrepreneur to another. Such consciousness and responsiveness are associated with the market conditions in which entrepreneurs operate; this makes knowledge inseparable from the decision-making process about its use. Therefore knowledge is not an exogenous variable.

In the 1960s and 1970s the US market offered unique opportunities for the exploitation of knowledge and its embodiment in new products because:

- It was a market in which consumers had high average income per capita.
- It was a very large market; hence even minority tastes were likely to provide a fairly large market.
- It was characterised by high unit labour costs and a large supply of capital; it was, in other words, a market abundant in capital and scarce in labour.

For these reasons the new product would be located in the US. Such location would secure flexibility of adaptation to possible problems and to requirements of consumers. Adaptation is more easily achieved if production takes place near its initial development location. Moreover, when first launched into the market, the product enjoys a large amount of differentiation and thus a semi-monopolistic position. It will have low price elasticity of demand and high income elasticity.

However, as the product matures and the market expands there will be the threat of imitators. Expanding foreign demand – usually in other developed countries – will first be met by exports. At a later stage direct production in Europe may replace exports in response to the following: the emergence of competitors in European countries; possible import controls; and possible lower production costs in Europe. As the product becomes standardised, competition increases and the search for lower production costs starts. This last phase in the life of the product is likely to lead to the location of production in developing countries and to the sourcing of developed countries' markets – including the US itself – from this production.

The key elements in Vernon's highly dynamic theory are: innovation in products which gives the firm a temporary monopolistic position; interaction between the life of the product, the degree of competition in the industry and the geography of trade and of FDI/production. In his theory, he identified four stages of production which he believed was a continuous cycle: innovation, growth, maturity, and decline (figure 1.7).

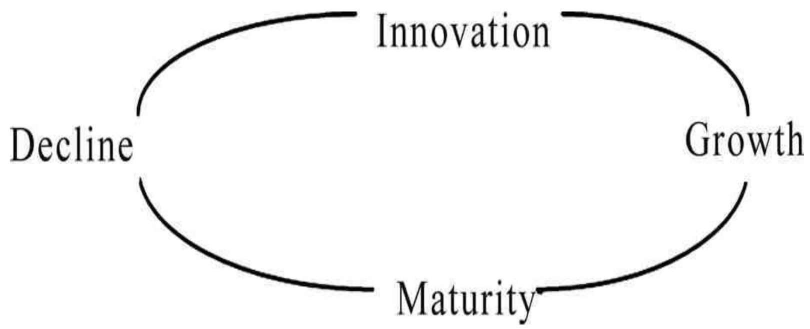

Figure 1.7. Vernon's Production Theory

According to Vernon, the first stage in the product life cycle is a new product stage, in which a new product is highly differentiated and is produced by skilled labor at relatively high cost. This new product is also produced in limited amounts because the ultimate market potential and optimal production technique are still unknown. The price elasticity of demand for this new product is low because of the high degree of product differentiation and the existence of monopoly in early stages. The manufacturing production at this stage is tied to the company's home base. Foreign sales are handled initially through exporting. *The second stage* in product life cycle is a mature product, where a certain level of standardization has been achieved, demand for the product expands and knowledge of its production is more diffuse. A commitment to some set of product standards opens up technical possibilities for achieving economies of scale through mass output and encourages long term commitment to some given process and some fixed set of facilities. The expansion of the foreign market also increases the attractiveness of setting up production facilities there rather than exporting from the home country. Another consideration is production costs, especially labor cost in the U.S., which become less tolerable for the firm. The threat of the imposition of trade and nontrade barriers and the anticipation of foreign competitors as local firms start to have local production, also encourages U.S. firm to relocate production there as a strategy to secure local market share. *The last stage* in product life cycle is a *standardized product,* in which a product becomes highly standardized, the production process becomes common and price is the major factor determining the competitive outcome. The barrier to entry generated by economies of scale is deteriorating. The technology to produce the product has reached its limit with no major innovation or production changes. The product has become a commodity where price is a more important selling point than the brand of the company that makes it. *At this stage,* the demand in the developed countries is satisfied mainly by overseas imports.

In sum, Vernon's product life cycle predicts that production is initially located in the U.S., subsequently relocates to other developed countries to meet the market demand there and eventually moves to developing countries where the labor costs are the lowest.

The original PLC theory has experienced several revisions and criticisms (Cantwell 1995; 2000; Ietto-Gillies, 2005) including from Vernon (1979) himself. Vernon understood that changes in the international environment and conditions affected his primary theoretical pillar, which assumes a leading advanced industrialized country (USA) with innovative firms and high income consumers. More specifically, the development and convergence of other countries as advanced industrialized innovative areas, e.g. European common market countries and Japan, extend the "map" of internationalisation and innovation. Moreover, innovative firms, high-income sophisticated consumers and MNCs geographical spread in many more developed markets created issues regarding product diffusion. For example, the speed of new market product entry in other areas largely decreased (Ietto-Gillies, 2005).

As a result, (Vernon, 1979, p.265) suggested that his theory was still useful for explaining the activities of smaller innovative firms, without global networks, producing un-standardized products and following the PLC sequence of export and investment.

Moreover, he accepted that there was still explanatory power related to product diffusion between developed and developing markets (Ietto-Gillies, 2005). But, the main idea of product innovation and firms' technological monopolistic advantage remains the same.

The theory was initially developed by *Ronald Coase* in a national context and Hymer in 1976 in an international context. Coase′s main purpose was to explain why economic activity was organized within firms. Coase (1937) argues that firms exist because they reduce the transaction costs, which arise during production and exchange, capturing efficiencies that individuals are not capable of. These transaction costs are organized more efficiently within the institution of the firm. However, according to him, there are also internal costs of the firm, which are mainly associated with the diminishing rate of return when a firm expands above certain scale and the inefficient allocation of resources as a result of the absence of a price mechanism to direct all economic activities.

Hymer is the author of the concept of firm-specific advantages and demonstrates that FDI take place only if the benefits of exploiting firm-specific advantages outweigh the relative costs of the operations abroad. According to Hymer (1976) the MNE appears due to the market imperfections that led to a divergence from perfect competition in the final product market. Hymer has discussed the problem of information costs for foreign firms respected to local firms, different treatment of governments, currency risk (Eden and Miller, 2004). The result meant the same conclusion: transnational companies face some adjustment costs when the investments are made abroad. Hymer recognized that FDI is a firm-level strategy decision rather than a capital-market financial decision.

Williamson (1985, 1975) extends Coase's ideas by treating the firm as a governance structure and by identifying the particular transaction characteristics that play a crucial role in comparative institutional assessment. Williamson argues that there are costs to using the market, thus in order to avoid these costs, the transactions could be performed within the firm (ibid). However, then there will be internal organization costs incurred. Given different costs associated with the market channel and internal organization, it is the transaction cost minimization that determines which transaction cost is used for each transaction. A channel is selected for one particular type of transactions when it is cheaper than the others. When the internal organization is less costly and thus preferred, it supersedes the market and directs economic activities and resource allocation. The transaction cost approach provides a conceptual framework to explain the operation of the MNCs. FDI, in this approach, is considered to be an economic instrument to bypass international markets and internalize transactions within the firm.

When analyzing transactions, *Williamson (1975)* further categorizes them depending on their volume, their frequency etc. Thus intermediate goods such as marketing know-how seem especially apt for internalization, since no tradeable markets exists for these and because this is an area in which dependence on local agents can be costly or even dangerous for MNCs. Therefore, when extending its operations, a company is vulnerable to "moral hazard" or other transaction costs such as opportunity costs, if the provision of these goods is not controlled internally. Internalization thus could mean an acceleration of processes, less need for bargaining and less uncertainty in the negotiation process.

The theory of internalization (or transaction costs) was developed by Buckley and Casson, in 1976 and then by Hennart, in 1982 and Casson, in 1983. Further contributions include Teece (1977); Rugman (1981); Caves (1982) and Hennart (1982).

Buckley and Casson, who founded the theory demonstrates that transnational companies are organizing their internal activities so as to develop specific advantages, which then to be exploited. Buckley and Casson (1976) argue that a firm will engage in international production if the net benefit of its joint ownership of domestic and international activities outweighs those offered by the market. Moreover, it is sometimes difficult to use the market to organize transactions involving intermediate products. This creates an incentive for firms to bypass the market. Thus, the internal market is created by establishment of the firm that unites different transactions under single ownership. When this internalization is extended across borders by FDI, a MNC is born. They also claim that both industry-specific factors and industry-related factors lead to internalization of markets. The industry-specific factors will lead directy to the internalization of markets for intermediate products, whereas the industry-related factors will lead to the internalization of the market for knowledge. They claim that the growth of multinational companies before World War II was fueled by the internalization of the market for primary products, while the growth of multinational companies nowadays is more encouraged by the need to internalize the market for knowledge.

According to the proponents of the theory, MNCs organize their internal activities to gain comparative advantages which are exploited to gain control of market. The theory of internalization assumes that foreign companies enjoy oligopolistic power in host countries (Cockcroft & Riddell, 1991) and that because of market imperfections, firms choose an investment location based on the potential comparative advantage they may enjoy (Kim, 2011). It is also argued that MNCs may engage in FDI in order to create a barrier for entry by controlling inputs. Based on this theory, MNCs engage in FDIs through wholly-owned subsidiaries which enables them to control risk whilst retaining control and market share; thus, an internal market is created that enables the firm to reduce its costs through integration, transfer pricing, economies of scale and scope (Kim, 2011).

McManus (1972) highlights the role of transaction costs in the development of foreign operations by recognizing the existence of main interdependencies between activities conducted in different countries and the need to coordinate the activities of the interdependent parties. He argues that in order to successfully coordinate economic agents in different countries, firms can use strategies as follows:

1. Decentralized decision making by utilizing the price mechanism.

2. Contractual agreements, such as licensing, franchising, marketing contract, management contracts and international subcontracting.

3. Internalization of transactions within a single institution, through the establishment of an international firm.

The first strategy, by using the price mechanism, will incur costs because there are transaction costs that come from the need to specify the attributes of the good to be exchanged or from the difficulties in quantifying the flows of services or assets being exchanged. When the transaction costs are high or prohibitive, then MNCs exist. The MNC, then, arises as a response to market failures, as a way to increase allocative efficiency when the cost of coordinating economic activity between independent economic agents is high.

Rugman (1986, p.104) states that "due to its generality, internalization can be seen as an approach rather than a theory". This theory includes internalized investment of scarce resources and superior assets, which leads to the firm achieving a monopoly position. Thus, this theory applies mainly to oligopolistic/monopoly industries. Buckley and Casson (1976, as cited in Ietto-Gillies, 2007) point out that internalization theory explains the necessity for direct investment especially for companies with high levels of R&D.

Professor Dunning developed the eclectic theory to consist of three different theories to account for FDI: Ownership Advantages, Location and Internalization (OLI model).

1) “O” from Ownership advantages:

Ownership advantages refer to intangible assets which belong exclusively to a company and may be transferred within MNCs at low costs in order to increase incomes or reduce costs (Denisia, 2010). Dunning argues that to enter a foreign market successfully, MNCs must possess some characteristics that will ensure that the benefits that accrue to the company will exceed the operating costs associated with presence in the host country; and that since the firm has monopoly (ownership) over these specific benefits it possesses, the firm can use that advantage abroad to gain higher marginal profits to lower marginal costs than competitors (Dunning, 1973, 1980, 1988). Ownership advantages include products and manufacturing processes protected by patents, trademarks, copyrights, and trade secrets. They also include superior marketing and managerial skills, control over market and trade advantages, economies of scale, and firms' established reputations that enable them to gain easy access to raw material, labor, and borrowed capital. These ownership advantages provide firms with market power and competitive advantages over domestic firms.

There are three types of specific advantages:

a) Monopoly advantages in the form of privileged access to markets through ownership of natural limited resources, patents, trademarks;

b) Technology, knowledge broadly defined so as to contain all forms of innovation activities

c) Economies of large size such as economies of learning, economies of scale and scope, greater access to financial capital.

2) "L" from Location:

Location advantages of different countries are de key factors to determining who will become host countries for the activities of the transnational corporations.

Location advantages are firm's motive to produce abroad. The firm's choice of where to locate its foreign operations is influenced by countries' locational advantages. They are not limited to the natural resource endowment of a country, but also include cultural, legal, political, institutional, and market structure environments in which a firm operates. Government policies also matter because tariffs, quotas, subsidies, and other nontariff barriers such as local content requirements affect a firm's decision to locate abroad. These foreign government policies somewhat explain why a firm set up a production plant abroad rather than making products in their home country and exporting them.

The specific advantages of each country can be divided into three categories:

a) The economic benefits consist of quantitative and qualitative factors of production, costs of transport, telecommunications, market size etc.

b) Political advantages: common and specific government policies that affect FDI flows

c) Social advantages: includes distance between the home and home countries, cultural diversity, attitude towards strangers etc.

3) **"I" from Internalisation:**

The Internalization characteristic offers the framework that MNCs use to decide on the form of FDI to engage in. As cross-border marker internalization benefits increases, the firm will increasingly prefer to engage in production in host country rather that offering opportunities for franchise or offer rights under license (Denisia, 2010).

Internalization advantages are derived from the benefits the firm gains from the common governance of its value added activity. For example, ownership advantages are best exploited internally within the firm. By ruling out the possibility of licensing the firm's production technology to another firm or sharing them in a joint venture firm, the firm then can minimize technology imitation. The firm can also maintain its reputation through effective management and quality control. Sales and profits are presumably maximized by retaining sole control of foreign production. According to Dunning, internalization advantages include the desire to avoid search and negotiation costs, to engage in transfer pricing, cross subsidization and price differentiation, and to maintain the firm's established reputation (Dunning 1993: 81).

Eclectic paradigm OLI shows that OLI parameters are different from company to company and depend on context and reflect the economic, political, social characteristics of the host country. Therefore the objectives and strategies of the firms, the magnitude and pattern of production will depend on the challenges and opportunities offered by different types of countries.

Dunning (1979) claims that the configuration of OLI advantages determines the pattern and form of FDI in the following order:

1. A firm needs to have ownership advantages in order to successfully compete with local firms in foreign countries.

2. Internalization advantages must be apparent in the sense that the firm has an interest in transferring ownership advantages across borders but still within the organization of the firm itself rather than licensing for use by others.

3. If (1) and (2) above are satisfied, locational advantages determine whether the firm should export the product from the home country or undertake local production in the host country.

Dunning (1993: 80) also argues that the more ownership-specific advantages a firm has over its foreign competitors, the greater is its incentive to internalize them rather than externalize their use. The more research-intensive, technology-intensive, and marketing-intensive a product is, the higher the degree of foreign ownership in an industry. The greater the firm's interest in using the ownership and internalization advantages in a foreign country, the greater is the possibility of performing FDI. Later, Dunning also claims that his approach explains all forms of international production in different geographical regions.

The eclectic paradigm, although the most widely used empirical tool in international business for FDI analysis, has some limitations. The main drawback is the extensive list of variables in the three categories which risk loss of explanatory power, which Dunning (2001) acknowledges. He justifies it, arguing that OLI is more a theoretical tool to analyse and describe FDI than a predictive theory of FDI (Dunning, 2001 p.176). He adds that the paradigm does not explain the firm's international production and behaviour (Dunning, 1988).

So, theories of FDI may be classified under the following headings: The theory of the transnational corporation (TNC) and of its defining activity – foreign direct investment (FDI) – were born with the seminal doctoral dissertation of

Stephen Hymer (1960 [1976]). Prior to it there have been theories of cross-border movements of capital and theories of imperialism. The TNCs as such played no part in either. Theories about international capital movements were developed within the neoclassical tradition and following, mainly, the framework of neoclassical theories of trade, specifically Heckscher (1919) and Ohlin (1933). Most theories emphasise – directly or indirectly – market imperfections and market power. However, these can be of two types: structural imperfections in which large TNCs operate in imperfect markets and have varying degrees of market power sometimes endogenously built by their own strategies (as in Cantwell's theory). Imperfect markets can be – directly or indirectly – traced down to oligopolistic structures (Hymer; Dunning; Cantwell) or to monopolistic competition (Vernon; New Trade theories).

Hymer has been acknowledged as the "father of the theory of the international firm" and his work has functioned as a catalyst for the further development of the *industrial-organization approach.* Hymer (1976) developed the industrial organization hypothesis. Kindleberger (1969), Caves (1982) and Dunning (1988) further extended the theory. This theory explains about why firms invest in foreign countries but fails to explain the motivation for choosing; which the Location hypothesis fulfills. Imperfections may also be of the transactional type, Ronald Coase. The internalisation theory – Buckley and Casson; Dunning – falls into the latter category.

1.3. The effects the activity of MNCs for both countries

Increased liberalisation and technological advances have led to a rapid growth in FDI flows over the last three decades. FDI gained in share of domestic investment and GDP in many countries (UNCTAD, 2000). However, while some countries attracted large FDI flows, others were less successful, even though they had liberalised FDI regimes. Intensified competition for FDI (Oman, 2000) has led many organisations to look for benchmarks of policies towards attracting FDI. Countries are almost forced to be more open towards FDI. Governments in developing countries are increasingly looking for best-practice policies towards inward Foreign Direct Investment (FDI). FDI can bring positive effects (market access, technology, finance, skills). The positive effects are not automatic for host countries and depend on policies in place and other factors. The emerging environment (including WTO rules, importance of technology transfer, etc.) implies that it is difficult to build up an industrial capacity behind closed doors, even if countries have an effective government (as in Korea). Of course, in actual practice objectives to attract FDI differ by country (technology, market access, growth, poverty alleviation) and the effects of FDI may not always be desired (neglect of local capabilities, environmental damages, inequality between individuals or regions).

Whilst for some countries there is concern about the quantity of flows, there is a shift in other countries towards the quality of FDI. The term quality usually refers to high-value added FDI and/ or to FDI with positive linkages and spillovers effects for the domestic economy. Countries that have had successful development based on FDI need to continue to upgrade FDI, either by encouraging existing multinational affiliates to develop into strategic independents, or by targeting higher value added FDI.

Governments wanting to use FDI as part of achieving a development objective will therefore have to think of policies towards attracting FDI, upgrading

FDI and encouraging linkages between foreign multinationals and local firms. Some governments want FDI more than others and may try harder accordingly. Governments can base their FDI promotion strategy on industrial policies (promotion, incentives, etc.) and/or on macroeconomic policies (skills, infrastructure, etc.) taking into account external factors which are only partly under their control (natural resource endowments, international agreements, etc.).

The globalization of markets is important to international business because of the benefits it offers companies. Let's now look briefly at each of these benefits (figure 1.8).

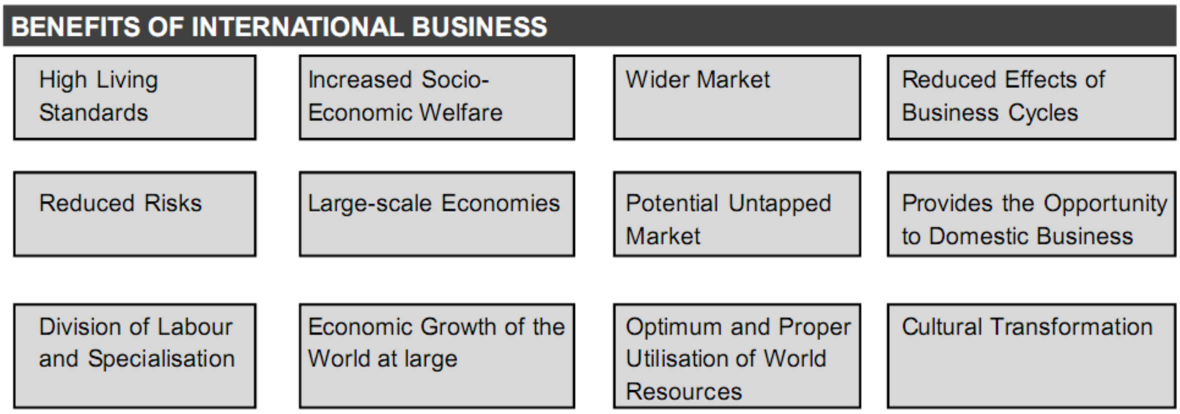

Figure 1.8. Advantages of international business

1. **Higher Rate of Profits:** The basic objective of business is to achieve profits. When the domestic markets do not promise a higher rate of profits, business firms search for foreign markets where there is scope for higher rate of profits. Thus the objective of profit affects and motivates the business to expand operations to foreign countries.

2. **Expanding the Production Capacities beyond the Demand of the Domestic Country:** Some of the domestic companies expand their production capacities more than the demand for the product in domestic countries. These companies, in such cases, are forced to sell their excess production in foreign developed countries.

3. **Limited Home Market:** When the size of the home market is limited either due to the smaller size of the population or due to lower purchasing power of the people or both, the companies internationalize their operations.

4. **Political Stability vs. Political Instability:** Political stability does not simply mean that continuation of the same party in power, but it does mean that continuation of the same policies of the Government for a quite longer period.

5. **Availability of Technology and Competent Human Resources:** Availability of advanced technology and competent human resources in some countries act as pulling factors for business firms from other countries.

6. **High Cost of Transportation*:*** Initially companies enter foreign countries for their marketing operations. But the home companies in any country enjoy higher profit margins as compared to the foreign firms on account of the cost of transportation of the products. Under such conditions, the foreign companies are inclined to increase their profit margin by locating their manufacturing facilities in foreign countries through the Foreign Direct Investment (FDI) route to satisfy the demand of either one country or a group of neighbouring countries

7. **Availability of Raw Materials:** The source of highly qualitative raw materials and bulk raw materials is a major factor for attracting the companies from various foreign countries.

8. ***Liberalisation and Globalisation:*** Most of the countries in the globe liberalized their economies and opened their countries to the rest of the globe. These change in policies attracted multinational companies to extend their operations to these countries.

9. Growth in Market Share: Some of the large-scale business firms would like to enhance their market share in the global market by expanding and intensifying their operations in various foreign countries. Smaller companies expand internationally for survival while the larger companies expand to increase their market share.

10. High Living Standards: Comparative cost theory indicates that the countries which have the advantages of raw materials, human resources, natural resources and climatic conditions in producing particular goods can produce the products at low cost and also of high quality. Customers in various countries can buy more products with the same amount of money. In turn, it can also enhance the living standards of the people through enhanced purchasing power and by consuming high quality products.

11. Increased Socio-Economic Welfare: International business enhances consumption level, and economic welfare of the people of the trading countries

12. Wider Market: International business widens the market and increases the market size. Therefore, the companies need not depend on the demand for the product in a single country or customer's tastes and preferences of a single country.

13. Reduced Effects of Business Cycles: The stages of business cycles vary from country to country. Therefore, MNCs shift from the country experiencing a recession to the country experiencing 'boom' conditions. This enables international firms to escape recessionary conditions.

14. Reduced Risks: Both commercial and political risks are reduced for the companies engaged in international business due to spread in different countries.

15. Large-scale Economies: Multinational companies due to wider and larger markets produce larger quantities, which provide the benefits of large-scale economies like reduced cost of production, availability of expertise, quality etc.

16. Potential Untapped Markets: International business provides the chance of exploring and exploiting the potential markets which are untapped so far. These markets provide the opportunity of selling the product at a higher price than in domestic markets.

17. Provides the Opportunity to Domestic Business: International Business firms provide opportunities to the domestic companies. These opportunities include technology, management expertise, market intelligence, product developments etc.

18. Division of Labour and Specialisation: International business leads to division of labour and specialization.

19. Economic Growth of the World at large: Specialization, division of labour, enhancement of productivity, posing challenges, development to meet them, innovations and creations to meet the competition lead to overall economic growth of the world nations.

20. *Optimum and Proper Utilisation of World Resources:* International business provides for the flow of raw materials, natural resources and human resources from the countries where they are in excess supply to those countries where they are in short supply or need most.

21. ***Cultural Transformation:*** International business benefits are not purely economical or commercial; they are even social and cultural.

Some characteristics of host market have been recognized as the fundamental determinants of FDI inflow. Such as the host market size, most commonly using GDP of a country indicates the size of local market. Numerous empirical studies confirm the positive relationship between market size and FDI inflow (Chakrabarti, 2001), since a growing market realizes the efficient utilization of resources and the benefits from scale and scope economies (UNCTAD, 1998). Natural resources, historically, are the most significant determinants of FDI. In the period from 19th century to the eve of World War II, natural resource owned 60% of the world stock of FDI. From 1986, the year beginning economic reform, to now, Vietnam's large natural mineral resources have been one of the main factors attracting such a large amount of FDI inflow (Mirza & Giroud, 2004). Birhanu (1999) also emphasized the importance of sufficient deposit of minerals to host country attracting foreign investment, particularly the investing countries that are lack of natural resources.

There are other dynamics between foreign firms and local regulators which can seriously impact the host country's environment. For one, foreign investors have stronger leverage than domestic companies because they can use the threat of disinvestment more credibly and effectively due to their existing international structure. They are therefore able to put pressure on the potential host country. In some circumstances foreign companies have targeted an area for investment, only so long as certain environmental obstacles are removed.

In some cases a company may already be established within a foreign country and although environmental regulations may not have been an initial concern, they can and do apply pressure on the host Government to lower regulations, or to prevent their enforcement. Cases include oil exploitation and drilling in Nigeria and mining by Freeport in Southeast Asia. Again the ability of foreign investors to switch production or capital between countries gives them greater power to obtain post-establishment concessions, though this power is reduced if the investment has high sunk costs.

Labor cost plays an important role in the location decision of FDI, and being measured by the salary and wage paid to the employees (Williamson, 2011). Consequently, Vietnam, a country overall less developed than China with lower national wage level is expected to continually attract foreign investment.

A volatile and unpredictable inflation rate in the host market creates uncertainty and discourages MNEs' FDI activities (Buckley et al, 2007). The high inflation rate devalues domestic currency, and reduces the real return on investment as a result. Hence, the overnment launches policies reducing inflation rate to create an investment environment with less risk (Birhanu, 1998). Therefore, a low and predictable inflation rate is expected to stimulate the inflow of FDI, and vice versa.

An undervalued exchange rate of host country creates more profitable opportunities for foreign investment, since the real value of foreign investors' capital assets goes up (Kohlhagen, 1977; Logue & Willet, 1977; Stevens, 1993). Translate it into the common language that the foreign currency becomes more valuable, so the foreign investors can spend less on the same project in host market than the expense required before, when we assume the price staying still in a short time. It is also the reason for exports growth when the host currency gets worthless. However, it is not always the truth for frequent and continuous declines in the value of host currency (Accolley et al, 1997), because we know that capital is more like to arrive in a stable environment (Bussea & Carsten, 2005).

Theoretically, FDI happens for differences in factors endowment between the host and home countries. Capital flows from affluent countries to developing countries with abundant and cheap labor in exchange for finished products (Nguyen & Nguyen, 2007). Further, FDI in such export-oriented industries has been the main force driving the fast growth of exports.

We will review whether FDI has positive spillovers for the local economy in terms of growth and productivity. Theoretical developments (Cohen and Levinthal, 1989; Blomstrom *et al*., 2000b) and empirical evidence (e.g. Borensztein *et al*. 1998) show that the development of local capabilities is crucial in benefiting from FDI. The encouragement of linkages between local suppliers and foreign multinationals may also be important in developing local firms, e.g. through a linkage programme or in a cluster development strategy.

Macroeconomic studies on the impact of FDI on economic growth have yielded uncertain results. Empirical evidence suggests that the impact of FDI on economic growth is not automatic (Kim, 2011). Borensztein *et al.* (1998) and Xu (2000) found that FDI comes with technology which subsequently leads to higher growth only where the host country has reached a minimum level of human capital development (measured by the human capital index, see Sharma & Gani, 2004). Lipsey (2002) finds positive effects but indicates that there is no consistent relationship between FDI stock and economic growth. Carkovic & Levine (2002) found that the macro empirical literature provides weak support for the positive effects of FDI on economic growth. Ikara (2003) found that FDI contributes to production by raising total factor productivity and efficiency of resource use, which leads to economic growth. He found that the effect of FDI on economic growth is through direct technology transfer, technological spillover, human capital formulation, international trade integration, and competitive business environment. Hermes & Lensink (2003). Alfaro *et al.* (2004). and Durham (2004) all found evidence that indicates that countries with well-developed financial markets benefit significantly from the impact of FDI on growth rates. Alfaro *et al.* (2006) also found that a country's capacity to take advantage of FDI externalities might be limited by local conditions, such as the development of the local financial markets or the educational level of the country, referred to as absorptive capacities.

FDI has been regarded as having a positive influence on the economic performance of host countries; most of these influences are believed to be in the form of positive externalities which relate to the adoption of foreign technology and know-how, imitation, employee training, introduction of new processes and products by foreign firms, and the establishment of links between local and foreign markets (Alvaro *et al.*, 2006). Empirical studies on the contribution of FDIs to economic development so far have been inconclusive. Although several studies have found that FDI, or FDI in combination with other factors, has a positive effect on economic growth, other studies have found no significant effects, while a few have found that FDI could even have an adverse effect on a country's growth (Asafu-Adjaye, 2005). Indeed, some scholars have identified that for FDI to promote economic growth and development, the host nation must possess absorptive capacities in order to benefit from such investments in the long term (Alfaro *et al.*, 2006). Notwithstanding, there remains substantial literature that continues to support the phenomenon that FDIs have positive significant effects on national economies (Kim, 2011).

Countries gain from increased foreign investment by increasing their total productive capacity. FDI also potentially boosts the growth of a country by ''crowding in'' other investments with an overall increase in total (domestic + foreign) investment, as well as creating positive ''spillover effects'' from the transfer of technology, knowledge and skills into domestic firms. It can also stimulate economic growth through spurring competition, innovation and a country's export performance. Private capital flows have become an increasingly important ingredient of economic growth.

Liberalisation has certainly contributed to aggregate economic growth; world per capita output has grown from US$614 to US$4,908 in the past thirty years. However, these economic trends mask accompanying social and environmental problems. Global poverty and inequality continues to rise: the number of people in absolute poverty has grown to 1.3 billion (though the proportion in poverty has fallen).

There is little recent systematic research into the macro-level impacts of increased FDI flows, and its distinct effects on long run sustainable development. The available case study material and WWF's experience research suggests some general findings:

- Environmental costs are not adequately internalised in any country. Given these policy failures increased economic activity will exacerbate existing distortions and in environmentally sensitive sectors is likely to cause major damage.
- Income gains from FDI will not automatically stimulate increased demand for environmental improvement before fundamental ecological limits are reached.
- FDI can fuel economic activity at a scale and pace that overwhelms host country regulatory capacity, resulting in inefficient and irreversible environmental damage.
- The size and distribution of the environmental costs of FDI are usually not adequately accounted for when policy decisions on liberalisation or investment incentives are made.
- FDI, especially in resource using sectors, often has very long run effects on both environmental quality and future development patterns in the host country.
- FDI in natural resource using sectors may not bring expected economic benefits to the host country, or put it on the path to a balanced industrial economy.
- Subsidies through investment guarantees or export credits put pressure on the environment by encouraging too much capital intensive investment.

As FDI grows it is important that home countries take greater responsibility for the impact of their firms' activities abroad. Though host countries must bear the primary responsibility for environmental regulation, the reality is many developing countries have yet to build adequate capacity to handle these external economic pressures.

Studies at **micro levels** also indicate ambiguous results of FDI on firm productivity. Foreign multinationals are different from local firms, as multinationals need to overcome the extra costs of operating under different circumstances in another country. The difference is termed an ownership advantage (Dunning, 1993) as shown in tangible (technology) or intangible (brandnames) assets. The studies reviewed in Dunning (1993) and Markusen (1995) show that foreign multinationals are indeed more productive, pay higher wages and are more export intensive than local firms. The distinctiveness and superiority of multinationals can in principle offer benefits to developing countries. FDI possesses a bundle of assets (UNCTAD, 1999; Lall, 2000a), including long-term finance (e.g. for the current account), new technologies, skills and management and market access. A government would like to maximise the tapping of these assets to the benefit of the indigenous industry. However, in practice the benefits in terms of economic development are by no means automatic or free, suggesting a role of complementary policy. FDI can also lead to undesirable outcomes such as rising inequality between (groups of) individuals (e.g. Te Velde, 2000a; Feenstra and Hanson, 1995; and Tsai, 1995) or regions, direct or indirect crowding-out of local capabilities (e.g. there are concerns that R&D takes place predominantly in multinationals in Mexico and Brazil), or an erosion of the tax base or labour and environmental standards (Oman, 2000).

The debate on FDI and its impact on the environment has focused on the **micro-level,** particularly how environmental regulation affects a firm's decision to locate (the "pollution havens hypothesis"). Typically official statements on the environmental impacts of FDI (and trade liberalisation) are characterised by three main arguments:

- **Countries have environmental comparative advantages**: each country will set ts regulations based on domestic preferences and resources. Countries with low incomes, the ability to tolerate pollution or extensive resources should set standards low and attract pollution intensive and resource seeking FDI.
- **FDI increases the demand for environmental quality**: if host country demand for environmental quality increases as incomes rise, then eventually environmental damage will begin to fall (the environmental Kuznets curve argument). As FDI increases incomes it will contribute to this increased environmental demand.

- **FDI is cleaner than domestic investment**: FDI involves new technologies that are cleaner than domestic producers, therefore encouraging FDI will improve the environmental performance of a country.

The overall effect of FDI on national welfare in the host economy is perhaps weakly positive, depending on whether the superiority of foreign firms compensates for the loss of profits (through repatriation) and for the potentially slower productivity growth in domestic firms. The micro-evidence would seriously call into question the widespread use of incentives (fiscal and financial) for foreign firms often justified on the basis of correcting a market failure that the social rate of return on multinational investment for the national economy is larger than the private rate of return.

Only if host countries can expect positive benefits for their countries from the inflow of FDI will they actively support policies that improve investment conditions. Thus a knowledge of the overall effects of FDIs is essential for host countries. Among the effects of FDI in the host countries that have frequently been discussed are the ones on *(1) technology and training, (2) productivity and GDP growth, (3) employment, (4) wages, and (5) trade. Finally, this section discusses (6) the overall net effect of FDIs on host economies.*

- Neo-classical theory expects MNCs to have more advanced technologies, provide good training for their employees and thus generate positive spillovers for the entire host economy.

Empirical evidence, which has also been confirmed for Eastern Europe, shows that foreign companies use more state-of-the-art technologies (in the host country) than their domestic competitors and provide more and better training for their employees. One important reason is that MNCs tend to be larger and thus use high technology equipment to leverage economies of scale. MNCs also tend to set up new operation facilities. Both factors also lead to extensive training efforts of the employees by the MNCs.

- Given their superiority in terms of technology and training, the theory also expects MNCs to provide higher productivity for themselves as well as for the host economy as a whole.Theory and policy makers also expect productivity gains to lead to GDP growth in the host countries. MNCs do indeed show higher productivity than domestic firms due to higher efficiency, mostly through better technology. Other reasons are a higher capital intensity and a larger scale of production in MNC plants.

The theory clearly states a correlation between FDI inflow and GDP growth. Most empirical studies also state that FDI stimulates growth but the evidence is far from clear, since some analyses have found only little impact or even negative growth rates. Negative growth rates could stem from a crowding out of domestic competition, but overall these appear to be temporary and go on to cause the evolution of new and more competitive industries. In the long-run, the economic growth of host countries can also be indirectly boosted by the creation of forward and backward linkages (sales organizations and suppliers respectively).

- Many host governments are concerned about the impact of FDI on employment. The theory highlights that FDI can influence employment in many direct and indirect ways. Overall, the theory suggests that a potentially higher employment in foreign affiliates of MNCs may have a positive multiplier effect on the whole economy. With respect to direct effects, country studies underline the fact that the job impact of FDI depends on the type of investment and the period of analysis.

The most important positive long-term impulse for employment growth seems to be located in other steps of the value chain following an FDI investment. Analogous to the FDI impact on growth, the creation of sustainable employment mainly appears to stem from suppliers and distributors of the MNCs.

When measuring the net effect of FDI on employment it becomes obvious that job creation and job destruction is a dynamic and multi-faceted process. Nonetheless, global quantitative net effects of FDI on employment seem to be positive, albeit rather modest. They tend to be strongest in countries in development and transition and more significant in the (labor-intensive) manufacturing sector than in other sectors. Finally, Hunya and Geishecker (2005) have shown for Eastern Europe that FDI also changes the employment structure of host economies, e. g. by lowering the demand for medium-skilled employees.

- Various studies have analyzed the effect of FDIs on the wages of the host economy. The theory predicts a wage increase in MNCs, domestic companies and, therefore, also in the host economy.

The literature gives many reasons for higher MNC wages. These include the MNCs' eagerness to attract the most capable workers, pressure from the host country, attempts of MNCs to avoid a high employee turnover, the limited market knowledge of MNCs, and MNCs' tendency to focus on activities in higher-wage sectors. Overall, FDIs tend to increase the wage level in the host country even though augmentations of wage inequalities have been identified in some studies as well. However, results differ across industries and countries as empirical studies in Eastern Europe and for developing countries have shown.

- Various researchers have investigated with mixed results, whether FDI and trade are complements or substitutes. Empirics demonstrate that foreign firms tend to export more than their domestic competitors. MNCs' activities abroad already indicate their tendency toward international business and they usually focus more on export-oriented industries and also have better access to international markets than domestic firms. The spillover effect on domestic companies is less-well documented. Even though various studies found that FDI also increases the export of domestic firms, other authors point out that spillovers depend on the type of investment (horizontal or vertical FDI) and can sometimes even be negative.

At least in the medium – or long-run the overall net effect of FDI on trade and therefore on the balance of payment appears to be positive, as most authors have reported. Thus FDI and trade seem to be complements rather than substitutes. The degree of the impact, however, depends on country- and industry-specific differences as well as on the motives of FDI.

- According to the neo-classical model, the host economy net effects of FDI should be clearly positive. FDI affects host countries in numerous ways and according to the majority of empirical literature in a positive fashion. Studies have shown that FDI can speed up the change in economic and competitive structure. By and large it seems that developing and transition countries benefit the most from FDI.

The effects of FDI to the host country are the following:

- Effects on income and employment. FDI helps generate employment and income in the host economy. More investments bring about more production of goods and services which would lead to a higher demand for labor. In response to the higher demand for labor, wages will increase, which in turn leads to higher spending power. Increased spending is beneficial to the host economy in the sense that it stimulates other economic activities, and contributes to other economic linkages such as the production of raw materials, improved logistics. However, foreign investments do not always have positive effects on income and employment in the host economy. For instance, the entrance of MNCs may cause local firms to go out of business due to their inability to compete with the MNCs. This would decrease employment and income amongst certain groups in the host economy.

- Capital accumulation. Foreign direct investments lead to capital accumulation in the host economy. FDI inflows not only bring in foreign currencies, but also help the host economy accumulate physical capital from movement of factors of production such as capital, machinery, and (skilled) labor from the source country. This will contribute to the increase in the capital stock of the host economy.

- Efficient utilization of resource. With the MNCs' advanced technology and superior knowledge, the entrance of the firms to the host country could promote a more efficient utilization of resources. Furthermore, MNCs could bring about new goods and services, which could introduce new uses of the host country's resources. More efficient resource extraction, lower levels of waste, and more ways to employ resources are amongst the benefits of FDI.

- Technology and knowledge spillovers. Despite the MNCs' reluctance to explicitly share their technologies and knowledge with their local affiliates, technology and knowledge transfers could still take place when there is FDI. Technology and knowledge spillovers can take place through direct and indirect training as well as through other channels such as: a) the demonstration effect; b) labor turnover; and c) backward linkages.

The demonstration effect occurs when the local affiliates try to emulate their foreign affiliates' techniques of operation. If the local affiliate has learned enough about the operations, they may be able to setup their own firm in the industry.

Spillovers through labor turnover takes place when workers in an MNC subsidiary transfer to a domestic firm or start their own business after having learned the technology, skills, and techniques from their former MNC employer.

Finally, knowledge spillovers through backward linkages generally take place in industries outside that of the investing foreign firm. The technology and knowledge transfer happens in industries upstream and downstream to the foreign firms' industries. This is because foreign direct investors depend on the host country's raw materials in production, and therefore, must control for the quality of their inputs. In doing so, the MNCs have to help firms in the upstream and downstream industries generate quality inputs which result in technology and knowledge transfers.

- Balance of trade and balance of payments effects. When MNCs set up plants in a host country and bring with them large amounts of capital, they have a positive effect on the host country's balance of payments. Over time, foreign investors may remit their profits and the effects of FDI on the country's balance of payments will subside. However, there are many other ways in which FDI can affect –both positively and negatively – the host country's balance of payments through the country's trade and service balance such as through imports, import-substitution, and exports.

When MNCs setup production plants in a foreign country, they have to import machinery and raw materials from other countries into the host country. This increase in imports from the entrance of the MNCs will lead to the host economy's loss of foreign currency. Import-substitution, on the other hand, helps the host economy save on foreign currency – which is beneficial for the country's balance of payments. Similarly, through the entrance of MNCs, local industries which were producing and exporting raw materials can produce and export more finished goods with the help of MNCs. The host economy's GDP per capital will, thus, increase.

As we can see, the effect which FDI has on the host country's balance of trade and balance of payments could be both positive and negative, depending on the situation and the behavior of the investing MNCs.

- Effects on the industrial structure. The effects which FDI has on the host economy's industrial structure include the introduction of new goods and services, new industrial clusters, structural changes in production and exports, and effects on an industry's competitive edge. In the case of an industry's competitive edge, the effects of MNCs vary – it may create positive or negative effects on the host country. Even though FDI could help generate income, employment, and better resource utilization, it could also force local firms to go out of business. For instance, if prior to the MNC's entrance, the existing firm in the industry is a monopoly, then the MNC will create competition upon entering the host country. If the MNC possesses superior technology and managerial skills, the entrance of the foreign firm may force the local firm out of business. Under such a circumstance, in the long run, the MNC will make the industry it is in less competitive. Therefore, the effects of FDI on the host economy's industrial structure could be good or bad, depending on the situation.
- Consumption pattern effects. With the MNCs' investments, more goods and services are introduced to the host economy. Although this may provide consumers with more choices – better quality at cheaper prices, it can, at the same time, bring in inappropriate spending habits. For instance, the entrance of fast food chains into the host country or the introduction of luxury goods to developing host countries may generate unsuitable dietary habits or overspending amongst the people.

However, in order to materialize positive effects from FDI, host countries need to offer conditions such as adequate property and competition rights, a minimum of investor protection and supporting measures for struggling domestic players. Moreover, the intensity of the impact depends on the entry time of the

MNCs, the type and the amount of investment, the technology used, the industry in question, and various host country characteristics. These preconditions are also necessary in order to avoid potential negative net effects such as the creation or strengthening of monopolistic structures by MNCs. Furthermore, FDI could cause a crowding out of inland investments; small or less productive domestic companies in particular, may have to restructure or even shut down.With respect to Eastern Europe, domestic firms suffered heavily in terms of output and employment, even though in the long-run “firms became more efficient and resistant to subsequent competitive pressure”.

It is important for governments to know if the investments of their domestic companies that take place abroad are harmful to their home economies. The answer to this question is also essential for potential foreign direct investors since negative effects of outward FDIs could increase political and social pressure on companies not to invest abroad.

The potential effects of outward FDI about which home country governments seem particularly concerned are (1) employment, (2) wage level, (3) productivity, (4) technology, and (5) national politics. Lastly, (6) the net effects and potential problems in this field of research are elucidated. The most comprehensive overviews of effects of outward FDI on home economies are provided by *Kokko (2006)*, *Lipsey (2002)* and *UNCTAD (2006)*.

- The representatives of a skeptical view of the effects of FDIs worry most about a negative impact on home employment, since they expect that a relocation of production to newly established plants in low-wage countries will result into job losses in the parent company. Therefore sourcing and production of labor-intense work in low-cost countries can lead, e. g. according to the head of the German IFO institute Sinn, to a “bazar economy” and an erosion of the home job market in developed countries like Germany.

However, most empirical studies have shown a less dramatic and more encouraging picture. U.S. research has only found a very small negative employment effect in the parent company following FDI activities of American

MNCs. On the contrary, studies for Sweden, Italy, Japan,and Germany have shown that MNCs with more foreign activities even tend to increase employment in the parent company. Possible explanations are a higher labor demand for the steering of the new foreign operations from the parent company. Moreover, *Nunnenkamp (2006)* showed that even FDIs aimed at production cost optimization can have positive employment effects on the home economy in the long-run because they can strengthen the competitiveness of the whole industry.

However, other studies have also shown that the employment effects on the home economy depend on the industry in question. Thus, manufacturing projects abroad are more likely to lead to job losses at home than service projects which tend to show positive employment effects. At the same time empiric analyses have clarified that overall employment in advanced economies has not suffered from outward FDI despite industry-specific differences. The main reason is that in most developed economies the share of services exceeds.

- Critics of FDIs further argue that MNC activities abroad lead to lower wages in the parent company as well as in the overall home economy, since lower-skilled workers then have to compete with blue-collar workers in low-wage countries. Most of the available studies have only confirmed that the relative wage level of lower-skilled workers to the average wage does indeed seem to deteriorate in home countries following FDIs. More precisely, MNCs' investments abroad seem to cause salaries of high-skilled workers in the parent company to rise while wages of low-skilled workers in the home countries tend to stagnate.

- The number of studies that show robust results on productivity changes within home countries is still limited. Kokko (2006) summarizes the current findings of research by stating that FDI appears to improve productivity in home economies in the long-run, while the short-term development of productivity is dependent on where the investments of the MNCs go to and in what economic condition the home country is. Another concern of home countries may be that the surging number of offshored research and development (R&D) activities may lead to the loss of technological knowledge in the home country.

Empirical data however, shows that MNCs rarely shut down their R&D activities in the parent company entirely and that the relative share of offshoring on the global R&D expenses is still marginal.

- Home country governments may also be concerned that outward FDIs could increase pressure on national politics. This could be the case when MNCs threaten to invest abroad if the home country conditions are not altered to their advantage and the government gives in to the requests of the companies because it fears job losses, lower tax revenues and – in the end – fewer votes. Thus the increased pressure on governments could lead to a loss of political autonomy and a "race to the bottom" for better conditions for MNCs among home countries.

One reason may be that MNCs, especially in developed countries, see fewer chances of influencing home country administration to their advantage. On the contrary, they may hope to be more successful in influencing the host country of their investment and thus improving investment conditions abroad since competition may be less intense and administration may be (in some less developed countries) easier to persuade regarding the requests of the MNCs than in their home economies.

- Overall, the negative tone of many public debates concerning the net effects of outward FDI on home economies does not seem to be justified. Especially outside the U.S. FDIs seem to have little or even a slightly positive impact on the economies of developed countries. On the bottom line home economies tend rather to benefit from MNC activities abroad, especially in terms of employment, rising wages for higher-skilled workers and sometimes even higher technological know-how. In addition to this, the net effect of outward FDI tends to be less significant than often proclaimed in the public debate, maybe because FDIs are not usually accompanied by an outflow of profits, technological skills or even the shut down of domestic production. Finally, net effects may also be softened because the insourcing of goods and especially services in developed nations is still higher than the outsourcing.

So, however, the economic impact of FDI on the host country is almost impossible to measure in quantitative terms, especially because counter-factual activities and interdependent factors cannot easily be captured. Therefore, some empirical studies may actually overestimate the positive effects of FDI by neglecting the endogeneity of FDI, especially regarding growth, employment and wage effects that also influence FDI inflows themselves.

On the other hand, FDI may crowd out local enterprises and have a negative impact on economic development. Hanson (2001) considers that positive effects are very few, and Greenwood (2002) argues that most effects would be negative. Lipsey (2002) concludes that there are positive effects, but there is not a consistent relationship between FDI stock and economic growth. The potential positive or negative effects on the economy may also depend on the nature of the sector in which investment takes place, according to Hirschman (1958) that stated the positive effects of agriculture and mining are limited. When multinational corporations enter different foreign markets it is market failures that attract FDI and give them the advantage in those markets. Foreign investors consider that their superior technology and knowledge will give them the opportunity to obtain market share.

Finally, on home and host country effects have shown that FDI is not a zero-sum game. On the contrary, many of the areas that have been studied, such as technology and employment, indicate that both home and host countries benefit from FDI.

CONCLUSION TO CHAPTER 1

Globalization is the trend toward greater economic, cultural, political, and technological interdependence among national institutions and economies. The greater interdependence that globalization is causing means an increasingly freer flow of goods, services, money, people, and ideas across national borders. The environmental performance of FDI is also determined by host country factors which affect all industry, such as: effectiveness of regulation, host community pressure (higher in more affluent areas) and performance of sub-contractors. Access to environmental equipment is also a factor, as many countries – mainly in the developing world – put high tariffs on “green” goods (for example, up to 100% in India). Though manufactures of environmental equipment still see low or unenforced regulation as the biggest “barrier” to the entry of their products.

Less developed countries could have actual and reveal comparative advantage in heavily polluting industries, which could have locational influence of these industries’ production. This is also because other factors which are related to the environment in the process of production like labour intensity, high return to capital, natural resource endowment also influence their migration to developing countries.

Large multinational companies (MNC’s) carry out the bulk of FDI, and have the knowledge and resources to operate to high environmental standards. The 500 largest businesses in the world control twenty five per cent of the planet’s output in GDP terms. Similarly, among the world's 100 largest economies in 1995-96, 51 were businesses. However, most MNCs consider that their only responsibility is to comply with host country regulations, and perhaps signing-up to a non-binding code of conduct.

However, industries choose location where expected profits are highest which involves a combination of factors like labour market conditions, market size and accessibility, taxes, infrastructure and public service, external economies, energy costs, raw materials availability and environmental compliance expenditure. Therefore environmental policy alone would not confer advantage to countries seeking to attract or tame foreign investment.

Multinational firms seek to maximise profit and view alternative locations offering different combinations of taxes, government regulations, and public service as imperfect substitutes. The theoretical and empirical issues that arise from this is, to what extent do firms actually relocate when different instruments are applied.

In FDI literature, there are basically five dominant theories: (1) the monopolistic advantage theory; (2) transaction cost and internalization theory; (3) ownership, location, and internalization (OLI) advantages theory; (4) product life cycle theory, and; (5) horizontal FDI, vertical FDI, and knowledge-capital.

The classical theory of comparative advantages assumes that MNCs decide for a selected country because of specific factor endowments that make the envisaged investment more profitable than in other countries. These country advantages traditionally include market size, market growth and relative wages. Later versions of this approach added trade-related determinants such as tariffs, non-tariff-barriers etc. Thus the initial conditions of governments are essential for an investment decision that can only be influenced by governments through the change of economic fundamentals.

According to the New Economic Geography, FDI is driven to a large extent by industrial agglomeration that stems from the trade-off between external economies of scale and transportation costs in specific industries. In the locational context, the New Trade Theory highlights a similar aspect, the distance of the host country to the home country; the proximity of two countries in terms of geographic distance but also in terms of shared language and culture can reduce transportation and transaction costs and thus foster FDI growth to a specific country.

Theoretically, the location choice of FDI is determined by relative profitability. Hymer (1960) views the MNC as an oligopolist. FDI is considered to be the outcome of broad corporate strategies and investment decisions of profit-maximizing firms facing worldwide competition. Buckley and Casson (1976), Dunning (1977) and

Rugman (1981) invoke transaction costs to explain firms' internationalization, putting emphasis on the intangible assets firms have acquired. They focus on another characteristic of firm resource – a rent yielding resource as a public good which is transferred within a firm with lower cost than via some other methods (e.g., licensing or exporting, where the assets is embodied in the product).

The eclectic paradigm developed by Dunning (1981) explains FDI behaviour by integrating ownership, location, and internalization advantages (OLI), which provides a way of encapsulating or harmonizing most schools of FDI theory. The eclectic paradigm asserts that it is the interaction between the competitive advantages of firms and the comparative advantage of nations that decide the structure of the foreign value-added activities of the firm.

The initial theoretical and empirical literature on effects of FDI focused on the direct impacts of the multinationals such as additional capital brought into the country, the creation of jobs, the effect on the balance of payment, and so on (MacDougall, 1960). Another part of the FDI impact literature that took on a real importance at the beginning of the 1990s (UNCTAD, 1992), tried to evaluate the macroeconomic effect of FDI on the growth rate of developing countries, some studies detecting positive impacts (see for example Borensztein et al., 1998; De Mello, 1999; Chan, 2000) other studies failing to detect such effects (Hein, 1992; Singh, 1998). One of the most fecund avenues in the FDI study of impacts however, was opened by the seminal work of Caves (1974), who considered that spillover effects of MNCs on local firms were the crux of the matter. Since then, the research on FDI effects has increasingly acknowledged that technological, organizational and managerial spillovers on local firms probably represent the most influential role of MNCs in host country development.

The standard theory of international trade and the theory of industrial organisation both provide theoretical frameworks for studying the effects of FDI on host countries. Large MNCs are known to adjust their technology to the localisation using different technologies in different locations. Technology transfers are more likely to take place once the technological level at any location is similar to the level of technology at the MNC affiliate. MNCs entering the market may force local firms to reduce slack in the organisation (x-inefficiency). There may be job creation, added tax revenues and a supply of foreign currency associated with the presence of MNCs.

The benefits of FDI to a source country can be numerous: it can increase their total productive capacity; ’’crowds in’’ other investments; as well as create creating positive ’’spillover effects’’ from the transfer of technology, knowledge and skills into domestic firms. It can also stimulate economic growth by spurring competition innovation and a country’s export performance. In many countries foreign investment operates virtually autonomously with few links to the national economy, except through tax revenues and some employment (and/or higher wages).

However, FDI may also exhibit negative effects such as the out-crowding of local industry increasing concentration rather than promoting competition in the long run. The development of local enterprise is of high priority to developing countries, making the crowding out of local industry a frequent issue of concern. Crowding out due to FDI may occur in both the product and factor market. Competition from foreign enterprises in the product market may prevent local enterprises from undertaking lengthy and costly learning processes. A reduction in the availability or increase in the costs of finance and other factors may be the outcome of foreign presence. As a consequence of reputation and size, local affiliates of MNCs may have privileged access to both finance and skilled personnel. There is also the danger of weak bargaining and regulatory capabilities on behalf of host countries resulting in an unequal distribution of benefits or abuse of market power by MNCs.

CHAPTER 2. THE ANALYSIS THE ACTIVITY OF MULTINATIONAL CORPORATIONS AND ITS IMPACT ON SOCIAL AND ECONOMIC DEVELOPMENT OF NIGERIA

2.1. The MNCs operation in context of FDI trends in Nigeria

FDI, as an element of the rapid globalization process has made rapid increases in the last few decades. Global inward FDI flows rose from US$54.1 billion in 1980, reaching US$207.7 billion in 1990 to a peak of US$1,401.5 billion in 2000. In the period 1991-2000, 63 per cent of global FDI flows was received by the developed countries (DCs) (down from almost 80% in 1989), around 33 per cent by developing countries and just over 3 per cent by Eastern European countries.

Among the developing countries, China receives the lion’s share of FDI. Within the DCs, the US, the UK, Canada, France and Germany are leading players. Since 1960 the relative importance of the US and the UK as sources of outward FDI has been declining. In the ‘Triad’ (Europe, USA, Japan), total FDI between US and the EU was almost one third of global FDI in 2000. European FDI is largely due to M&As. A fall ensued from 2001 such that by 2003 it had dipped to US$565.7 billion before peaking again at US$2100 billion in 2007 (UNCTAD 2012). Estimates for 2009 put the fall to US$1114.2 billion consequent upon the financial and economic crisis (figure 2.1).

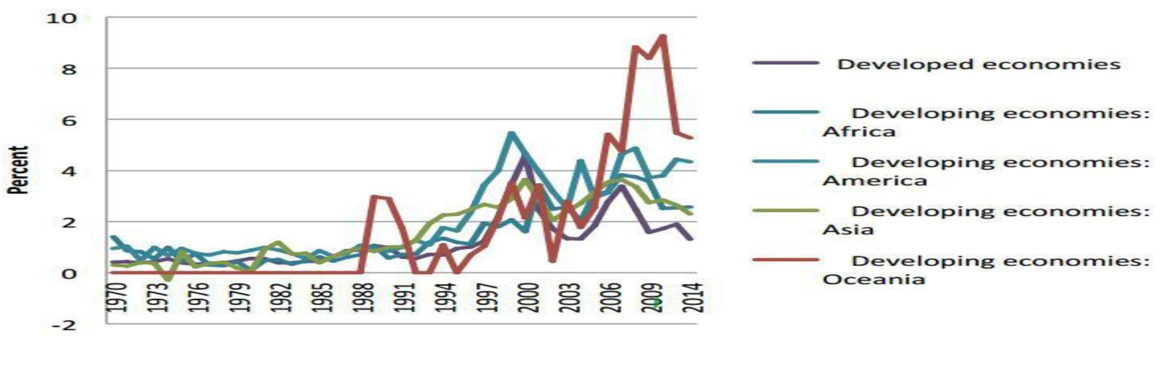

Figure 2.1.Trend in FDI inflows (% of GDP) to developing regions, 1970-2014

After almost ten years of growth, FDI inflows to Africa fell from a peak of US$72 billion in 2008 to $59 billion in 2009 — a 19 percent decline compared to 2008 — due to the financial and economic crisis (UNCTAD, 2010b). Figure 2.2 shows, Africa has never been a major recipient of FDI flows and lags behind other regions of the world. FDI inflows to Africa represent a low percentage of the global total, just as they also represent a low percentage of its GDP and gross capital formation (UNCTAD, 2013).

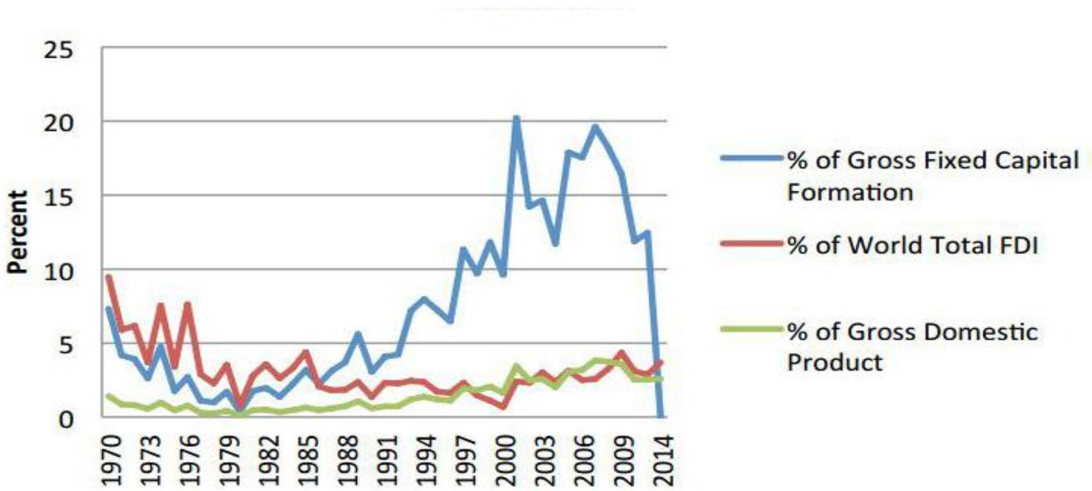

Figure 2.2. Recent trend in FDI inflows to Africa as % of GDP, Gross fixed capital formation and world total

According to the World Investment Report (2013), FDI inflows to Africa as a whole declined for the third successive year, to $42.7 billion. However, the decline in FDI inflows to the continent in 2011 was caused largely by the fall in North Africa; in particular, inflows to Egypt and Libya, which had been major recipients of FDI, came to a halt owing to their protracted political instability. In contrast, inflows to sub-Saharan Africa recovered from $29 billion in 2010 to $37 billion in 2011, a level comparable with the peak in 2008 (UNCTAD 2013). A rebound of FDI to South Africa accentuated the recovery. The continuing rise in commodity prices and a relatively positive economic outlook for sub-Saharan Africa are among the factors contributing to the turnaround. In addition to traditional patterns of FDI to the extractive industries, the emergence of a middle class is fostering the growth of FDI in services such as banking, retail and telecommunications, as witnessed by an increase in the share of FDI to services in 2011 (OECD (2013). The overall fall in FDI to Africa was due principally to a reduction in flows from developed countries, leaving developing countries to increase their share in inward FDI to the continent (from 45 per cent in 2010 to 53 per cent in 2011 in greenfield investment projects) (OECD (2013).

In 2014, greenfeld FDI projects in Africa were down 8.4% on 2013 levels. However, Africa was not alone. Worldwide, projects fell 3.1%, as the global economy slowed and regional confticts in Eastern Europe and the Middle East added to geopolitical uncertainty. As a result, in 2014 only North America and Asia-Pacifc experienced growth in FDI levels. Despite this decline, Africa's FDI project numbers remain substantially above pre-2008 levels. Africa attracted more FDI funding than North America, Latin America and the Caribbean, and Western Europe, which historically draw signifcantly higher FDI flows than Africa.

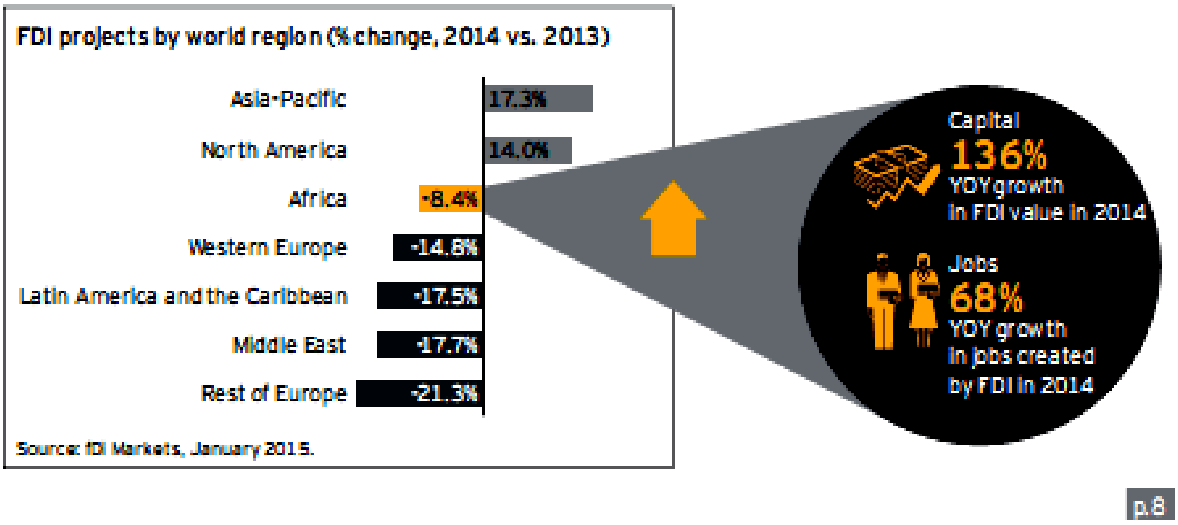

Figure 2.3. FDi projects by world region (% change, 2014 vs. 2013)

Africa continues to attract FDI into sectors where competitive advantages outweigh the continent's negative factors. These include minerals, timber, coffee, and oil. Contrary to common perception, the concentration of FDI in Africa is no longer restricted to mineral resources. Even in the oil exporting countries, services and manufacturing are becoming key sectors for FDI. Recently, FDI has been diversifying into other sectors - in particular manufacturing and services.

A survey of multinational corporations in 2000 indicated that the sectors with the greatest potential to attract FDI in Africa are tourism, natural resources industries and industries for which the domestic market is important. As has happened in many African countries in recent times, telecommunication is in this category. This has assumed great importance with the privatization of telephone companies in many countries and the emergence of the global system of communication (GSM) in many African countries (Ajayi, 2006).

In 2015 year survey showed that Africa’s investment appeal is built on a set of stable, fundamental factors. Natural resources remain a strong draw for foreign investors, despite the growing diversifcation of FDI in Africa. This suggests that natura resources in Africa, including agriculture, still have considerable investment potential. At the same time, the strengthening investor focus on consumer-facing activities refects strong economic and demographic growth.

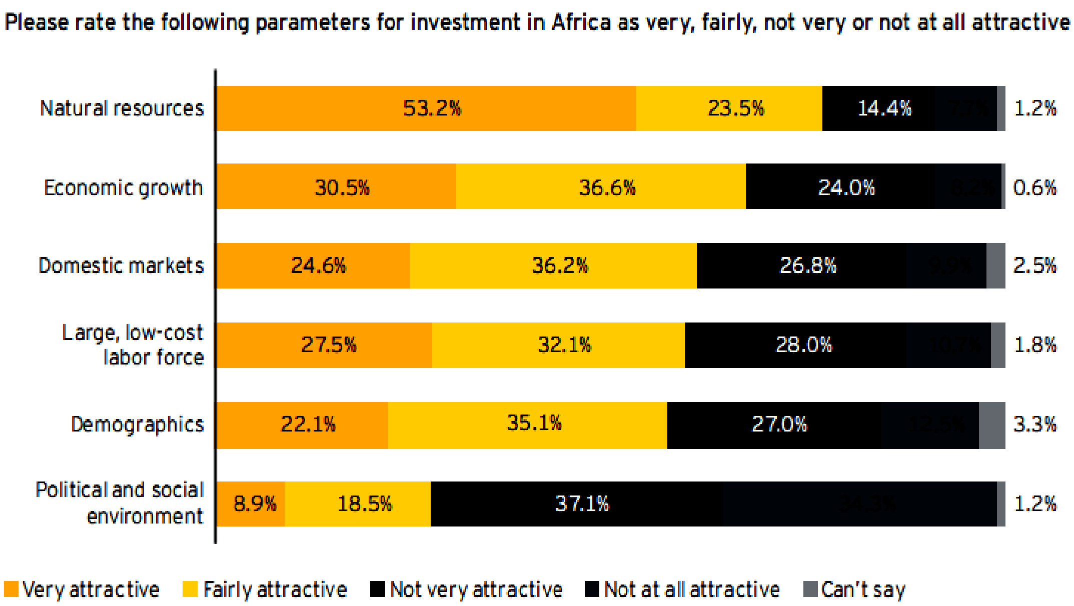

Figure 2.4. Fundamental factors affecting FDI to African continent

Political uncertainty following the Arab Spring in 2011 is beginning to fade, and North Africa is becoming more attractive as an investment destination. FDI investors returned enthusiastically to Egypt and Morocco.

Project numbers in SSA reached their lowest point since 2010, however. Within SSA, some economies — including South Africa, Angola, Nigeria, Ghana and Kenya — received fewer FDI projects. But Ethiopia and Mozambique attracted growing infows of projects. West Africa attracted 23.2% fewer FDI projects in 2014, though by capital, investment increased 21%. The shift to fewer, higher value projects came after seven years during which project numbers rose at a CAGR of 19.5%, the second-highest growth rate in Africa. Capital investment increased by 14.3% during the same period. However, investors were probably deterred from launching projects in parts of West Africa by the outbreak of Ebola that began in December 2013 in Guinea. According to the World Bank, Ebola cost Guinea, Liberia and Sierra Leone US$500m in 2014.

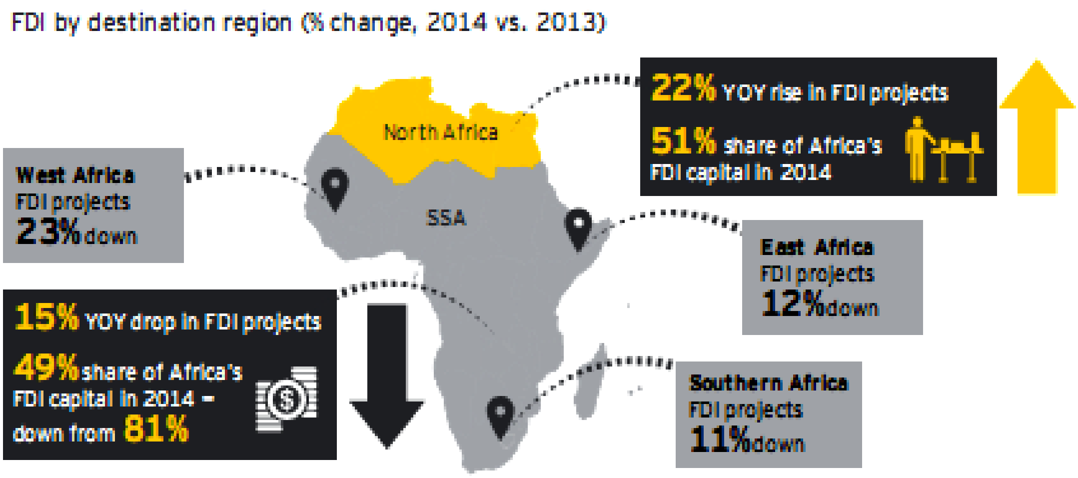

Figure 2.5. FDI by destination region (% change, 2014 vs. 2013)

The last two decades has witnessed significant increases in the flow of foreign direct investment to the developing countries of the world. However, statistics shows that the inflow has been uneven. In spite of policy initiatives in a number of African countries and the significant improvements in the factors governing FDI - including but not limited to economic reform, democratization, privatization, enduring peace and stability – FDI inflows to Africa still lag behind those of other regions of the world (UNCTADSTAT 2013). The expected surge of FDI inflow into the continent has not occurred. Many explanations have been provided for Africa's small share in the global FDI flows. The myriad of explanations varies from bias against Africa because of its risks, inappropriate environment, political instability, and so on, to the adoption of inappropriate policies or indeed that Africa is simply different, so that the factors that attract FDI to other countries simply do not work for Africa (Asiedu, 2006).

Africa has attracted substantial capital fows in the past decade, bolstered by strong growth prospects and better economic management. The external fnancial fows to Africa have quadrupled since 2000. External capital inflows are vital to the well-being of African economies. In 2017, they are forecast to equal 7.2% of the continent's GDP. Not only have these flows grown rapidly overall, but their sources have changed fundamentally. FDI has grown almost five-fold since 2000. It has overtaken offcial development assistance (ODA), which more than tripled in the same period to US$56.3b in 2014, but which is expected to slow sharply henceforth. Meanwhile, remittances from Africans working abroad have become the biggest source of foreign inflows to African states. After a six-fold increase, they are expected to have topped US$64b in 2017 (figure 2.6).

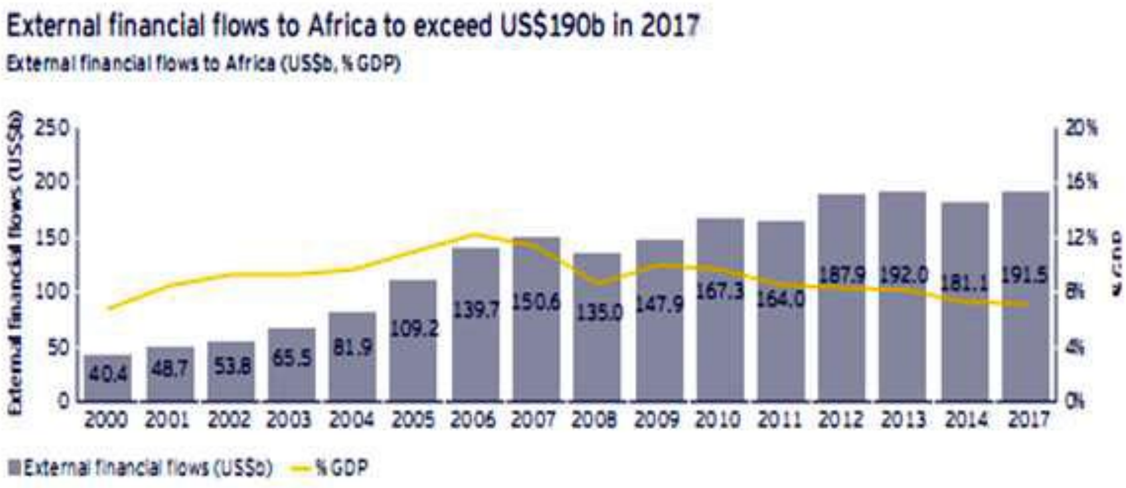

Figure 2.6. External financial flows to Africa to exceed 190 US$ in 2017

It is generally recognised that the African nations, apart from being the cradle of the human race, compared to the rest of the world, is the best endowed with the richest natural resources the world has ever seen. She has landmass several times the size of Europe. She is rich in oil deposits, gold, diamond, iron ore, copper, various types of wood etc (Aja, 2009). And for centuries Africa and Africans built an economy able to produce its own food and its own tools including weapons. The Europeans who came to Africa in the 15^{th} and 16^{th} centuries were interested mainly in goods like gold and other natural products like pepper, spices and ivory for which there was a great demand in Europe.

For many years after independence of many third world nations and up till now, they continued by and large with policies which at the international level ensured close collaboration with the metropolis emphasising the special relationship between them and their colonisers (Ake, 1981). The industrial sector was dominated by low technology and the pattern of relationship between her and multinationals being based primarily on joint ventures did not encourage the development of an auto centric industrial base. New states lacked the capacity to exploit local raw materials, work intermediate industries and produce capital goods, which along could provide the basis for production and reproduction required for national development. Import substitution policy initiated in many African states during the colonial period and confirmed by subsequent governments, which hardly took into account the local endowment, led to increased dependence on imported raw materials, industrial inputs, machinery and equipment, technology and expatriate personnel.

Nigeria is immensely blessed with natural resources, such as vast agricultural land suitable for cultivation of crops, an estimated 124 trillion cubic feet of proven natural gas reserves, huge deposit of crude oil and gas, and large expanse of solid mineral deposits that have hardly been exploited. Despite this, economic growth and development has been modest when compared to countries with similar economic history.

Nigerian GDP at purchasing power parity (PPP) has almost trebled from $170 billion in 2000 to $451 billion in 2014, although estimates of the size of the informal sector (which is not included in official figures) put the actual numbers closer to $630 billion. Correspondingly, the GDP per capita doubled from $1400 per person in 2000 to an estimated $2,800 per person in 2014 (again, with the inclusion of the informal sector, it is estimated that GDP per capita hovers around $3,900 per person).

It is ranked 30th (40th in 2005, 52nd in 2000), in the world in terms of GDP (PPP) as of 2014, and 2nd largest within Africa (behind South Africa), on track to becoming one of the 20 largest economies in the world by 2020. Its reemergent, though currently underperforming, manufacturing sector is the third-largest on the continent, and produces a large proportion of goods and services for the West African region. Previously hindered by years of mismanagement, economic reforms of the past decade have put Nigeria back on track towards achieving its full economic potential. Corruption, mismanagement and inefficiencies had resulted to the country having a GDP of about US$212b, and an annual growth rate of 5.3%. The GDP amounted to about 41% of that of the sub-region while GDP per capita was $300. Globally, Nigeria was among the 20 poorest countries with a very high debt profile (Oxford Business Group, 2010).

Nigeria is heavily dependent on oil and gas, which accounted for about 95% of her foreign exchange earnings, 85% of budgetary revenues and 20% of the overall GDP. Structurally, the Nigerian economy can be classified into three major sectors namely primary/agriculture and natural resources; secondary−processing and manufacturing; and tertiary/services sectors. The economy is characterized by structural dualism. The agricultural sector is an admixture of subsistence and modern farming, while the industrial sector comprises modern business enterprises which co-exist with a large number of micro-enterprises employing less than 10 persons mainly located in the informal sector.

Indeed, the contribution of the agriculture sector to total GDP has fallen over the decades, from a very dominant position of 55.8 per cent of the GDP in 1960-1970 to 28.4 per cent in 1971-1980, before rising to 32.3, 34.2 and 40.3 per cent during the decades 1981-1990, 1991-2000 and 2001-2014, respectively (table 2.1). The fall is not because a strong industrial sector is displacing agriculture but largely as a result of low productivity, owing to the dominance of peasant farmers and their reliance on rudimentary farm equipment and low technology. Another feature of the sector is under-capitalization which results in low yield and declining output, among others (table 2.1).

Table 2.1

Sectoral Contributions to GDP

Activity Sector	**1960-1970**	**1971-1980**	**1981-1990**	**1991-2000**	**2001-2014**
1. Agriculture	55.8	28.4	32.3	34.2	40.3
2. Industry	11.3	29.1	41.0	38.6	28.4
3. Manufacturing	6.6	7.3	6.1	4.9	3.9
4. Building &Construction	4.8	8.3	2.3	1.8	1.8
5. Wholesale & Retail Trade	12.8	17.6	14.5	13.8	14.0
6. Services	15.3	16.5	9.8	11.5	15.5
TOTAL Value Added	100.0	100.0	100.0	100.0	100.0
Diversification Index	0.2	0.4	0.4	0.4	0.3

Source: National Bureau of Statistics

The industrial sector comprises the manufacturing, mining (including crude petroleum and gas) and electricity generation. Prior to independence in 1960, the Nigerian economy was mainly agrarian.

Industry as a whole contributed only 11.3 per cent of the GDP in 1960-70, growing significantly in the next two decades to a high of 41.0 per cent in 1981-1990, owing largely to the crude petroleum and gas production during the decades. The contribution contracted to 38.6 per cent in the 1990s and further to 28.4 per cent during 2001-2014.

The telecommunications sector is undergoing very rapid change and explosive growth. The liberalization of the sector and the resulting competition by private operators is bringing about very substantial benefits to subscribers in terms of much lower prices and enhanced choice.

Recently, the introduction of mobile telephony to Nigeria in 2001 radically altered the country's communications landscape from a base of 0.73% teledensity in 2001. The country as of August 2008 had reached 39.45% teledensity, calculated on the basis of active subscribers. This phenomenal growth was driven by mobile telephony in August 2008. In 2007, the country passed out South Africa as the continent's largest mobile phone market, Nigeria has 64, 296, 117 active mobile subscriptions as compared to just 1,152,517 active fixed line subscriptions. Nigeria mobile subscriber's base is projected to rise to 79.8 million by 2010 (NCC 2004 - 2008). Despite this enormous increase, the demand for more lines still persists in Nigeria, though there is a quest not just for lines but also for good quality services from the operators. This strong growth is due mainly to proceedings of the 7th International Conference on Innovation and Management 1892 (Cronin, 1991).

In Nigeria, land and labour are abundant and relatively cheap, while capital is significantly lacking and dear (Edozien, 1968). Because of the insufficiency of consumption and investment and the inadequacy of the annual budgets as means of improving aggregate demand, FDI is considered critical as a source of physical and social infrastructural development. FDI is seen to play a key role in the growth and development process of developing nations, like Nigeria, whose human and material resources are underemployed or not fully employed. For a developing country like Nigeria, the inflow of a foreign capital may be significant in not only raising the productivity of a given amount of labour, but also allowing a large labour force to be employed (Sjoholm, 1999).

Nigeria as a country, given her natural resource base and large market size, qualifies to be a major recipient of FDI in Africa and indeed is one of the top three lending African countries that consistently received FDI in the past decade. In the mid 1980s also witnessed the growing integration of markets and financial institutions, increased economic liberalization and technologies in the area of computing and telecommunications. This has contributed to a near doubling of private flows to low income countries including Nigeria.

FDI flows to Nigeria has witnessed an unstable trend over the years. From early 1970s net flows of FDI to Nigeria have followed an uneven path. It rose from

₦1,003.2m to ₦1,763.7m in 1973. At the end in 1974, FDI inflows stood at ₦1,812.1m rising again in 1975 to ₦2,287.5m. In 1980, Nigeria's real FDI stood at ₦3,620.1m; it rose to ₦9,993.6m in 1987 and further rose to ₦10,899.6m in 1989 due largely to the result of the policy measure of the Structural Adjustment Programme (SAP) in Nigeria. However, in 1990, the flow fell to ₦10,436.1m but rose to ₦70,714.6m in 1994. The astronomical rise to ₦119,391.9m in 1995 ushered in an era of increased and sustained inflow of FDI to Nigeria. In 2000 the net inflow averaged to ₦101,512.82m between 1991 and 2000. This increase was sustained to 2003. Thereafter, the increase was no longer sustained as the net inflow fell to ₦399,841.9 in 2008 as against the previous figure of ₦552,498.6m in 2007. Between 2001 and 2012, the net inflow averaged to ₦353,138.95 million. Overall, the inflow of FDI to Nigeria has been witnessing an increase over the years.

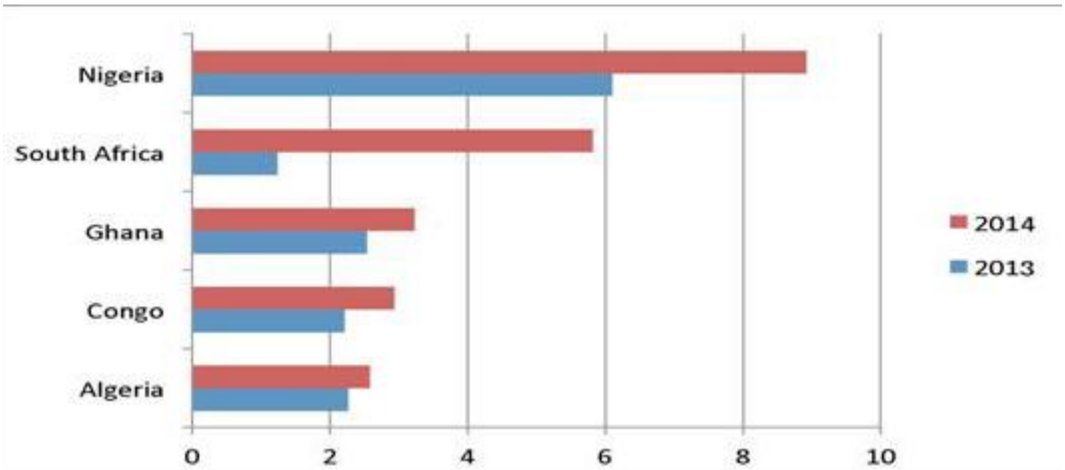

Figure 2.7. Africa-Top Five Recipients of FDI Inflows, 2013 and 2014 (Billions of US dollars)

Source: UNCTAD, World Investment Report 2014

The UNCTAD World Investment Report 2014 shows that FDI inflow to West Africa is mainly dominated by inflow to Nigeria, who received 70% of the sub-regional total and 11% of Africa's total. Out of this Nigeria's oil sector alone receive 90% of the FDI inflow.

Over the years, successive Nigerian governments have viewed foreign direct investment as a vehicle for political and economic domination of Nigeria and hence the thrust of government policy (indigenisation policy) through the Nigeria Enterprise Promotion Decree (NEPD) has been to regulate foreign direct investment, with a maximum of 40% foreign participation allowed.

Nigeria, now Africa's largest economy after rebasing its GDP last year, attracted 49 FDI projects in 2014, 10 fewer than during 2013. However, the average project involved more than twice as much investment, though job creation continued to lag. Companies from South Africa, the US, the UAE and Japan all launched fewer projects. Investment targeting Nigerian consumers slackened: investors announced only six projects in CPR, down from 23 in 2013. This widespread trend to fewer, but higher value projects was also displayed last year in Ghana, the second-largest West African economy, where growth in project numbers has averaged 34.1% since 2007. In 2014, the number of inward investment projects fell to 39, from 58 in 2013, even as capital investment rose 61.3%. Ghana slipped to seventh position in our project ranking, from fourth in 2013. Consumer-facing investments (including TMT, fnancial services as well as CPR) fell out of favor. South African, UK and Nigerian investors all became more cautious about launching projects in Ghana. FDI revenue to Nigeria fell to $6.1 billion (N933.3 billion) in 2010, with close to a 30 per cent from the $8.65 billion (N1.33 trillion) in 2009 and fell to $3.06billion in 2014. The decline in investment has been attributed to the increasing rate of insecurity in the country, as well as infrastructural decay.

In 1992, 30% of FDI stock in Nigeria was in the primary sector, 50% in manufacturing and 20% in services. Manufacturing and the extractive sectors have been successful in attracting foreign direct investment to Nigeria. This stems basically from the fact that Nigeria is endowed with solid and mineral resources as well as a vibrant, large market size. Using the cumulative levels of foreign investments within the specified period, private investment flows into the mining and quarrying sector was ₦959.8m in 1975, which represented 41.9% of the total distribution of FDI. However, in late 70s and through the 80s, its total distribution fell. For example, in 1980-1984 and 1985-1989, it was 14.1 and 19.3 percent, respectively. It rose astronomically in 1995-2009, with a 43.5% share before decline to 36.6 and 24.5 in the subsequent periods.

Further, the manufacturing and processing sector witnessed a steady flow of FDI into its sector in terms of its cumulative total. But relative to its percentage distribution of total, there have been fluctuations in this sector. The Agriculture, building and construction sectors remained the list attractive hosts of FDI in Nigeria. With FDI share of 2.5% and 6.4 in 1975-1979, in 2005-2013 it was 0.3% and 2.2%, respectively.

The, trading and business services sector has lost its attractiveness to foreign investors, as it is being dominated by indigenous capital and investors. It used to be among the most attractive sector by investors in the prior before independence and the first decade of 1960, where such trading giants like UAC, John Holt, Leventis, etc., were chiefly trading firms in the areas of manufactured products produced in more developed countries as well as exporters of agricultural produce out of Nigeria. It had a share of 32.6 in 1985-1989 period, however, it could only boost of less than 10 percent in total FDI flows.

In terms of the sources of FDI, Germany's FDI has increasingly been going into the manufacturing sector, while more than 60% of the British FDI stock is in manufacturing and services (Ajayi, 2006, p.14). Also, the FDI from the United States of America has been in manufacturing, mainly in food and primary and fabricated metals (UNCTAD, 1999a). The share of US FDI stock in Africa that is in the primary sector dropped from 79% in 1986 to 53% in 2006 (Ikiara, 2003).

The history of multinational corporations in developing multinational countries is marked by its origins in policies of imperialism and Colonialism. Nigeria as a developing country has played host to MNCs long before independence till date. The number and activities of these MNCs have grown over time as Nigeria struggles to develop socio-economically as a nation Onudogo (2013). Multinational corporations are those powerful conglomerates that came into being in Nigeria after the abolition of slave trade, Aworom (2013). As a result, the European countries needed a market for surplus products and place to access cheap raw materials and labour, Africa especially Nigeria became the obvious destination. They dominated the Nigerian economy after her independence.

The Nigeria civil war that lasted for thirty months was partly ignited by the activities of the multinationals. The Eastern Nigeria that housed the then Biafra had about 75% foreign investments hence the firms supported the Federal Government of Nigeria to crush the Biafra rebellion so as to safeguard their investment in that region.

The multinational enterprises because of their vintage position in the host nation's economy often compel the government to grant them concession that may yield them huge profits which they often repatriate to their home countries. At times, MNCs give false information to the government about their economic activities. Nzimiro (2010), noted that most coup d' tats in Africa were the handiwork of the multinational. Such coups were the coup that ousted General Murtala Mohammed of Nigeria; the coups of General Rawlings of Ghana etc. were examples of the coups masterminded by the multinationals.

Consequently, today, Multinational Corporations like the United African Company (UAC), Toyota motors, Coca-Cola, Lever brothers, Mobil oil; Shell BP etc. dominate the landscape of Nigerian economy. These corporations are very rich in all ramifications because of the profit they make in Nigeria. For instance, Nigeria is one of the largest producers of oil in the world which accounts for over 80% of her income. Since this sector of the economy is effectively controlled by multinational corporations who make enormous profit from the industry, one expects that they should spearhead the developmental process of Nigeria but unfortunately the reverse is the case.

Most economists believe that the MNCs are exploitative as natural resources found in developing countries such as Nigeria meant for its developmental goals are not productively utilized due to de-capitalization of the economy in form of profit repatriation, Osuagwu and Onyebuchi (2013).Ozoigbo and Chukuezi,(2011) in full support of the above claim argued that the idea of investing in foreign land is not to better the lot of the host nation but to exploit as much as possible in order to develop the home country. Hence, they are often accused of destructive activities such as damaging of the environment, complicity in human rights abuses, and involvement in corruption and stifling of infant industries autonomy.

The MNCs operating in African nations offer bribes and make improper payments in order to circumvent local regulations, they also engage in illegal political activities (Rawlings, 2007)

Over the last decade and a half, the world has witnessed the phenomenal rise of the Nigerian multinational enterprises (MNEs) in various sectors. MNE in this context is viewed as one that has operating subsidiaries, branches, or affiliates located in foreign countries. It also includes firms in service activities such as consulting, accounting, construction, legal, advertising, entertainment, banking, telecommunications, and lodging (Eiteman et al., 2010). MNEs have global outreach and many of them are owned by a mixture of domestic and foreign shareholders. Many indigenous Nigerian companies have developed beyond expectations and having captured large shares of the Nigerian home markets, decided to tap into global markets with increased competitive. They have expanded into other parts of sub-Saharan Africa including and stretches into Europe, North America, Asia and the Middle East. Instead of waiting to receive foreign direct investment (FDI) from the western nations as is usually the norm, Nigerian companies are on the move, spreading their tentacles into other Afican countries countries and the world over, a hitherto reserved place for the European and American companies.

First Bank Pic is one of the top five banks in Nigeria established over five decades ago. It is a premier bank in West Africa and one of the leading financial services solutions providers in Nigeria. With its headquarters in Lagos, Nigeria, it has international presence in the United Kingdom; France; South Africa; China;

United Arab Emirate and Democratic Republic of Congo. The Group's vision is to be Sub-Saharan Africa's leading financial services group.

In November 2013, First Bank Pic, announced the acquisition of a European-based commercial bank's West African Assets which included their subsidiaries in Ghana, Sierra Leone, Guinea and Gambia thereby acquiring existing banking relations in four new markets. Furthermore, First Bank Pic comprises several subsidiaries spanning asset management, investment banking, capital markets, insurance, microfinance, private equity, mortgage and pension fund custodian services - making it one of the most diversified financial conglomerates on the African continent (Adaramola 2013).

Other companies with foreign offices include Zenith Bank Pic, Access Bank Pic, Diamond Bank Pic, and Industrial and General Insurance (IGI) with offices in Rwanda and Uganda (Asiedu, 2006).

In the oil and gas sector *Oando Oil Pic* is one of the largest integrated energy solutions group in Sub-Saharan Africa with a primary and secondary listing on the Nigerian Stock Exchange and Johannesburg Stock Exchange Limited respectively. Oando Pic, an integrated energy group has operations across West Africa in Ghana, Togo, Liberia, and licenses for oil exploration from Turkey and Zambia. There is also the Sahara Group with offices in Nigeria, Cote d'lvoire, United Arab Emirates, Switzerland, Singapore, Brazil and the Isle of Man.

In the telecommunications sector, *Globacom Limited* **operates** in the Republic of Benin and Ghana, and has also acquired licenses to operate in Cote d'lvoire. It has a reputation as one of the fastest growing mobile service providers in the world and aims to be recognized as the biggest and best mobile network in Africa (Anyanwu, 2012).

Dangote Pic is a fully integrated manufacturing company and has projects and operations in Nigeria and 14 other African countries (Dangote Pic 2013). Dagote has three manufacturing plants in Nigeria with a fourth line currently in the pipeline. It is one of the biggest quoted companies in West Africa and the only Nigerian company on the Forbes Global 2000 Companies. In addition the company has six terminals in Nigeria, as well as other manufacturing plants in South Africa, Senegal, Zambia, Tanzania, Ethiopia, Republic of Congo and Gabon. All the plants except that of South Africa, where the company invested 64%, are Greenfield Projects. In addition, the Group has set up clinker grinding and packing plants in Douala, Cameroon; Delmas, South Africa and Menegesha, Ethiopia. The company has also established bulk cement and packaging terminals in two locations, Accra and Takoradi in Ghana; Liberia, Monrovia; Freetown, Sierra -Leone; and Abidjan, Cote D'lvoire.

So, since Independence in 1960, FDI has been given prominence in the quest for the growth and sustainable development of Nigeria. According to Udeaja, Udoh and Ebong (2008), Nigeria like other developing countries is trapped in low savings-investment cycle is dependent on foreign capital flows to stimulate economic growth and as oil exporting country has attracted more FDI compared to other Sub-Sahara African (SSA) countries. According to Dinda (2009), Nigeria dominates the recipient of the FDI to African continent which received 70% of the sub-regional total and 11% of Africa's total and out of this; Nigeria's oil sector alone received 90% between 1970 and 2013. MNC are instruments of exploitation by the imperialists and the intensification of the contraction of underdevelopment in Africa. They also stated that two major reasons why MNCs came to Africa are first to tap resources of raw materials like minerals (oil, gold and diamond). They also argued that MNCs are always found in the extractive industries in Africa and the rest of the third world states.

There have been factors which are seen to drive the growth of FDI in Nigeria which over time have not been performing positively, especially the business environments in the oil rich region of the Niger Delta and recently the security threats in the northern region of the country coupled with high cost of production brought about by poor electricity supply and poor transport infrastructure. According to Udeaja et al (2008), causes of capital flow to domestic economy include improvement in creditor relations, adoptions of sound fiscal and monetary policies and neighbourhood externalities and the presence of natural resources, etc, that offer a strong locational specific advantage in attracting FDI to a host country.

2.2. Government regulations and risk of the MNCs activity in Nigeria

African countries and other developing countries need substantial inflow of foreign capital to fill the saving and foreign exchange gaps associated with a rapid rate of capital accumulation and growth needed to overcome the widespread poverty in these countries. Besides, developing countries are preferred to developed countries by foreign investors because of the higher rate of return on investment in these countries (Ghose, 2004; Knill, 2005, Vita and Kyaw, 2008). However, whether the foreign investors are willing to take advantage of this high rate of return in the face of high production cost and distorted investment incentives is another issue entirely. Nevertheless the image of Africa among foreign investors still tends to be one of a continent associated mainly with political turmoil, economic instability, diseases and natural disasters (Owusu-Antwi, 2012).

This is perhaps an opportune time to pause and take stock of factors that have impeded Africa's progress to date. Respondents supposed that political instability as the biggest obstacle for companies doing business in Africa. While Africa's political landscape has changed dramatically since the 1960s, unpredictability still remains a challenge for the continent.

A Democracy Index published by the Economist Intelligence Unit, designed to measure the "strength" of democracy in a region, shows a decline in SSA's score during 2014. Similarly, the 2014 Ibrahim Index of African Governance, which measures the quality of governance in African countries, showed that while governance improved between 2009 and 2013, the pace of improvement was slightly slower than during 2005–2009 (figure 2.8). During 2014, a number of African countries — including the Central African Republic, South Sudan, the

Democratic Republic of Congo (DRC), Burkina Faso and the Gambia — experienced political and social unrest.

Perceptions that political uncertainty has increased could be exacerbated by increased geopolitical tensions across the world in 2014, including the Russia-Ukraine confict, upheaval in the Middle East and intensifed territorial disputes between China and its maritime neighbors, among others. With these tensions around the world and a still-fragile global economy, investors are understandably cautious. It seems likely that these concerns have had a knock-on, cumulative impact on perceptions of Africa, encouraging investors not yet present in the continent to view it as "high risk."

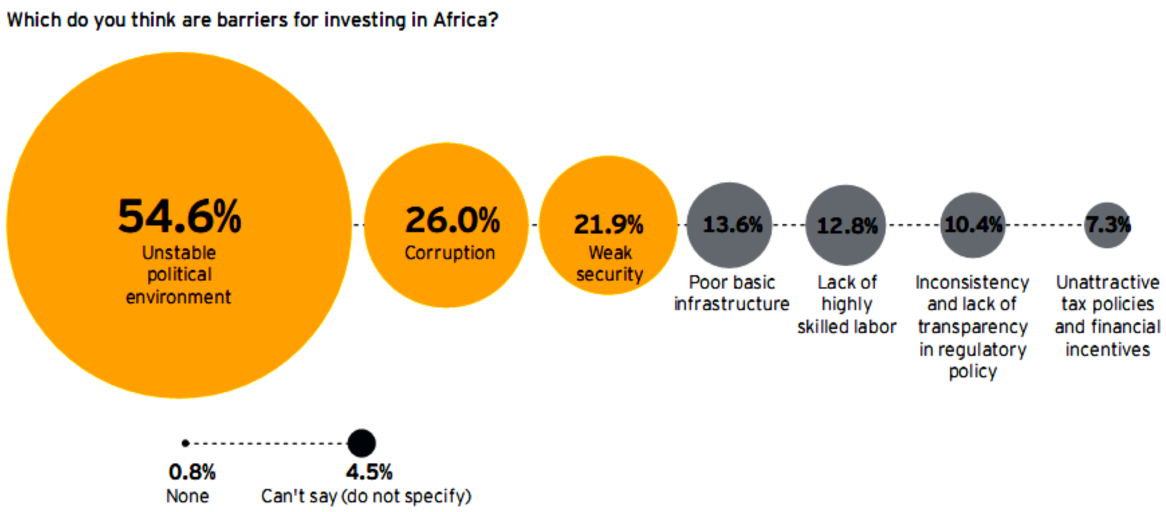

Figure 2.8. The main barriers for investing in Africa

Why has SSA been relatively unsuccessful in attracting FDI despite policy reform? Is Africa different? The analysis is focused on only three main variables - the return on investment, availability of infrastructure and openness to trade - and does not take into account natural resource availability, which is an important determinant of FDI to Africa.

Africa is different and that factors attracting FDI to other regions may not be equally applicable in Africa. This implies that the success stories in other places cannot in some cases be replicated in Africa. African countries need to liberalize their trade regime in order to enhance FDI flows. The full benefit of trade liberalization is only achievable if investors perceive the reform is not only credible but irreversible. Africa is overly perceived as risky. Consequently, countries in the region receive less FDI by virtue of their geographical location. To dispel the myth, there is need to disseminate information about the continent.

Promoting and attracting FDI has therefore become a major component of development strategies for developing countries. African countries have made considerable efforts over the past decade to improve their investment climate by liberalizing their investment regulations and offering incentives to foreign investors. The role of FDI for Africa has become increasingly important not only because of the belief that it can help to bridge the savings-investment gap but also because it can assist in the attainment of Millennium Development Goal targets (UNCTAD 2010). Given the region's low income and domestic savings level, its resource requirements and its limited ability to raise funds domestically, the bulk of its finance for the future will have to come from abroad, mostly in the form of FDI.

Thus a number of African countries have put various measures in place - apart from improving their investment environment - which they hope will attract foreign direct investment to their economies. Some of these, according to Anyanwu, (2012) are incentives (sometimes called "sweeteners") to ensure that resources are directed to areas and sectors where they are badly needed to deal with the issues of employment generation and poverty elimination. Indeed, in some cases, there is the risk of "racing to the bottom" as countries compete for FDI. It is not crystal clear whether FDI is being attracted into industries and sectors that have the greatest multiplier effect in terms of promoting sustained growth and indirectly alleviating poverty. Using Nigeria and Angola as examples, the two countries have been able to attract FDI because of their oil endowments, the unconducive nature of their political systems notwithstanding. In general, however, these two factors are inadequate to explain FDI flows. FDI flows reflect not only the policy and political environment in host countries.

African governments can play major roles in promoting FDI to the region through appropriate policy framework. In the short and medium term, government can increase their FDI by streamlining their investment regulation framework, implementing policies that promote macroeconomic stability and improving infrastructure. In the long run, more FDI can be achieved by curbing corruption, developing a more efficient legal framework and reducing political instability (Asiedu, 2003).

Over the years, successive Nigerian governments have viewed foreign direct investment as a vehicle for political and economic domination of Nigeria and hence the thrust of government policy (indigenisation policy) through the Nigeria Enterprise Promotion Decree (NEPD) has been to regulate foreign direct investment, with a maximum of 40% foreign participation allowed. This has resulted in a decline in both private and foreign investment and has therefore slowed down growth in all sectors of the economy including the telecommunications sector. This has consequently reduced long-run levels of per capita consumption and income. The trend had been attributed to the debt crisis and global shocks which affected the country in the 1980s, and which has set off a protracted period of macroeconomic instability with an eventual drop in external financing. This therefore, discouraged foreign participation in the economy as foreign direct investment formed only a small percentage of the nation‟s gross domestic product (GDP) though marginally rising from – 0.80% in 1980, to 1.80% in 1990.

The Nigerian government has been mobilising foreigners to invest in Nigeria but factors like infrastructures, poor financial system, corruption, security challenges, etc, have continued to hamper the growth of the FDI in this country. On the other hand, Nigeria happens to be an oil dependent country which is largely described as an enclave industry, which needs large quantum of FDI for technology transfer, improvement in productivity, efficiency in resource allocation, etc.

The First National Development Plan, 1962-1968, was developed to put the economy on a fast growth path. The plan gave adequate priority to agriculture and industrial development as well as training of high-level and intermediate manpower. However, the disruptions to economic activities during the period later paved way for broader economic policies for reconciliation and reconstruction. Thus, the Second National Development Plan, 1970-1974, was launched primarily to reconstruct and rehabilitate infrastructure that had been damaged during the civil war. Thus, the government invested a lot of resources into the construction and rehabilitation of infrastructure as well as improving the incomes of the people.

The Indigenization Decrees of 1972 and 1974 put the commanding heights of the Nigerian economy in the hands of Nigerians within the context of nationalism. The Third National Development Plan, 1975-1980, was designed under a more favorable financial condition of huge oil revenues that accrued to the nation from the mid-1970s. However, the execution/Implementation of the Fourth National Development Plan, 1981-1985, was affected by the collapse of the international oil prices. In 1982 the government introduced the Economic Stabilization Act as an immediate reaction to dwindling oil earnings and major external sector imbalances. This was aimed at reducing government expenditure and conserving foreign reserves in order to improve the country's balance sheet. It was however found that there was need for a more fundamental reform to compliment the austerity measures.

In an attempt to create a suitable climate for investment and growth within the economy, and to stimulate her economic recovery efforts from a prolonged and severe recession, the Nigerian Government introduced the Structural Adjustment Programme (SAP) comprising a package of economic policy measures in July 1986. The programme incorporates trade and exchange reforms reinforced by monetary and fiscal measures, which are geared towards diversifying the mono export base by stimulating domestic production and discouraging use of improved inputs for local production. The supply side of the package seeks to enhance aggregate output with special emphasis on agro/agro-allied and manufacturing sectors for which specific policy measures were designed. The implementation of SAP was expected to bring about some improvements in the economy. For instance, the sharp exchange rate depreciation was expected to discourage importation and make multinationals that have profited through export trade (from the former over-valuation of the Naira) to prefer investment in the domestic economy if they were to maintain their established trade links. But all these were not achieved due to improper implementation of the programme.

In the late 1980’s and early 1990’s despite Nigeria’s implementation of SAP, beginning from 1986, investment remained low and refused to recover significantly, the decline in investment in the late 1980’s and the low investment ratio which persisted into the 1990’s no doubt partly explains the slow growth of output during this period. It is certain that with significant recovery of investment, particularly foreign investment, a meaningful resurgence in output growth would remain elusive. And also if foreign investment remains at the current low level of per capita consumption and income and endanger the sustainability of the adjustment effort and hopers of poverty alleviation.

The experimentation with deregulation and liberalization was truncated in 1994 with the advent of a military government. Thus, the Federal Government re-regulated the economy, by capping exchange and interest rates due to high nominal interest rates that reached an all-time high of 48.0 per cent in commercial banks and 60.0 per cent in non-bank financial institutions. These rates were in turn driven by the high rates of inflation at 48.8 per cent in 1992 and 61.3 per cent in 1993. As there was no clear economic strategy for the rest of the decade, the monetary policy implementation became ineffective to check expansionary fiscal operations. In addition, weak institutions and an unfriendly legal environment reduced the benefits that would have accrued to the economy. However, the scenario changed in 1999, with the return of democratic governance in the country. Democratic governments have introduced series of reforms that were aimed at redressing the distortions in the economy and to restore economic growth following the period of economic decline. In 2004 the government’s economic agenda was formally launched and tagged the National Economic Empowerment and Development Strategy (NEEDS).

The global financial crisis adversely affected the Nigerian financial services sector, particularly the banking sector. Indeed, a section of banking industry was badly affected as some banks were in grave condition and faced liquidity problems, owing to their significant exposure to the capital market in the form of margin loans and share-backed lending, which stood at about ₦900.0 billion as at end-December, 2008. The amount represented about 12.0 per cent of aggregate credit of the industry or 31.9 per cent of shareholders' funds. Furthermore, in the wake of the high oil prices, a section of the industry that was extensively exposed to the oil and gas sector was also badly affected. As at end-December, 2008, banks' total exposure to the oil industry stood at over ₦754.0 billion, representing over 10.0 per cent of the industry total and over 27.0 per cent of the shareholders' funds.

The excessive exposure resulted in some weaknesses, notably liquidity problems, exhibited by some of the banks towards the end of 2008. As part of its liquidity support, the CBN Discount Window was expanded in October 2008 to accommodate money market instruments such as Bankers' Acceptances and Commercial Papers. As at June 2009, the banks' total commitment under the Expanded Discount Window (EDW) was over ₦2,688.84 billion, while the outstanding commitments was over ₦256.0 billion, most of which were owed by less than half of the banks in operation. When the CBN closed down the EDW and, in its place, guaranteed inter-bank placements, it was observed that the same banks were the main net-takers under the guarantee arrangement, indicating that they had more deep-rooted liquidity problems. Further investigation by the CBN identified eight interdependent factors as the main origin of the crisis in the banking sector. These include:

- Sudden capital inflows and macroeconomic instability.
- Poor corporate governance and character failure.
- Lack of investor and consumer sophistication.
- Inadequate disclosure and lack of transparency.
- Critical gaps in regulatory framework and regulations.
- Uneven supervision and enforcement.

- Weaknesses within the CBN.
- Weaknesses in the business environment.

The CBN has taken steps to integrate the banking system into the global best practices in financial reporting and disclosure through the adoption of the International Financial Reporting Standards (IFRS) in the Nigerian Banking Sector by end 2010. This is expected to enhance market discipline, and reduce uncertainties which limit the risk of unwarranted contagion. The CBN is also, closely collaborating with other stakeholders like the Nigerian Accounting Standard Board (NASB), Federal Ministry of Finance (FMF), NDIC, SEC, and NAICOM; PENCOM, Federal Inland Revenue Service (FIRS), and the Institute of Chartered Accountant of Nigeria (ICAN), among others, towards ensuring a seamless full adoption of IFRS in the Nigerian banking sector by 2012. These efforts are being pursued under the aegis of the Roadmap Committee of Stakeholders on the Adoption of IFRS in Nigeria inaugurated by the NASB and facilitated by the World Bank.

In addition to the reforms in the banking sector, the CBN has also focused attention in facilitating economic development in Nigeria through its developmental role and in recognition of the fact that the financial sector needs to support real sector activities to enhance the future prospects of the Nigerian economy. In this regard, the CBN has taken the lead in the financing of the real sector and infrastructure projects, and enhancing credit to the real sector. A ₦500.0 billion fund was established out of which ₦300 billion is for power/infrastructure and aviation sectors and ₦200.0 billion for the refinancing/restructuring of banks' existing loan portfolios to manufacturers/SMEs. Also, a ₦200 billion Small and Medium Enterprises (SMEs) Credit Guarantee Scheme was created to complement the earlier ₦200 billion Commercial Agricultural Fund for loans to farmers. Thus far, the CBN has released over ₦190.0 billion out of which ₦130.0 billion has been disbursed, out to the manufacturers/SMEs at a fixed rate of 7% through the Bank of Industry (BOI) and deposit money banks.

Nigeria as a nation has some of inherent features, which made the nation unique in Africa as a continent and in the world in general. The nation is blessed with enough natural resources to survive on its own sufficiently but is still in battle of development up till tomorrow. There are numerous challenges militating against the positive development of the nation, which could actually hinder the nation to survive in some other aspects like attracting the foreign investors to come into the country:

- **Political Instability:** One of the major characteristics of African nations is incessant changing of government, which usually come up as a result military intervention in government, ethnic crisis, and frequent occurrence of war. The study also made it known that there is a statistically significant negative correlation between FDI and conflicts in Africa. This emphasizes on the fact that, intervention of foreign businesses in the continent has no relationship with the causes of war in the region. Political instability will surely hinder the inflow of FDI in African countries.
- **Lack of Policy Transparency:** The fact that political instability is one of the inherent features of the continent precipitates that incessant changing of government will also lead to incessant changing of policies. This automatically makes it difficult to actually predict what the policies of governments are all about in African countries. The policy of increment in transaction cost, tax, and rules and regulations would not be easy to measure by the foreign investors and this will make the continent so risky for them to invest their businesses.
- **Macroeconomic Challenges:** Effective presence of macroeconomic variable is one of the basic determinants of FDI intervention in any country and when macroeconomic variables have been destroyed or not put in place by any nation then it will affect the interest of FDI. The presence of inflation, budget deficit, currency crashes, etc in African countries make the continent less attractive to foreign investors. Recent evidence based on African data suggests that countries with high inflation tend to attract less FDI (Onyeiwu and Shrestha, 2004).

The Nigerian macroeconomy is still characterized by structural rigidities, dualism and the false paradigm model. Generally, the sectors of the economy are in silos to the extent that the primary sector does not relate meaningfully with the secondary sector and the same for the secondary and the tertiary sectors. Agricultural produce end up as final consumer goods as only a small quantity is processed or used as raw materials for local manufacturing industries. Also, the produce of the extractive industries are exported in their raw forms without local value addition. Given the higher incomes in the oil and gas sub-sector of the extractive industry, attention is concentrated there to the almost total neglect of the mainstream economy. Consequently, the economy is broken into the very rich (relying on the oil and gas industry) and the very poor (relying on the mainstream economy) with almost a complete vacuum in-between these two.

- **Environmental Problem:** It is a duty of foreign investors to find nations with better environmental factors and which could enhance their investments. Climatic problem as a result of several harms done to the African environment makes the continent so risky for foreign investments. Findings made it known that in the past, domestic investment policies, for example, on profit repatriation as well as on entry into some sectors of the economy were not conducive to the attraction of FDI (Basu and Srinivasan, 2002).

- **Market Size and GDP Growth-Rate:** One of the major factors that make the continent to be termed developing countries‟ is their low GDP rate annually compare with other regions in the world. The low GDP rate with relative small market size hinders the inflow of FDI in the region.

- **Poor Infrastructure:** The main challenges' facing the economy is poor economic and social infrastructure: bad roads, erratic power supply, limited access to portable water and basic healthcare, and much more. Building a vibrant economy or restoring growth to a sluggish economy takes resources. To ensure long-term growth and prosperity, Nigeria must use its resources wisely, invest in advanced technology and rebuild the infrastructure without which the economy will not gain from the 'power of productivity'. A nation enjoys higher standards of living if the workers can produce large quantities of goods and services for local consumption and extra for export. The deficiencies in the economy lead to low productivity, poor quality products and non-competitiveness in the global market place.

- **Corruption and Maladministration:** Although corruption is a global scourge, Nigeria appears to suffer particularly from it. Everyone appears to believe that the nation has a ‘culture of corruption’. Over the years, Nigeria has earned huge sums of money from crude oil, which appears to have largely gone down the sinkhole created by corruption. Corruption has denied Nigerians the value of the petro-dollar that has accrued to the country over the years. The failure of infrastructure, political and ethical standards as well as moral and educational standards can easily be traced to corruption.

- **Poor Institutions and Corporate Governance:** Another important challenge to sustainable economic growth in Nigeria is lack of effective institutions and good governance. These factors have been hindering various efforts and reforms of the government to stimulate economic growth for sustainable development in Nigeria.

- **Low quality of education:** Education is an important factor in economic growth and development. But the nation's educational system has been facing myriad of challenges, which prevent the country from achieving its economic objectives. The problems include inadequate funding and planning and management, inadequate infrastructure, irrelevance of curricula to industrial needs, and inadequate commitment on the part of students and teachers, among others. All these have combined to hinder the production of a high quality work force to propel the economy (UNESS for Nigeria: 2006-2015).

- **The Dutch Disease:** Since the oil price boom of the early 1970s, the country abandoned the agricultural and industrial sectors of the economy to the old and weak**.** Both the public and private sectors of the economy concentrate their efforts in the oil and gas industry to the extent that the mainstream economy is denied funding, requisite investment and even managerial capabilities. Thus, the mainstream economy has become uncompetitive globally while the country has turned into a trading outpost for foreign companies. This has hindered the much-needed transformation of the economy in the last four decades.

- **Poor Investment climate:** The consequence of all that have been said above is the poor investment climate in the economy that has rendered the economy uncompetitive. In the absence of adequate infrastructure (power, roads, water, etc.) the cost of doing business in the country remain high, forcing to neighboring countries even companies that had existed in Nigeria for upwards of four decades.

So, in a survey of African countries Dupasquier, and Osakwe (2006) identified poor corporate governance, unstable political and economic policies, weak infrastructure, unwelcoming regulatory environments and globaln competition for FDI flows as impediments standing in the way of attracting significant FDI flows. Nigeria‟s legal environment is still relatively weak as there is no correlation between the number of available legal officers and regulatory agencies and the rate of compliance and enforcement. Also, the level of funding that is dedicated to these aspects of governance (legal and regulatory) is partly responsible for the declining performance of the relevant agencies in this respect. As a result of the apparent infrastructural deficit in Nigeria, particularly in terms of (electricity, roads, water, public education and affordable housing) many organizations are left with little option but to limit their investments on certain aspects of their operations. Today, terrorist acts have become a reality of the everyday existence of an average Nigerian. Whilst local business are shutting down and relocating to other parts of the country perceived to be less troubled, multinational corporations have relocated to relatively safer countries and potential multinational corporations are reviewing their interests as regards investing in Nigeria because of the terrorism challenges.

2.3. The contribution of MNCs activity to the economic development of Nigeria

Foreign Direct Investment (FDI) in Africa has made an important contribution to the economic development of the continent which has increased only modestly in recent years. The contribution that FDI has made to economic development and integration into world economy has been widely recognised.

Africa’s relative share of FDI jobs also rises FDI projects announced in 2014 will create 188,400 jobs in Africa — 76,200 more than in 2013. Africa’s share of the jobs created globally by FDI rose from 5.9% in 2013 to 8.7% in 2014. However, from a job-creation perspective, African FDI remains a poor performer. Although Africa’s population is growing fast and unemployment is high, its FDI projects provide more capital than employment. In 2014, Africa attracted 17.1% of global FDI infows (only Asia-Pacifc performed better) but got only 8.7% of jobs. Its increased share of global FDI jobs in 2014 is an improvement, but a much bigger rebalancing is needed.

The impact of the global economic downturn has been more or less positive on the Nigeria economy in terms of inflow of FDI. In the years of economic downturn, FDI inflows into the country’s economy has considerably increased, the economy received about $1,2 tln and $1,4 tln respectively in years 2009 and 2014, this was associated with the growing competitiveness in the economy (Source: UNCTAD world investment Report 2009).

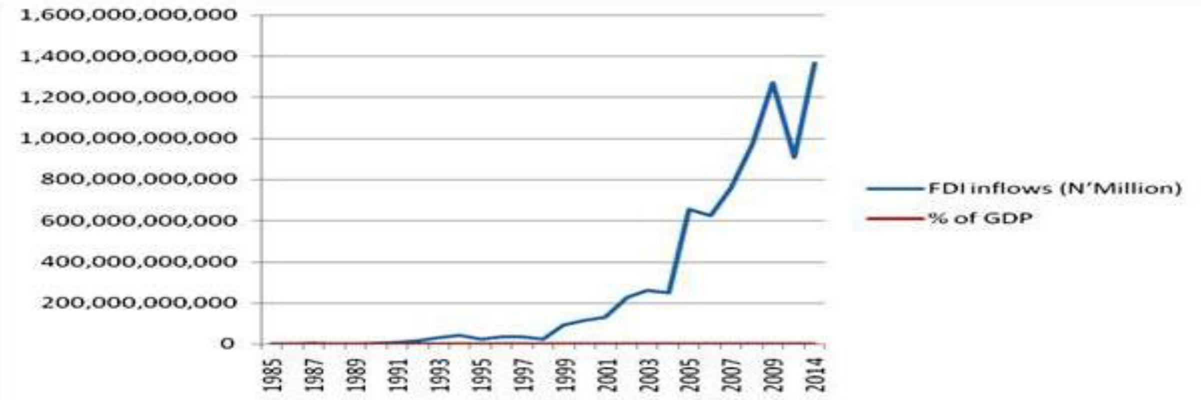

Figure 2.9. Inflows of Foreign Direct Investment in Nigeria 1985-2014

There is however, conflicting evidence about the real world effect of FDI, leading to the argument that the case that FDI promotes economic growth is encouraging rather than compelling. FDI usually takes the form of purchase of existing assets in the home country, new investment in property, plant or equipment in the receiving country or joint venture with a local partner in a home country.

The effects of globalization in Nigeria have generated differing perspectives. Obaseki (2000) argues that the positive effects of globalization in Nigeria include, international specialization, high quality but low cost products and free flow of investment capital.

Nigerian government has invested a lot in trying to create an enabling, least-cost environment that promotes investment opportunities through infrastructure development, market-friendly policies, and establishment of complementary ventures to augment local resources needed by firms; but public investment only constitutes part of total investment. Most studies on domestic investment as a determinant of FDI look at it as composite variable, without decomposing domestic investment into its constituents-private and public, thus knowing the individual influence on FDI. These studies implicitly assumed that FDI granger causes domestic firms' productivity. However, there could bi-causality between the variables. This study deviates from earlier studies in Nigeria **(**Ekpo, 1997; Anyanwu, 1998; Ndikumana and Verick, 2008) by empirically exploring the individual effect of domestic investment on FDI flows through dichotomizing it into its parts- private and public investment.

Ariyo (1998) studied the investment trend and its impact on Nigeria's economic growth over the years. He found that only private domestic investment consistently contributed to raising GDP growth rates during the period considered (1970-1995). Furthermore, there is no reliable evidence that all the investment variables included in his analysis have any perceptible influence on economic growth. On firm level productivity spillover, Ayanwale and Bamire (2001) assess the influence of Foreign Direct Investment (FDI) and firm level productivity in Nigeria and report a positive spillover of foreign firms on domestic firm's productivity.

The empirical results generated from the estimation as presented above are revealing and in fact instructive. The R^2 which is the coefficient of determination was found to be very high at 0.98, implying a 98% explanation of variations between our dependent and independent variables. Likewise, the F-statistics was also found to be very high indicating in the overall the high significance of research model.

With regards to the t-value, it was found that the Foreign Direct Investment (FDI) recorded given the period of study, has a statistically significant impact on economic growth in Nigeria. The sign of the estimated coefficient was positive with a very high t-value of 48.61 suggesting that FDI has greatly impacted on the Nigerian economy. This is an indication that FD investments in Nigeria have to a large extent justified its presence and have also promoted sustainable economic growth in the country.

In as much as there are negative attributes about the activities of the MNCs in Nigeria and the rest of the third world countries, there are some elements of **positive impact** in the operations of the MNCs.

The benefits of multinational corporations to Nigerian economy numerous. Multinational corporations transfer technologies, capital and the culture of entrepreneurship. They increase investment levels and income in Nigeria; they promote improvement in their immediate environment; create access to high quality managerial skills; improve the Nigerian balance of payment o by increasing exports and decreasing imports; help to equalize the costs of factors of production.

They stimulate domestic production and enhance efficiency and effectiveness in the production process; they stimulate positive responses from local operators. Most of the well known Nigerian entrepreneurs started by working for the multinational corporations, where they acquired relevant skills and knowledge that gave them the impetus to launch out. Multinational corporations also acquire raw materials with ease from any overseas source at competitive prices and can easily export components and finished goods for assembly or distribution in foreign markets. They create several other opportunities in Nigeria that create employment and improve living standards of the Nigerian communities. Looking at the fortune of about 500 companies Nigeria, only very few play big in the Nigerian economy, although their products are sufficiently visible. Nigeria is a big consumer of the products and services of multinational and transnational corporations and deserves to host a good number of them at this stage of our development.

Inward investment by multinationals offer much needed foreign currency for developing economies. Their size and scale of operation enables them to benefit from economies of scale enabling lower average costs and prices for consumers. This is particularly important in industries with very high fixed costs, such as Heavy Capital manufacturers.

MNCs create wealth and jobs within Nigeria. This section presents and interprets data on the impact of MNCs on the employment of more expatriates among Nigerian organisations. This is a major research objective of this study and has a corresponding hypothesis.

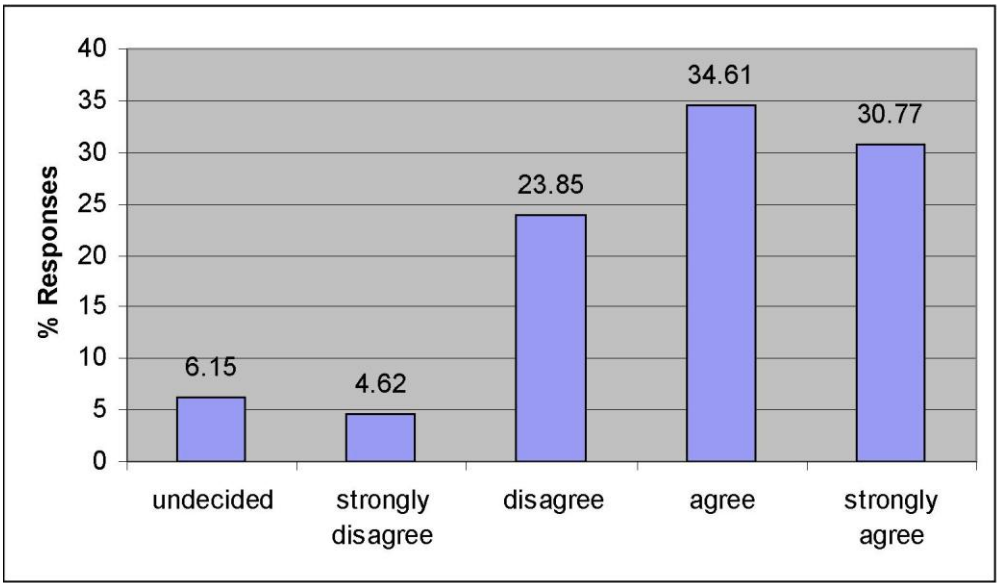

Figure 2.10. Data on the Employment of more Expatriates Due to MNCs

Data in Figure 2.10 show that there is increased employment of expatriates in the sampled Nigerian organisations due to the activities of the MNCs. Approximate 65% agreed, about 29% disagreed and 6% were undecided.

Since 1999, Nigeria has demonstrated the highest potential for ICT investment in Africa; the NCC reported 64 million SIMs in operation at the beginning of January 2009, with 23 million new subscribers signing up in 2008. In 2007, Telecommunications attracted the most private participant investment in Africa (86% of total). Nigeria claimed the dominant share of the $9.5 billion (reportedly the highest since 1990) at 28% ($2.66 billion) followed by South Africa at 11% ($1.045 billion).

The explosion of the telecommunications sub-sector of Nigeria propelled by foreign investment, has seen significant contribution to the growth and development of Nigerian economy. The level of investment in the country due to telecommunications liberalisation is currently valued at about $18 billion. This is expected to rise with more operators coming on stream.

Foreign investments in the telecommunications sub-sector have also contributed to the creation of jobs in the economy. Employment opportunities created in the country as a result of telecommunications liberalisation is estimated to be in excess of 8,000 jobs. However, for a sub-sector that has been in the limelight of the national economy in the past ten years, 8,000 jobs seems to be paltry given the growing number of educated youths that needs jobs. The truth is that the sub-sector is technology-driven and as such cannot be expected to create enormous job openings.

Over 87 million Nigerians now have a convenient way of communication. This development has greatly affected positively the business environment. MTN for instance, appointed over 350 dealers nationwide. GSM has actually created the habit of time management in Nigerians.The contribution of foreign direct investment in the telecommunications sub-sector of Nigeria to her economic growth and development can best be captured by the table below.

Table 2.2

Trend of Foreign Direct Investment in Telecommunication Sector and the Contribution of the Telecommunications Sector to the Gross Domestic Product of Nigeria (1986 – 2014)

Year	Contribution of the Telecommunications Sector to the Gross Domestic Product of Nigeria (N'm)	Foreign Direct Investment in Telecommunications Sector (N'm)
1986	129.40	80.40
1987	130.70	75.60
1988	131.90	160.60
1989	134.60	158.20
1990	137.30	240.50
1991	140.00	373.20
1992	144.90	391.50
1993	150.00	426.40
1994	151.50	429.60
1995	159.10	374.80
1996	167.00	485.60
1997	177.00	672.60
1998	185.90	689.20
1999	195.50	820.30
2000	207.50	820.30
2001	2398.68	955.30
2002	2983.07	1736.30
2003	3785.47	2890.50
2004	6015.91	4281.10
2005	7851.66	5565.40
2006	10567.90	8291.00
2007	14226.75	10758.20
2008	19159.16	7996.80
2009	25812.44	13238.10
2010	35674.18	72073.30
2011	291712.09	7564.4
2012	331502.79	6519.6
2013	6621734.16	85606.6
2014	5420654.36	8506.4

Source: Central Bank of Nigeria Statistical Bulletin; Central Bank of Nigeria Annual Report and Statement of Accounts for various years

The contribution of the Telecommunications Sector to the Gross Domestic Product of Nigeria increased throughout the years. Just as it was revealed by the regression result, the Foreign Direct Investment in Telecommunications Sector and the Contribution of the Telecommunications Sector to the Gross Domestic Product of Nigeria have positive relationship during the years considered.

According to Majekodunmi and Adejuwon (2012) there are many instances of the **negative effects** of globalization on the Nigerian economy in terms of inflation/devaluation of currency and the collapse of local industries like the textile and automobile sectors. Another instance stated is that globalization has created an avenue for corrupt government officials to loot public funds, as well as the fact that whilst Nigerian exports promote economic diversification abroad, it restricts diversification in the domestic setting.

Adelegan (2000) explored the seemingly unrelated regression model to examine the impact of Foreign Direct Investment (FDI) on economic growth in Nigeria and found out that Foreign Direct Investment (FDI) is pro-consumption and pro-import and negatively related to gross domestic investment. Akunlo (2004) found that foreign capital has a small and not statistically significant effect on economic growth in Nigeria. In another paper, Ekpo (1995) reported that political regime, real income per capita, inflation rate, world interest rate, credit rating and debt service were the key factors explaining the variability of FDI inflows into Nigeria.

In Nigeria, the activities of multinational companies have been identified as questionable or even unethical because of the harms they have caused on the society. Because of their formidable resource base, they dominate the economy, straddle the indigenous entrepreneur and in the process create a monopoly. In the oil sector which is the economic mainstay in Nigeria, these corporations perpetrate heinous activities such as pollution of the environment, inadequate technology transfer, violation of human rights, blunt refusal to discharge their social responsibilities, gas flaring which destroys wildlife, seafood’s and farmland especially in the Niger-Delta region without adequate compensation.

Equally, the activities of these multinational corporations have led to increase in anti-social activities like drug abuses, prostitution, kidnapping, armed robbery and murder etc. On the effect of these kidnappings on the socio-economic development of Nigeria, Ajaero submits that Nigeria lost ₦2.46 trillion in 2006, ₦2.69 trillion in 2007 and ₦2.97 trillion in 2013 through attacks on oil installations resulting in shutdowns and spillages. Nigeria has also lost billions of Naira to foreign countries through act perpetrated by multinational companies such as tax evasion, bribery, under-declaration of profit, over-invoicing, smuggling, and racketeering.

Nigeria is very much affected by the negative activities of these multinational corporations operating in Nigeria. Their obnoxious acts have affected our economy tremendously. They include:

- **Environmental degradation:** This is more conspicuous among the oil producing companies/firms in Nigeria. These companies have blatantly degrades environment, farmlands, wildlife, rivers through gas flaring, oil spillages Ibeanu (2009). At the same time, millions of naira have been lost on these issues because they seriously impede economic growth and development of the country. For instance, Nigerians lost 2.456 trillion in 2006, 2.69 in 2007 and 2.97 in 2013 as a result of the activities of these multinationals.
- **Technological backwardness:** The MNCs by way of purporting to help industrialize Nigeria create a branch-plant economy of small inefficient firms incapable of propelling overall development. The local subsidiaries exist only as enclaves in the host economy rather than as engines of self-reliant growth. These corporations intentionally and deceitfully introduce inappropriate types of technologies that hinder indigenous technological developments. These MNCs employ capital intensive productive techniques that cause unemployment. All these prevent the emergence of domestic technologies. Before the advent of the MNCs, in Nigeria, there were so many assorted types of technologies all over the country,

though they were of low scale type. The MNCs rather than help them grow knocks them off systematically through the introduction of more advanced technologies. The MNC both retain the control of the most advanced technology and do not transfer it to Nigeria or the rest of the developing economies at reasonable prices.

- **Profit Repatriation:** In brief, the MNCs export abroad the capital that would have been used to develop Nigeria thus; the MNCs distort the economy and the economic development in Nigeria because the capital needed for development is no longer here in the country but abroad.
- **Political Instability:** Because these corporations require a stable host government, which of course is sympathetic to capitalism, they try as much as possible to cause directly protect the existing government whenever a reactionary leader or group seems to take over the government. So the multinationals in the third world and Africa in particular have gained much from the political instability that exists here and there. Africa now has the greatest number of countries experiencing one kind of political crisis or the other. In all these, the wicked hands of the MNCs and their home governments are there very glaringly.
- **Structural Distortion:** The principle of industrialization in an open economy of the Nigerian government in relation to the MNCs has given the MNCs the freedom to choose their line of operations, the locations of their industry and other productive processes. The MNCs natural base is usually in urban centers of the Nigerian society like Lagos, Kaduna, Enugu and Port- Harcourt. The industries in these cities are mainly those of oil and consumer goods. This urban concentration of MNCs distorted the structure of the society by enhancing an uneven “development”.
- **Cultural Degradation:** The adverse effects of the presence and operations of MNCs in Nigeria are also felt in the area of our cherished cultural heritage. Indeed, there are negative effects of foreign direct investment on the cultural and social well-being of Nigeria and other fewer developing countries. These multinationals undermine the traditional values of the Nigerian society and introduce through its advertising and business practices new values and tastes inappropriate to the Nigeria nation. An

instance of this is the introduction of foreign violent and crime-laden films and videos as well as pornographic materials into Nigeria.

- **Bribery and corruption:** These corporations are one of the agents of corruption in Nigeria. They have influenced our leaders negatively through bribes to earn their ends meet. This is a wrong signal to the international community and a big minus for Nigerians' image and reputation.
- **Salary Discrimination:** Multinational corporations adopt discriminatory salary policies. Expatriates are highly paid while Nigerians are given peanuts when compared to what expatriates are earning monthly or annually.
- **Inadequate Provision of Social Responsibilities:** Multinational corporations have not done much in terms of social responsibilities. For instance, the largest oil producer in the country, Royal Dutch/Shell has been repeatedly criticized. In the early 1990s, several ethnic groups in Nigeria, which was ruled by a military dictatorship, protested against foreign oil companies for causing widespread pollution and failing to invest in the communities from which they extracted oil.
- **Employment policies:** These corporations are in the habit of employing expatriates to fill in the key positions. That is why they adopt ethnocentric model of staff selection where expatriates are given preference in terms of recruitment and selection. This is inimical to the economic growth and development.

So, Stopford (1998) states that advocacy groups often portray multinationals as globetrotting sweatshop operators, indifferent polluters, and systematic tax evaders. Exploitation remains a problem. Perhaps unwittingly, MNCs can fuel public concern by being culturally insensitive, not honoring promises made by their predecessors, and being inconsistent in other aspects of their "social contract" with local society. With regard to the environment, international big business is both the creator of pollution and the only resource available for its cleanup. The MNCs' record on pollution pales in comparison with those of many local businesses and state-owned enterprises.

Inspite of all the negative attributes about the activities of the MNCs in Nigeria and the rest of the third world countries, there are some elements of positive impact in the operations of the MNCs. The benefits of multinational corporations to an economy are numerous. Multinational corporations transfer technologies, capital and the culture of entrepreneurship. They increase investment levels and income in the host countries; they promote improvement in their immediate environment; create access to high quality managerial skills; improve the balance of payment of host countries by increasing exports and decreasing imports; help to equalize the costs of factors of production. They stimulate domestic production and enhance efficiency and effectiveness in the production process; they stimulate positive responses from local operators. Most of the well known Nigerian entrepreneurs started by working for the multinational corporations, where they acquired relevant skills and knowledge that gave them the impetus to launch out. Multinational corporations also acquire raw materials with ease from any overseas source at competitive prices and can easily export components and finished goods for assembly or distribution in foreign markets. They create several other opportunities in the host country that create employment and improve living standards of the host communities.

CONCLUSION TO CHAPTER 2

Countries that can offer a large domestic market and/or natural resources have inevitably attracted foreign investors in Africa. South Africa, Nigeria, Ivory Cost, and Angola have been traditionally the main recipients of foreign direct investment within the region.

FDI inflows into Nigeria have been growing largely over the course of the last decade; the county receives the largest amount of FDI in Africa which makes it the nineteenth largest recipient of FDI in the world, most traditional sources of FDI has been into the oil sector. Chevron, Texaco and Exxon Mobil from USA had investment stock worth of $3.4 billion in Nigeria in 2014, UK FDI into Nigeria accounts for about 20% of Nigeria's total foreign investment while China direct investment to Nigeria is reported to worth $6 billion. The oil and gas sector receives 75% of China's FDI in Nigeria therefore making China and Nigeria the second trading partner in Africa next to South Africa. Other significant sources of FDI into Nigeria include France, Brazil, Netherlands, South Africa and Italy. Outside of petroleum, the country has large untapped mineral resources which include iron ore, coal, lead and Zinc, and the country's expanses of arable land made agriculture and agro-processing industries viable and attractive. The Telecommunication sector has been vibrant with the total of $18 billion invested into the sector between 2001 and 2014 which has made Nigeria Telecoms Africa's biggest mobile market.

The history of MNCs in Nigeria started with the establishment of trading posts in Nigeria by European corporations in the 19th century. The activities of MNCs in the country increased significantly with the discovery of crude oil in Nigeria in the late sixties. Today Nigeria earns 95% of its export revenue from the oil and gas sector. This accounts for about 41% of Nigeria's gross domestic product. The oil and gas industry is dominated by foreign multinational corporations operating in some form of partnership with the Nigerian National Petroleum Corporation (NNPC), a state owned corporation.

Over the past few years, Nigeria has attempted to improve its business climate in an effort to attract more foreign companies. Establishing a competitive business climate is a difficult task because it takes time not only to implement policies but also to convince potential investors. To improve the climate for foreign direct investment, strong economic growth and aggressive trade liberalization can be used to fuel the interest of foreign investors. Similarly, a closer look at the experience of countries that have shown a spectacular improvement in their business climate reveals that the implementation of a few visible actions is essential in the strategy of attracting foreign direct investment. Political and economic stability – the governments of SSA countries must take up the responsibility of implementing policies that ensure political and economic stability. An improvement in this area will certainly attract more investors from Nigeria.

The governments should create the enabling institutional environment – this includes giving incentives like tax holidays, reducing the bureaucracy associated with starting a new business, a functioning judiciary and addressing the issues of bribery and corruption. Appropriate legislation must be put in place for proper adjudication. The government monetary policy should focus on containing or reducing inflation and interest rates. The fiscal policy framework should be strengthened. There is the realization that the privatization of state owned enterprises should be carried out so as to be able to attract MNEs and hence enhance capacity and credibility to the regional investment and business services strategy of the government. This would no doubt attract foreign investors to participate in the process of privatization.

Recent large investments are generating significant multiplier effects for African economies through the transfer of technology (the generation of employment), improved productivity, and the fulfillment of demand for services. Examples of successful ICT investments abound in every region on the continent.

MNCs may pay low wages by western standards but, this is arguably better than the alternatives of not having a job at all. Also, some multinationals have responded to concerns over standards of working conditions and have sought to improve them.

Some criticisms of MNCs may be due to other issues. For example, the fact MNCs pollute is perhaps a failure of government regulation. Also, small firms can pollute just as much.

MNCs are evidently in cognizance as regards to the contract that they signed is one sided and they are not worried because it is part of their nature to maximize profit. Therefore, they are very cautious and clever in dealing with the Nigerian government. MNCs have used the political elite in developing countries to seek to advance their global earnings and competitive advantages by offering bribes and other inducements to secure government contracts in Nigeria and to reduce legally allowed taxes and custom charges. More so, anytime the government wants increased tariffs and company taxes, MNCs will counter that move and at the same time try to make gains through the process of double accounting. MNCs are, first and foremost, creatures of their home countries. The home country always gets first priority whenever MNCs have to make hard choices: If faced with a downturn in the market, multinationals will close facilities abroad to protect those at home.

The influence of a multinational can also be gauged by its effect on local suppliers as it creates new demand and sets new standards of quality. All these elements are part of a world where the local production of MNCs in overseas markets now greatly exceeds the sum of world trade. The resulting deep integration of national economies is growing so fast that any suggestion in developed economies that the domestic-policy agenda can be isolated from the global economy seems antediluvian. Governments in some of these countries like Nigeria now find that they must contend with both host-and home-country influences in their negotiations with MNCs. In principle, stricter penalties and sanctions have the potential to curb corrupt practices, but the prospect of these being introduced in Nigeria, as the evidence shows, is unlikely. More severe penalties should be imposed on directors of companies and threats of corporate closure should be entrenched in a global agenda against corruption.

CHAPTER 3. MACROECONOMIC POLICY FORMATION TOWARDS FOREIGN CAPITAL FLOWS IN NIGERIA

3.1. The role of multinational corporations in sustainable development and strategic FDI decisions

Multinational corporations are the major vehicles by which globalization is affecting businesses in different parts of the world. Globalization further makes the influence of multinational enterprises more pervasive and impacting. Over the years, it has since remained an issue of debate if truly multinational corporations play any significant role in bringing development to their host countries particularly the developing economies.

MNCs are the key to achieving sustainable development, because they are the main transmission mechanisms of technology to developing countries. In 1995 alone, over 80% of global royalty payments and licence fees were by MNC subsidiaries to their parent companies (UNCTAD, 1997)13. Indeed, MNCs are not only the major technology innovators, but they also possess skills in the safe handling, transport, storage, use and disposal of toxic materials, and in the development of pollution abatement technologies (Morimoto, 2005).

Technological advancement may contribute to reducing environmental externalities in two major ways: first, high level of technology can help in the manufacture of products which are less environmentally damaging to use or dispose of (e.g. fuel-efficient vehicles); second, through sophisticated technology, pollutants may be emitted less intensively (UNCTAD, 1999:15).

Moreover, multinational enterprises can positively contribute to sustainable development through the transfer of environmental managerial skills that are not available to host developing countries. In sum, the technological advancements of MNCs, coupled with their high management skills, it is argued, places them at a greater advantage in enhancing the sustainability of the ecology.

While there is little doubt that MNCs possess clean technologies than can enhance environmental sustainability, many scholars remain doubtful whether MNC technology is an unmitigated blessing to host developing countries. Because of their greater technological capacity, the use of production techniques or substances that are more ecologically damaging, and the larger volume of production that they characterise, MNCs usually have a negative effect on the environment when they newly produce in, or export to an area. With the increasing spread and market penetration and share of MNCs, the damaging environmental effects have increased. However, given their insufficient financial resources, most developing countries lack the advanced and effective pollution control technologies required for environmental sustainability. Instead, investments in technology necessary for sustainable development can largely be obtained from foreign corporations.

Defenders of multinationals, however, maintain that the above claims often over stretch the environmental impacts of MNCs as though only foreign multinational companies engage in environmentally degrading activities. It is argued that multinational corporations are neither better nor worse than indigenous companies in their environmental practices. In a comprehensive study, UNCTAD (1988:228) finds that while the number of industrial accidents appears to have risen over the last fifteen years, available evidence indicates that multinational corporations have been involved in less than half of them. 'Many accidents have occurred in purely national firms or in state-owned enterprises'.

Managing multinational corporations require a different set of conceptual tools than in the case of purely domestic firms. In particular, it is important to understand the fundamental economic, strategic, structural, organizational, and socio-political issues that have impact on the process of international expansion of the firms, on the linkages between foreign subsidiaries and corporate headquarters in the home country, and on the relationship between the multinational firms and interest groups in the foreign countries, including the government, labor unions, customers and suppliers.

The geography of enterprise approach asks where the firm should exist in order to perform better than the other firms, while the strategic management literature asks how and why some firms are able to perform better than other firms. Thus, the role of strategic decision-making over the production system including not only the firms themselves, but also the relationship between the firms, their suppliers and customers, and the host governments.

In the context of the FDI, the geography of enterprise literature recognises the corporate strategies behind locational decisions. In addition, this tradition understands FDI as a TNC – a host government bargaining process, which is explained by strategy and the power of the firm. This means that the decision to go abroad is strategic. Thus, a further look at the strategic management approach is needed in order to understand the corporate behaviour behind the investment decisions.

Strategy is defined "as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals" (Chandler 1962,15-16). Consequently, strategic management is "the process through which strategies are chosen and implemented" (Barney 1991, 27-28). Also Hofer and Schendel (1978, 4) put it similarly: strategy means matching between the organisation's resources with its environment in order to accomplish its purposes. As a result, strategic management models, such as strategy-performance models, argue that the firm aims to gain economic performance through the set of scope and the resource deployment decisions.

The *aim of the strategy* is to combine the strengths of the firm with the opportunities of the environment. As a result, the firm gains economic performance. The aim is to avoid the situation where the weaknesses of the firm are met with the threats of the environment. If the firm succeeds to combine the strengths of the firm with the opportunities of the environment, only the simultaneous change in both the environment and the firm can move the firm towards the worst alternative. Accordingly, with the help of its strengths, the firm may hinder the threat of the environment. However, if there are weaknesses in the firm, it is not able to fully exploit its environment (Lahti 198,24-29).

Nigeria has many potential factors to flourish foreign investors. With its scenic beauty and a dense population, Nigeria provides several other financial features to foreign investors. The SWOT analysis of Nigeria in relation to investment provides basic information on ensuring investment. The following table 3.1. draws the SWOT analysis as it appears in UNCTAD.

Table 3.1

SWOT analysis of Nigeria

Strength: • Location • Relatively liberal economy • Trainable and low-cost workforce • Substantial natural and cultural as Sets • Small and accessible bureaucracy and a generally business-friendly government	***Opportunities***: • Tourism, including sports and adventure tourism, health tourism and cultural tourism • A variety of niche agricultural and agrobusiness activities • Hydropower generation and infrastructure development generally • IT-based services
Weakness: • Landlocked country • Poor infrastructure and mostly unskilled workforce • Rigid and intrusive labor legislaTion • Political instability, weak implementation and persistent corruption	**Threats:** • Ongoing Maoist insurgency

The research problem of the present study asks how the TNCs perceive and react to the change in their political environment in the host country when making the investment decisions. Therefore, the political environment of the firm has to be studied separately from the rest of the firm's general macro-environment (figure 3.1.).

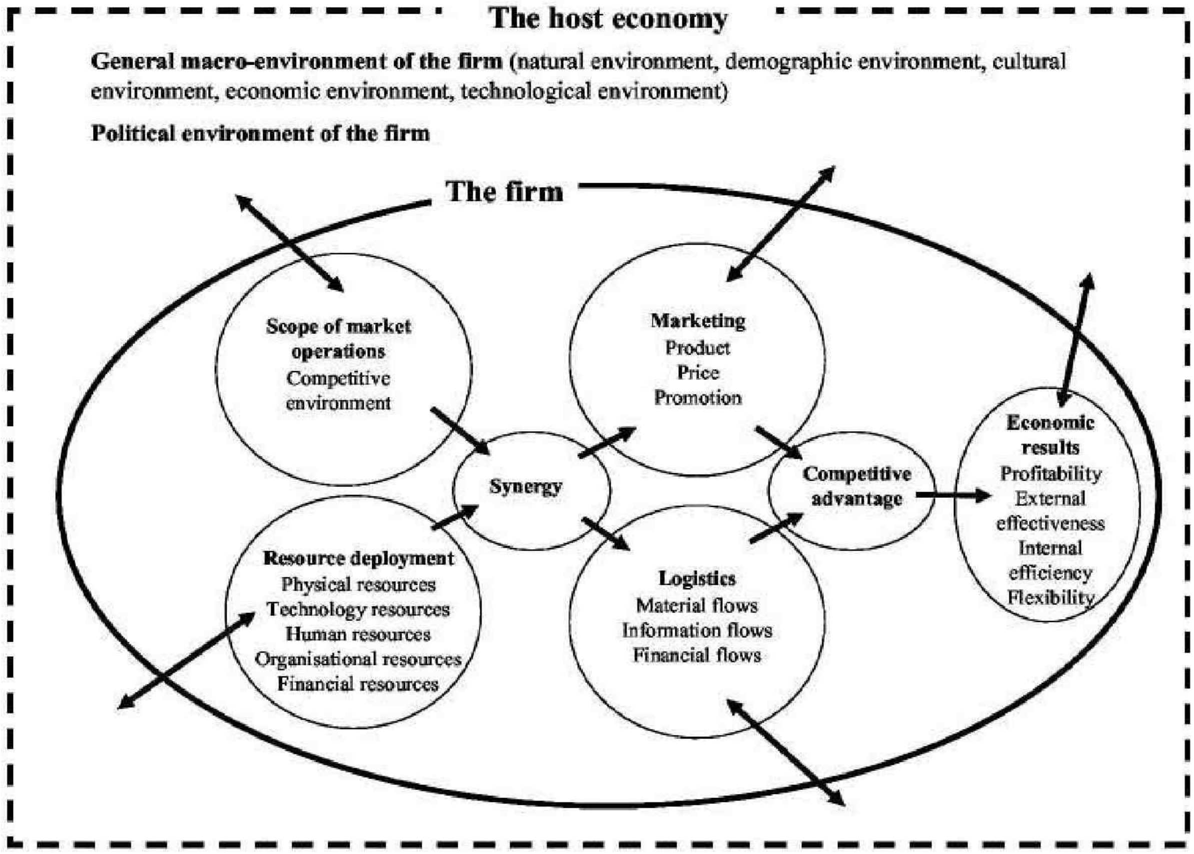

Figure 3.1. Relevant elements having an impact on the firm's investment decision

The basic strategy-performance model is easily adaptable to the case of direct investment decisions, which are the firm's decision on the geographical scope. As such, the investment decision is one of the major decisions of the firm, which is made once and not changed for firm should be in. Thus, it has to be made in a consistent way with the organisation's strategies.

Based on Ansoff (1965), Hofer and Schendel (1978, 25) present the four elements of any organisation's strategy:

1. scope of operations, the organisation's present and planned interactions with its environment.

The first element of the strategy-performance model, the scope of operations, is defined broadly: for some companies, it means product or market segments, while the other companies may identify it in terms of geography, technology, or distribution channels. Lahti (1987) explains that the scope of operations means the firm's choice over the customers, the products and the markets. Through this decision the firm selects its external environment. For example, by choosing a target market, the firm also chooses its competitive environment.

Strategic fit, which reflects the alignment between the firm's internal potential and its external opportunities, allows a firm to compare and choose among attractive investment destinations. However, the characteristics of the environment are not interesting for the firm as such, but it is interested in the best possible match for the firm's resources. This is what the geography of enterprise approach argues while explaining location as the relative optimal location. Location is optimal in relation to the firm's strategies. In this context, geographers (Nishioka & Krumme 1973, 202-204) have developed the concepts of location conditions and location factors, which give an additional explanation. Location conditions refer to the differences between locations. These differences are the same for all companies. Differently, location factors refer to the interpretation of the location conditions from the perspective of a single firm and its purposes. Thus, the firm perceives the location conditions of the host country as a more specific set of location factors. Different strategies and resource deployments of different TNCs explain why the firms may value the same environment differently.

In practice, a single location condition can be interpreted in various ways depending on the firm's strategy. For example, such a location condition as access to market may refer to advantages resulting from transportation costs, or advantages resulting from close contact (eg customer services), or advantages in the selling price or quantity resulting from the size of the market. Furthermore, the same location condition may be a desirable, undesirable, or inconsequential location factor for a TNC. For example, the host country's environmental policy reform may be desirable for an investor transferring new environmental technologies to the host country, undesirable for an investor using contaminant technologies, and inconsequential for an investor operating in a not environmentally sensitive field.

2. resource deployment, the level and patterns of the organisation's resource and skill deployment, which helps it achieve its goals.

The resources, which the firms possess and can use in order to achieve their objectives, to consist of:

1. physical resources (eg raw materials, buildings, machines)
2. human resources (eg staff number, education level, language skills, professional skills)
3. technological capabilities (eg systems of production, information and telecommunications)
4. financial resources (eg cash flow, equity capital, short and long-term liabilities, return on capital, liquidity, solidity)
5. organisational resources (eg organisational structure and capacity, R&D degree, innovativeness, values).

The resources of the firm are not just given, but they are dynamic: the firm has to continuously upgrade and develop them. Financial resources have a special position among the resources, as they are the only resource generated by the activities of the firm in the market place and, moreover, directly convertible into the other types of resources (Lahti 1985, 6). All resources have also spatial dimensions, as the operations of the firm are partly tied to resources available in the host country, in the case of FDI.

3. synergy, the joint effects of resource deployment and scope decisions.

The joint effects of the set of scope and the resource deployment decisions produce synergy. The level of synergy defines the potential of the firm. In the case of direct investment, however, an additional element of the host country has to be taken into consideration. With regard to scope decision, the host country may be the same as the chosen target market (local market oriented investment) but it may also be different (international market oriented investment).

Firms prepare products or services with certain prices for the target market, which is reached through the distributions channels (place) with the help of promotion (eg sales promotion, advertising, sales force, public relations). In practice, logistics can be measured by such variables as delivery reliability and time, flexibility of order-delivery process, warehousing, transportation routes, and telecommunications links.

4. competitive advantage, an organisation's unique position vis-a-vis competitors through its resource deployment and scope decisions.

Competitive advantage refers to the organisation's unique position vis-a-vis competitors. Based on the firm's resource deployment and scope decisions, competitive advantage is created through marketing and logistics if the supply of the firm fits the market demand better than its competitors' supply.

Taking a more practical view of FDI, it is possible to distinguish various kinds of investment types based on such issues as the target market, strategic motives, internal structure, industry, way of growth, ownership, and others. The types are partly overlapping reflecting the multidimensional nature of the investment decision. It is obvious that a firm makes its investment decision to meet the general motives of corporate strategy, especially economic performance.

The research design of the study can be described as follows (figure 3.2).

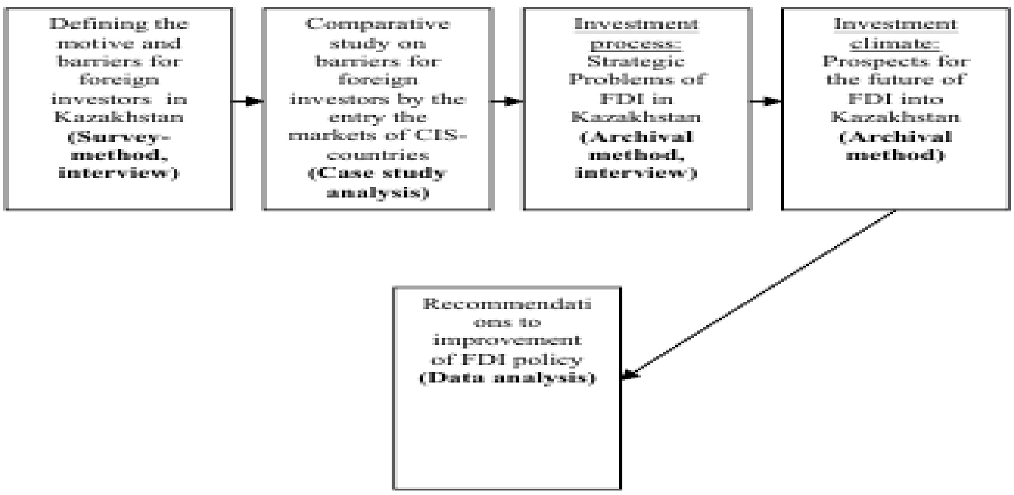

Figure 3.2. Multidimensional nature of the investment decision

Nevertheless, investment literature (eg Behrman 1981; Buckley 1988; Dunning 1993, 1998) has been able to define the five main types of direct investment in terms of strategic motives, although investment is usually not engaged due to the one single specific motive, but a combination of various motives (Eiteman et al. 1992,436).

1. *Resource seeking investment* is based on traditional locational advantages, such as costs of inputs, and transaction costs. This type of investment usually extracts raw materials for export or for further processing and sale in the host country. Typical representatives of this kind of investment are the extractive industries.

2. *Market seeking investment* is based on strategic locational advantages in order to increase a company's market power. The aim is to find better opportunities to enter and expand new markets either by satisfying local demand or by exporting to third markets. Investment is usually motivated by such reasons as market size, growth prospects of the market, market share, or competitive situation.

3. .*Production efficiency seeking* investment aims to find production factors that are cheap relative to their productivity. Investment may be motivated by labour cost advantages, low raw-material costs, low transportation costs, low energy costs, or the availability of a skilled labour force. It refers often to off-shore production, which uses the special economic zones of the host countries.

4. *Knowledge seeking investment* (strategic asset seeking investment) aims to gain access to technology or managerial expertise in the host country. It has specific locational needs (eg technical knowledge, learning experiences, management expertise, organisational competence) and is mainly concentrated in advanced industrial economies. The increase of mergers and acquisitions (M&A) emphasise the increasing role of knowledge seeking investment.

5. *Political safety seeking investment* aims to minimize expropriation risks and is undertaken either in the form of investment in countries unlikely to interfere with TNC operations, or in the form of divestment from politically unsafe countries.

Consequently, a particular location may possess some important production factors, which results in a TNC to adapt the greenfield strategy if there are no suitable partners, (ibid., 166) Greenfield investment is a dominating way of FDI in developing countries (UNCTAD 2004, xvii).

Success in a distant market without a local partner may also be difficult due to the different cultural backgrounds, different corporate or industry cultures, and different national or ethnic cultures, not to mention different legal, economic and political aspects. In the form of a joint venture, the investor has access to local partners' specialised skills, knowledge of a local market, and government contacts. Thus, a joint venture with a well-connected local partner is often considered as the best way of investment. In many cases, however, the contribution of partners have been disproportionate, as the local partner has provided only labour and local facilities while the investor has to provide capital, training, technology, equipment, and know-how, (ibid., 227-231) A joint venture can be set with one or more local partners. Sometimes, the partner or one of the partners is from the home country or a third country. If at least one of the partners is a government-owned firm, the joint venture is called a mixed venture. A TNC may set a majority joint/mixed venture, a 50-50 joint/mixed venture, or a minority joint/mixed venture (Luostarinen &Welch 1997, 156-158). The entry mode is not always possible to decide according to the TNC's own will, but may be regulated by the host country. Similarly, firms having broad earlier international experience have better starting points to operate in the host economy than firms without such experience. Finally, FDI experiences may be different between firms representing different industries.

Thus, the general setting of the study is built to compare investment decisions of the TNCs in a particular host country before and after a certain change in the political environment of the firm.

Several recent studies have discussed the possible reasons for this seemingly spectacular failure of African countries at attracting foreign investors.

The *main factors motivating FDI* into Africa in recent decades appear to have been the availability of natural resources in the host countries (*e.g.* investment in the oil industries of Nigeria and Angola) and, to a lesser extent, the size of the domestic economy. The reasons for the lacklustre FDI in most other African countries are most likely the same factors that have contributed to a generally low rate of private investment to GDP across the continent. Studies have attributed this to the fact that, while gross returns on investment can be very high in Africa, the effect is more than counterbalanced by high taxes and a significant risk of capital losses.

As for the risk factors, analysts now agree that three of them may be particularly pertinent: macroeconomic instability; loss of assets due to non-enforceability of contracts; and physical destruction caused by armed conflicts. The second of these may be particularly discouraging to investors domiciled abroad, since they are generally excluded from the informal networks of agreements and enforcement that develop in the absence of a transparent judicial system.

Several other factors holding back FDI have been proposed in recent studies, notably the perceived sustainability of national economic policies, poor quality of public services and closed trade regimes. Even where the obstacles to FDI do not seem insurmountable, investors may have powerful incentives to adopt a wait-and-see attitude. FDI (and especially greenfield investment) contains an important irreversible element, so where investors' risk perception is heightened the inducement would have to be massive to make them undertake FDI as opposed to deferring their decision. This problem is compounded where a deficit of democracy, or of other kinds of political legitimacy, makes the system of government prone to sudden changes. Finally, a lack of effective regional trade integration efforts has been singled out as a factor. Due to this, national markets remained small and grew at a modest pace (and, in some cases, they even contracted).

Nigeria as a developing country can only benefit tremendously from operations of these multinationals. Multinational corporations have done more harm than good on Nigerian economy in terms of profit repatriation, environmental degradation, human rights violation, non-technology transfer, bribery and corruption etc. That most of these corporations are imperialist and parasitic in nature. *Negative effects of multinational corporations* on Nigerian economy can be reduced through the instrumentality of:

- **Government active intervention and honest participation:** Although government herself is guilty of unethical practices like bribery and corruption but she can still influence operations of multinational corporations positively in order to reduce the magnitude of their nefarious activities on Nigerian economy. Assistance from government can be planned and programmed as a component in a national environment program. This can be achieved in three broad ways: Inform, sensitize and engage businesses in dialogue and negotiations concerning voluntary initiatives. Secondly, offering incentives and assistance to firms seeking to adopt more environmentally responsible business models. Thirdly, re-enforcing monitoring environmental conditions and enforces sanctions (Mazurkiewicz, 2003).
- **Strict penalties and sanctions:** These have the capacity to curb corrupt practices. Government should impose more severe penalties on the directors of companies and threats of corporate closure.
- **Corporate Environmental Policy:** Companies committed to reducing their environmental impact usually create a set of environmental principles and standards, often including formal goals. At minimum, most of such statements express a company's intentions to respect the environment in the design, production and distribution of its products and services; to commit the company to be in full compliance with all laws and go beyond compliance whenever possible; and establish an open-book policy whereby employees, community members and others can be informed of any potentially adverse effects the company might have on the environment.
- **Environmental Scanning:** Before a company attempts to reduce its impact on the environment, it is essential that it first gains a full understanding of it. For most companies, this usually involves some kind of environmental audit. The goal of audits is to understand the type and amount of resources used by a

company, product line or facility, and the types of waste and emissions generated. Some companies also try to quantify this data in monetary terms to understand the bottom-line impact. This also helps to set priorities as to how a company can get the greatest return on its efforts.

- **Employee Training/ Involvement:** Leadership of companies recognizes that to be effective, an environmental policy needs to be embraced by employees throughout the organization, not just those whose work is related to the environment. To do that, companies should engage in a variety of activities, especially education, to help employees understand the environmental impact of their jobs and to support their efforts to make positive changes. Some companies go further, helping employees become more environmentally responsible throughout their daily lives, helping them build a true environmental ethics. Besides education, many companies create incentives, rewards and recognition programs for employees who demonstrate their environmental commitment.
- **Green Procurement:** To help ensure that their products and processes are environmentally responsible, many companies seek to buy greener products and materials from their suppliers. Some companies participate in buyers' groups in which they leverage their collective buying clout and power to push suppliers to consider alternative products or processes.
- **Green Products:** Products themselves may be made more environmentally friendly, with regard to, for example, the control of emissions, noise, reduced health and safety risks, and reduced energy requirements.
- **Effective Regulatory Mechanism:** investors must be thoroughly screened so that genuine ones can be allowed to do business. This will ensure that the kind of investment that is welcomed is one that can complement the developmental objective of the host country and equally ensure that only multinationals that meet the developmental objectives are welcomed.

So, the study will examine the investment climate in Nigeria and major barriers for foreign investors by entry the Nigeria's market, and will define strategic problems in the investment policy and prospects for the future. In concluding will be given the recommendations to improvement of investment strategy by foreign investors and to improvement of FDI policy by government to attract foreign investors.

3.2. The business environment improvement for foreign investor of FDI inward to Nigeria

Foreign Direct Investment (FDI) is often seen as an important catalyst for economic growth in the developing countries because it affects the economic growth by stimulating domestic investment, increase in capital formation and also, facilitating the technology transfer in the host countries. Foreign firms can raise the level of capital formation, promote exports and generate foreign exchange. Indeed, the role of FDI in capital formation in Nigeria has been increasing over the years.

Research has shown that most developing countries including Nigeria have not appreciably exploited Foreign Direct Investment (FDI) as a source of external financing of the economy due to a non-conducive investment climate and the attitude of the host nations (Asiedu, 2002; Balasubramanyam, 2001).

The effect of Foreign Direct Investment (FDI) has been recognized having positive relationship with growth-enhancing factor in the developing countries according to some authors. Falki (2009), emphasizing on the effects and advantages of FDI to the host economy, noted that the effects of FDI on the host economy are normally believed to be: increase in employment, augmenting the productivity, boost in exports and amplified pace of transfer of technology. The potential advantages of the FDI to the host economy are: it facilitates the utilization and exploitation of local raw materials, introduces modern techniques of management and marketing, eases the access to new technologies, foreign inflows can be used for financing current account deficits, finance inflows form FDI do not generate repayment of principal or interests (as opposed to external debt) and increases the stock of human capital via on-the-job training.

Ugochukwu, Okore and Onoh (2013) highlighted three advantages of FDI in the economy. Firstly, they believe that FDI brings crucial western knowledge and value in the form of superior Western management qualities, business ethics, entrepreneurial attitudes, better labour/capital ratio, and production techniques. Secondly, FDI makes possible industrial grading by tying firms of developing countries hosting TNCs affiliates into global research and development (R&D) networks, and thus resulting in technology transfer as well as providing a greater deal of investment fund (Fisher and Gelb 1991). Thirdly, FDI leads to the growth of enterprises by providing access to Western markets. This growth in turn provides a source of new jobs and stimulates demand for input from domestic suppliers.

FDI – like official development aid – cannot be the main source for solving poor countries' development problems. With average inward FDI stocks representing around 15 % of gross domestic capital formation in developing countries, foreign investment acts as a valuable supplement to domestically provided fixed capital rather than a primary source of finance. Countries incapable of raising funds for investment locally are unlikely beneficiaries of FDI. Likewise, while FDI may contribute significantly to human capital formation, the transfer of state of the art technologies, enterprise restructuring and increased competition, it is the host country authorities that must undertake basic efforts to raise education levels, invest in infrastructure and improve the health of domestic business sectors.

It is difficult to determine the exact quantity and quality of foreign direct investment determinants that should be present in a location for it to attract a given level of foreign direct investment inflows. UNCTAD"s 1998 World Investment Report presents some host country determinants of foreign direct investment. These include:

Policy Framework for Foreign Direct Investment:

- Economic, political and social stability.
- Rules regulating entry and operations (of foreign direct investments).
- Standard of treatment of foreign affiliates.

- Policies on functioning and structure of the markets.
- International agreement on foreign direct investment.
- Privatization policy.
- Trade policy (tariffs and non-tariff barriers and coherence of foreign direct investment and trade policy.
- Tax policy.

Economic Determinants:

- Business facilitation.
- Investment promotion (including image-building and investment-generating activities and investment – facilitating services).
- Investment incentives.
- Hassle costs (related to corruption and administrative efficiency).
- Social amenities (for example bilingual schools, quality of life.
- After-investment services.

A would-be host country, in order to attract scarce foreign direct investment, must be able to provide the requisite inputs for modern production systems. For example, efficiency-seeking foreign direct investment will tend to be located in those destinations that are able to supply a skilled and disciplined workforce and good technical and physical infrastructure. Bjorvatn (1999) says that firms will locate their industrial activities in countries with superior quality of national infrastructure. A good quantity and quality of infrastructure in a location is among the factors that facilitate business operations. Physical infrastructure includes roads, railways, ports and telecommunications facilities. The latter include traditional postal services and modern communication facilities such as the network Internet.

Foreign direct investment closely relates toward these factors. The tax policy of the host country severely affects FDI. Trade is an alternative to FDI, which implies open economies receive fewer FDI flows. Government regulations are either effective or defective in attracting or distracting FDI. Political instability has an adverse effect on FDI. A country‟s economic and geographic measurement widely affects FDI inflows. They offer incentives on one hand and put restrictions on the activities of MNCs on the other which eventually encourages and later discourages inward FDI. The benign effects of FDI remain contingent upon timely and appropriate policy action by the relevant national authorities.

Tax exemptions, tax holidays or tax reduction for foreign investors, and similar incentives would play a positive role in attracting foreign direct investments into a given destination. Some other types of incentives that may play similar roles include guarantees against arbitrary treatment in case of nationalization; government provision of such utilities as water, power and communication at subsidized prices or free of cost; tariffs or quotas set for competing imports; reductions/elimination of import duties on inputs; interest rate subsidies; guarantees for loans and coverage for exchange rate risks; wage subsidies; training grants and relaxation of legal obligation towards employees. But the costs of these incentives to the host economy must be compared to the potential benefits that foreign direct investment may bring.

Labour availability and relatively low labour costs, high skills and efficiency are important factors determining foreign direct investment inflow into a given destination.

Investors may also be attracted by other factors such as low cost but high quality inputs and minimal transaction costs in their interaction with the government and other bureaucracies. The extent to which unnecessary, distorting and wasteful business costs are reduced will most likely contribute positively to foreign direct investment inflow into a given destination. The strength of a currency also may determine foreign direct investment inflow.

Economic and structural reforms in a country are very important in winning foreign investors‟ confidence to take their investment funds there. Such reforms can be very wide and far-reaching. The various reform measures may overlap with each other. Reforms, whether social, political or economic, should aim at creating, maintaining and/or improving the environment for business, both local and foreign.

Investors are more likely to choose those locations that make it easier to do business. These are likely to be found in countries with solid economic fundamentals. It has been argued that the attractiveness of developing countries for foreign capital depends on the capabilities of these countries to apply existing technologies and not on their role in producing new one. That is, foreign direct investment inflow to such countries in the first place will depend on, among other things, the existence of this capability.

Non-discriminatory treatment of investors, consistency and predictability in government policies are also among the foreign direct investment determinants. Investors need to be in a position where they can plan their activities efficiently within the policy environment of the government. A long bureaucratic, non-transparent and corrupt process is likely to scare away potential investors.

Economic growth in turn determines market prospects. It is more likely that foreign direct investment will flow more to destinations with promising economic growth both in the short and long run. The values, norms and culture of the population in the host economy must be ready to support the principle of free competition. Authorities must be able to adjust policy to reflect new economic, social and political realities of the time.

The opportunities should be made known to potential investors through effective promotion, which includes marketing a country and coordinating the supply of a country‟s immobile assets with the specific needs of targeted investors.

We can make a similar breakdown for policies and other factors affecting established foreign investors: *industrial policies, macro-economic policies and other*. Many factors are similar, since those factors that attract multinationals in the first place are also relevant during the operations of multinationals.

As part of their *industrial policy* (if any), governments have offered permanent or temporary tax concessions to multinationals, imposed performance requirements, encouraged interaction between multinationals, domestic firms and research institutions, encouraged R&D, promoted exports and offered incentives to training of employees within firms.

The government can further design training schemes, where multinationals help to train their employees. Governments concerned with bringing up national education levels may want to raise funds for the upgrading of poorer, unskilled workers who are unable to pay. Lall (2000b) argues that African firms use in-house training less than similar Asian firms.

Macro-economic policies, including labour market and trade policies, also affect established foreign investors. If multinationals can draw on a pool of skills, this stimulates the upgrading of their affiliates. Labour market policies can be geared to the needs in various ways. Multinationals are generally more open to trade than domestic firms (e.g. UNCTAD, 1999), so that any improvement in exporting conditions will affect multinationals relatively more. Sometimes, multinationals decide to provide infrastructure themselves, but in other cases the government quickly decides to improve infrastructure as part of an investment deal (as with Intel in Costa Rica, see Spar, 1998).

Finally, as mentioned above, the development of local financial markets is important for affiliates to secure loans. With affiliates maturing, local finance becomes important and can help the affiliate to become a strategic independent (to the extend possible in developing countries).

Other factors affecting established multinationals include development of regional and international agreements, forces of global economic integration and civil society. The conclusion of multilateral treaties and adoption of WTO rules (e.g. TRIMS, state subsidies) limits the power of governments to impose performance requirements on multinationals.

Table 3.2

Policies and factors affecting inward foreign direct investment

	Economic policies largely under domestic control		**Other policies and factors**
	Industrial policies	*Macroeconomic policies*	

Affecting potential foreign investors ('determinants')	- Financial and fiscal incentives and bargaining; - Efficient administrative procedures and rules on ownership; - Promotion, targeting and image building; - Developing key sectors (agglomeration and clustering); - Developing export platforms (EPZs).	- Availability of infrastructure and a skilled workforce and good labour relations; - Sound macroeconomic performance and prospects; - Privatisation opportunities; - Developmen t of financial market and debt position; - No impediments to trade of goods and services.	- Global economic integration and transportation costs; - International, regional and bilateral treaties, including BITs and WTO; - Insurance (ICSID, MIGA, ECGD, OPIC) and political risk ratings; - Location near large and wealthy markets; - Availability of natural resources; - Historical ties and language-use; - Absence of corruption; - Financial conditions in home countries.
Affecting established foreign investors ('upgrading')	- Taxation - Performance requirements (TRIMS etc.) - Interaction with research institutions and other firms - Encouragement of R&D	- Labour market policy; - Trade policies, export promotion and infrastructure; - Competition policy; - Development of financial market.	Regional and international investment treaties; lobal economic integration; - Civil society.
Affecting the response of domestic firms ('linkages')	- Encouragement of linkages with multinationals; - Encouraging technological capabilities (R&D); - Encouraging human resources (training); - Supply side management	- Education and skill generation; - Labour mobility; - Competition policy; - Export promotion.	- Global economic integration.

Industrial and macro-economic policies are largely under the control of domestic governments, while other factors are under indirect control at most. Industrial and macro-economic policies can attract multinationals, target existing multinationals, and target domestic firms.

Almost all developing countries have one or more investment promotion agencies (IPAs) responsible for dealing with multinationals (Wells and Wint, 1990; Wells, 1999). There are different forms of organisation, ownership and funding arrangements, and can be grouped into 1) government organisations, 2) more autonomous, quasi-governmental organisations, and 3) private organisations. These organisations provide four different type of services: 1) image building, 2) investment generating, 3) investor services (see Wells and Wint, 1990) and 4) policy advocacy (Wells, 1999).

Many policies can be done by other ministries or government agencies, or in conjunction with other organisations. To maximise benefits from FDI, different types of policies should be in place to attract multinationals in the first place, to upgrade existing multinationals, and improve linkages with multinationals.

Implementing policies towards FDI requires financial resources, either through up-front grants, promotion activities and institutional reform or through tax concessions (although many times part of the revenues of taxing multinationals are additional revenues). Rodrik (2000) argues that 'opening up' is not a simple matter of revising tariff codes and removing barriers to foreign investment, but requires institutional reform, which needs financial, bureaucratic, and political resources. He also argues that many of these institutional reforms do not directly target economic growth, improved governance, industrial and technological capability, poverty alleviation, but may divert attention from them. While institutional reforms aimed at maximising trade and capital flows may produce broader benefits, they are not necessarily the most effective way to enhance development. Hence, all costs associated with policies towards FDI should ideally be weighed up against the benefits of attracting FDI. Similarly, the cost-effectiveness of fostering development using FDI needs to be compared with the cost-effectiveness against other strategies.

As the experience of OECD members and other countries has shown, the measures available to host-country authorities fall into three categories: improvements of the general macroeconomic and institutional frameworks; creation of a regulatory environment that is conducive to inward FDI; and upgrading of infrastructure, technology and human competences to the level where the full potential benefits of foreign corporate presence can be realized

The broader enabling environment for FDI is generally identical with best practices for creating a dynamic and competitive domestic business environment. The principles of transparency (both as regards host country regulatory action and business sector practices) and non-discrimination are instrumental in attracting foreign enterprises and in benefiting from their presence in the domestic economy. FDI is unlikely unless investors have a reasonable understanding of the environment in which they will be operating. Moreover, a lack of transparency may lead to illicit and other unethical practices, which generally weaken the host country's business environment. In this context, host-country authorities should undertake the following measures:

• Strengthen their efforts to consolidate the rule of law and good governance, including by stepping up efforts against corruption and enhancing policy and regulatory frameworks.

• Work toward increased openness to foreign trade, so the domestic enterprise sector can participate fully in the global economy.

• Put in place, and raise the quality of, relevant physical and technological infrastructure.

• Given the importance of basic, widespread education for development, raise the basic level of education of national workforces.

• Implement internationally agreed. Efforts to reduce child labour, eliminate workplace discrimination and remove impediments to collective bargaining are important in their own right.

• Consider carefully the effects of imposing perfomance requirements on foreign investors. Rather than justifying performance requirements as a necessary counterweight to generous FDI incentives, countries may wish to reassess the incentive schemes themselves. Moreover, it should be recognised that such requirements may work against efforts to attract higher quality FDI.

Further trade liberalisation would contribute substantially to worldwide economic development, benefiting both developed and developing countries. In the FDI context, the trade policies of developed (home) countries gain a further dimension, insofar as an important share of FDI is contingent upon subsequent trade between related enterprises. Trade barriers and subsidies aimed at limiting imports into developed countries currently impose costs on developing countries (the magnitude of which arguably exceeds aid flows). The authorities in developed countries could enhance developing countries' ability to attract foreign investment by working to reduce and eventually eliminate these barriers and subsidies.

Countries that can offer a large domestic market and/or natural resources have inevitably attracted foreign investors in Africa. South Africa, Nigeria, Ivory Cost, and Angola have been traditionally the main recipients of foreign direct investment within the region.

Over the past few years, Nigeria has attempted to improve its business climate in an effort to attract more foreign companies. Establishing a competitive business climate is a difficult task because it takes time not only to implement policies but also to convince potential investors. In the case of Nigeria, it is even more difficult because the country is not even on the radar screen of most companies. It is a fact that countries that are perceived as most attractive investment environments attract substantial foreign direct investment inflows, more than countries that have bigger local market and/or natural resources.

To improve the climate for foreign direct investment, strong economic growth and aggressive trade liberalization can be used to fuel the interest of foreign investors. Similarly, a closer look at the experience of countries that have shown a spectacular improvement in their business climate reveals that the implementation of a few visible actions is essential in the strategy of attracting foreign direct investment. Beyond macroeconomic and political stability, Nigeria should focus on a few strategic actions such as:

- Opening the economy through a trade liberalization reform;
- Modernizing mining investment codes;
- Adopting international agreements related to FDI;
- Developing a few priority projects that have a multiplier effects on other investment projects; and

- Mounting an image building effort with the participation of high political figures, including the President.

Based on the findings of this study, the following recommendations are thereby suggested in order for Nigeria to attract more foreign direct investment in the Telecommunications sector and harness its benefits better.

1. Since the regression analysis revealed that Foreign Direct Investment in the Telecommunication sector impact positively and significantly on the performance of the sector, the government should initiate policies that will promote the long-rum growth of the Telecommunication sector and the economy at large. This will go a long way in attracting long-term fund that will be available for productive purposes.
2. A stable political environment was found to be fundamental in attracting foreign investment to an economy. Therefore, the government should focus on maintaining political stability before formulating favourable policies that will attract long-term funds into the country.
3. The government must create a conducive business environment by improving its infrastructural facilities assuring security of life and property and maintains policy consistency in order to boost local investment in the country. It should also set machinery in motion to improve the quality of the labour force through improved educational system, and qualitative and continuous manpower training.
4. The capital market should be further deepened through the introduction of derivatives as stock index future, interest and currency future as well as options on individual stock. Furthermore, the regulators of the capital market must continue to strengthen the transparency of the market through effective oversight, professionalism and improved operational facilities so as to boost the confidence of both local and foreign investors in the market.
5. Since the exchange rate is also a significant determinants of Foreign Direct Investment, the government must endeavour to stabilize the exchange rate so that investible funds will be cheap and yield high returns in the country

especially to foreign investors.

6. The government's fiscal discipline should ensure that prices do not rise arbitrarily in the economy. This could be achieved through subsidizing industrial inputs and at the same time develop the entire transport sector to reduce overhead costs. This will go a long way to reducing the level of inflation and investors' overhead costs.

7. Power supply should be made to be steady through public – private partnership for efficiencies. This will make both domestic and private investors to mobilize their resources for investment.

8. In addition to the positive contribution of transport and communication on the FDI growth in Nigeria, there should be more massive investments in the sectors to make them conform to international standards whereby alternative transport means will be available for all categories of users and at the same time, the communication tariff and security should be lowered and improved upon respectively.

9. When efforts at liberalizing the economy is being pushed without making effort to improve on the technical qualities of the tradable resources, the benefit will only accrue more to the countries with superior technology. Nigeria should ensure that the qualities of exportable commodities are improved upon to bring about international competitiveness of goods. Both the private and public sector goods in Nigeria should have high level value addition in such a manner that investors can tap into. This can be achieved through the development of the indigenous technology.

10.The fight against corruption should intensify and be seen to be rigorous and transparent; efforts should be made to reduce costs of doing business in Nigeria which are among the highest in the world; and the federal government should ensure that all incentive, regulatory and institutional frameworks, put in place, in aid of investors and entrepreneurs are working effectively and efficiently.

The future success of Nigeria's FDI policy will be determined by progress made in the country's macro-systems. These systems need to be improved through appropriate measures for attracting FDI:

- Building a solid legal foundation,
- Maintaining macroeconomic stability,
- Protecting the socially weak and the environment,
- Investing in basic social services and infrastructure.

There is strong relationship between infrastructural facilities and vital development in every society in the world. The level of development of a society is dependent on how perfect the natural resources are used to enhance the infrastructures and other factors to economic development. This can also be understood from the fact that, Nigeria is blessed with abundant of natural resources which if properly utilized; it would facilitate greater development in the country.

Furthermore, the poor performance of public utility services in Nigeria has been a subject of considerable discussion (Ariyo and Jerome, 2004). The problems with low level of infrastructural facilities in the country had been related with different factors but the most crucial source of the problem is the leadership problem. It is of great significance to government, business, and the public at large that the flow of services provided by nation‘s infrastructure continues unimpeded in the face of a broad range of natural and manmade hazards (Little, 2007).

Nigeria has the basic needed things to develop her infrastructure but the country is characterized with different cases of inadequate infrastructures ranging from shortage power supply, poor health care services, fluctuating education, and irregular power supply, scarcity of fuel, bad roads and poor telecommunication services. These various inadequacies have been discussed and supported by various findings. The under-development level of infrastructure in the country has so much affected every nook and cranny of the society starting from educational institutions, industries, hospitals and both private and public enterprises. This has also resulted into many crises in the country and even during these crises the little remaining infrastructures were destroyed. According to World Bank (2006) explained that poor infrastructure would make a country a less attractive destination for investors. This is in relation with the failure of Nigerian government to attract the foreign investors.

So, foreign investors are influenced by three broad groups of factors: the expected profitability of individual projects; the ease with which subsidiaries' operations in a given country can be integrated in the investor's global strategies; and the overall quality of the host country's enabling environment. Some important parameters that may limit expected profitability (e.g. local market size and geographical location) are largely outside the influence of policy makers. Moreover, in many cases the profitability of individual investment projects in developing countries may be at least as high as elsewhere. Conversely, developed economies retain clear advantages in the second and third factors mentioned above, which should induce less advanced economies to undertake policy action to catch up. Important factors such as the host country's infrastructure, its integration into the world trade systems and the availability of relevant national competences are all priority areas.

Therefore, the policy implication of these findings, acting as a pragmatic step in boosting FDI flows in Nigeria, is in an acronym format – FDI. They are:

1. Fostering qualitative domestic expenditure in upgrading the nation's infrastructure facilities in all sectors;

2. Demonstrating quality political and economic administrations, especially in the areas of financial development, internal security, and intensify the fight towards reducing corrupt practices; and

3. Instituting a supportive rampart (the social system) for the domestic private sector to grow in an unfathomable proportion.

CONCLUSION TO CHAPTER 3

The global environment for development has changed quite significantly in recent years, with the rapid growth in world trade, capital flows and information and communications technology. Nigeria can benefit from these changes by providing a more conducive investment climate in the country.

Nigeria as a country, given her natural resource base and large market size, qualifies to be a major recipient of FDI in Africa and indeed is one of the top three lending African countries that consistently received FDI in the past decade.

Many countries and continents (especially developing country like Nigeria) now see attracting FDI as an important element in their strategy for economic development. This is most probably because FDI is seen as an amalgamation of capital, technology, marketing and management.

For a developing country like Nigeria, the inflow of a foreign capital may be significant in not only raising the productivity of a given amount of labour, but also allowing a large labour force to be employed (Sjoholm, 1999). The effort by several African countries like Nigeria, to improve their business climate stems from the desire to attract FDI. In fact, one of the pillars on which the New Partnership for Africa's Development (NEPAD) was launched to increase available capital to US $ 64 billion through a combination of reforms, resource mobilization and a conducive environment for FDI (Funke and Nsouli, 2003).

To maintain Nigerian economy on the path of continous and sustainable growth and development, the government must put in place an enabling environment for FDI to thrives and at the same time come up with policies that are favourably disposed towards these multinationals. However, caution must also be exercised so that it will not be at the detriment of local industries and the people of the country particularly their host communities as the case with the Niger-Delta region. This is very important, because we cannot claim of ignorance of some of the environmental hazards that some of these multinational corporations to their host communities. Therefore, as an addendum control measure policies should be put in place by the government to compensate for such hazards in several of the host communities of these multinational corporations.

Furthermore, the government must appreciate the fact that the basic element in any successful development strategy should be the encouragement of domestic investors first before going after foreign investors. The Nigeria government should also carry out the liberalization of all the sector of the economy so as to attract foreign investors, so that the current efficiency and growth noticed in the telecommunication sector can also be enjoyed in other sectors. There are four basic requirements for economic development namely; (1) Investment capital, (2) Technical skills, (3) Enterprise and (4) Natural resources. Without these components, economic and social development of the country will be impeded. The provisions of these first three necessary components present problems for developing countries like Nigeria. Human capital investment is a crucial determinant of economic growth so funds from the Nigerian oil sector should be directed to other real sectors of the economy.

The Nigerian government needs to come up with more friendly economic policies and business environment, which will, attract FDI into virtually all the sectors of the economy. The Nigerian government needs to embark on capital project, which will enhance the infrastructural facilities with which foreign investors can build on. The current local content policy should be pursued to the letter as a way of preventing absolute foreign dominants and ownerships in the key sector of the economy to make more indigenous participation and human capital development out of the foreign sector participation in the country.

For Nigeria to generate more foreign direct investments, efforts should be made to attract FDI into the NONOILFDI area. This is because from the empirical finding, beside the oil sector having higher trend in the economy its contribution to economic growth is small compared to non-oil sector. This could be because of more indigene and economic interactions take place in these areas than the oil sector dominated by foreigners.

There should be concerted efforts to boost the performance of the non-oil sector in Nigeria through more investment by directing relevant authorities in the country to channel resources via long term loans to encourage more participation by investors in the agricultural and industrial sectors which will make the growth of the economy spread across other sectors and in turn encourage foreign investment in such areas:

1. Appropriate policy measures to attract foreign capital should be formulated and implemented to boost increased economic growth.
2. Policies that will bring about improvement in foreign direct investment and the balance of payments (BOP) in the economy should be encouraged.
3. Policies and programmes that would promote or stimulate foreign capital in the form of FDI and reduce unemployment should be encouraged.
4. Programmes and policies that promote FDI and reduce inflation should be promoted.
5. The Federal and the various state governments should as a matter of priority, improve the business environment by consciously providing necessary economic and social infrastructure, which will lower the costs of doing business in Nigeria and attract FDI into the country.

CONCLUSION

Globalization is the trend toward greater economic, cultural, political, and technological interdependence among national institutions and economies. The greater interdependence that globalization is causing means an increasingly freer flow of goods, services, money, people, and ideas across national borders. The environmental performance of FDI is also determined by host country factors which affect all industry, such as: effectiveness of regulation, host community pressure (higher in more affluent areas) and performance of sub-contractors. Access to environmental equipment is also a factor, as many countries – mainly in the developing world – put high tariffs on “green” goods (for example, up to 100% in India). Though manufactures of environmental equipment still see low or unenforced regulation as the biggest “barrier” to the entry of their products.

Less developed countries could have actual and reveal comparative advantage in heavily polluting industries, which could have locational influence of these industries’ production. This is also because other factors which are related to the environment in the process of production like labour intensity, high return to capital, natural resource endowment also influence their migration to developing countries.

Large multinational companies (MNC’s) carry out the bulk of FDI, and have the knowledge and resources to operate to high environmental standards. The 500 largest businesses in the world control twenty five per cent of the planet’s output in GDP terms. Similarly, among the world's 100 largest economies in 1995-96, 51 were businesses. However, most MNCs consider that their only responsibility is to comply with host country regulations, and perhaps signing-up to a non-binding code of conduct.

However, industries choose location where expected profits are highest which involves a combination of factors like labour market conditions, market size and accessibility, taxes, infrastructure and public service, external economies, energy costs, raw materials availability and environmental compliance expenditure. Therefore environmental policy alone would not confer advantage to countries seeking to attract or tame foreign investment.

Multinational firms seek to maximise profit and view alternative locations offering different combinations of taxes, government regulations, and public service as imperfect substitutes. The theoretical and empirical issues that arise from this is, to what extent do firms actually relocate when different instruments are applied.

In FDI literature, there are basically five dominant theories: (1) the monopolistic advantage theory; (2) transaction cost and internalization theory; (3) ownership, location, and internalization (OLI) advantages theory; (4) product life cycle theory, and; (5) horizontal FDI, vertical FDI, and knowledge-capital.

The classical theory of comparative advantages assumes that MNCs decide for a selected country because of specific factor endowments that make the envisaged investment more profitable than in other countries. These country advantages traditionally include market size, market growth and relative wages. Later versions of this approach added trade-related determinants such as tariffs, non-tariff-barriers etc. Thus the initial conditions of governments are essential for an investment decision that can only be influenced by governments through the change of economic fundamentals.

According to the New Economic Geography, FDI is driven to a large extent by industrial agglomeration that stems from the trade-off between external economies of scale and transportation costs in specific industries. In the locational context, the New Trade Theory highlights a similar aspect, the distance of the host country to the home country; the proximity of two countries in terms of geographic distance but also in terms of shared language and culture can reduce transportation and transaction costs and thus foster FDI growth to a specific country.

Theoretically, the location choice of FDI is determined by relative profitability. Hymer (1960) views the MNC as an oligopolist. FDI is considered to be the outcome of broad corporate strategies and investment decisions of profit-maximizing firms facing worldwide competition. Buckley and Casson (1976), Dunning (1977) and

Rugman (1981) invoke transaction costs to explain firms' internationalization, putting emphasis on the intangible assets firms have acquired. They focus on another characteristic of firm resource – a rent yielding resource as a public good which is transferred within a firm with lower cost than via some other methods (e.g., licensing or exporting, where the assets is embodied in the product).

The eclectic paradigm developed by Dunning (1981) explains FDI behaviour by integrating ownership, location, and internalization advantages (OLI), which provides a way of encapsulating or harmonizing most schools of FDI theory. The eclectic paradigm asserts that it is the interaction between the competitive advantages of firms and the comparative advantage of nations that decide the structure of the foreign value-added activities of the firm.

The initial theoretical and empirical literature on effects of FDI focused on the direct impacts of the multinationals such as additional capital brought into the country, the creation of jobs, the effect on the balance of payment, and so on (MacDougall, 1960). Another part of the FDI impact literature that took on a real importance at the beginning of the 1990s (UNCTAD, 1992), tried to evaluate the macroeconomic effect of FDI on the growth rate of developing countries, some studies detecting positive impacts (see for example Borensztein et al., 1998; De Mello, 1999; Chan, 2000) other studies failing to detect such effects (Hein, 1992; Singh, 1998). One of the most fecund avenues in the FDI study of impacts however, was opened by the seminal work of Caves (1974), who considered that spillover effects of MNCs on local firms were the crux of the matter. Since then, the research on FDI effects has increasingly acknowledged that technological, organizational and managerial spillovers on local firms probably represent the most influential role of MNCs in host country development.

The standard theory of international trade and the theory of industrial organisation both provide theoretical frameworks for studying the effects of FDI on host countries. Large MNCs are known to adjust their technology to the localisation using different technologies in different locations. Technology transfers are more likely to take place once the technological level at any location is similar to the level of technology at the MNC affiliate. MNCs entering the market may force local firms to reduce slack in the organisation (x-inefficiency). There may be job creation, added tax revenues and a supply of foreign currency associated with the presence of MNCs.

The benefits of FDI to a source country can be numerous: it can increase their total productive capacity; ’’crowds in’’ other investments; as well as create creating positive ’’spillover effects’’ from the transfer of technology, knowledge and skills into domestic firms. It can also stimulate economic growth by spurring competition innovation and a country’s export performance. In many countries foreign investment operates virtually autonomously with few links to the national economy, except through tax revenues and some employment (and/or higher wages).

However, FDI may also exhibit negative effects such as the out-crowding of local industry increasing concentration rather than promoting competition in the long run. The development of local enterprise is of high priority to developing countries, making the crowding out of local industry a frequent issue of concern. Crowding out due to FDI may occur in both the product and factor market. Competition from foreign enterprises in the product market may prevent local enterprises from undertaking lengthy and costly learning processes. A reduction in the availability or increase in the costs of finance and other factors may be the outcome of foreign presence. As a consequence of reputation and size, local affiliates of MNCs may have privileged access to both finance and skilled personnel. There is also the danger of weak bargaining and regulatory capabilities on behalf of host countries resulting in an unequal distribution of benefits or abuse of market power by MNCs.

Countries that can offer a large domestic market and/or natural resources have inevitably attracted foreign investors in Africa. South Africa, Nigeria, Ivory Cost, and Angola have been traditionally the main recipients of foreign direct investment within the region.

FDI inflows into Nigeria have been growing largely over the course of the last decade; the county receives the largest amount of FDI in Africa which makes it the nineteenth largest recipient of FDI in the world, most traditional sources of FDI has been into the oil sector. Chevron, Texaco and Exxon Mobil from USA had investment stock worth of $3.4 billion in Nigeria in 2014, UK FDI into Nigeria accounts for about 20% of Nigeria's total foreign investment while China direct investment to Nigeria is reported to worth $6 billion. The oil and gas sector receives 75% of China's FDI in Nigeria therefore making China and Nigeria the second trading partner in Africa next to South Africa. Other significant sources of FDI into Nigeria include France, Brazil, Netherlands, South Africa and Italy. Outside of petroleum, the country has large untapped mineral resources which include iron ore, coal, lead and Zinc, and the country's expanses of arable land made agriculture and agro-processing industries viable and attractive. The Telecommunication sector has been vibrant with the total of $18 billion invested into the sector between 2001 and 2014 which has made Nigeria Telecoms Africa's biggest mobile market.

The history of MNCs in Nigeria started with the establishment of trading posts in Nigeria by European corporations in the 19th century. The activities of MNCs in the country increased significantly with the discovery of crude oil in Nigeria in the late sixties. Today Nigeria earns 95% of its export revenue from the oil and gas sector. This accounts for about 41% of Nigeria's gross domestic product. The oil and gas industry is dominated by foreign multinational corporations operating in some form of partnership with the Nigerian National Petroleum Corporation (NNPC), a state owned corporation.

Over the past few years, Nigeria has attempted to improve its business climate in an effort to attract more foreign companies. Establishing a competitive business climate is a difficult task because it takes time not only to implement policies but also to convince potential investors. To improve the climate for foreign direct investment, strong economic growth and aggressive trade liberalization can be used to fuel the interest of foreign investors. Similarly, a closer look at the experience of countries that have shown a spectacular improvement in their business climate reveals that the implementation of a few visible actions is essential in the strategy of attracting foreign direct investment. Political and economic stability – the governments of SSA countries must take up the responsibility of implementing policies that ensure political and economic stability. An improvement in this area will certainly attract more investors from Nigeria.

The governments should create the enabling institutional environment – this includes giving incentives like tax holidays, reducing the bureaucracy associated with starting a new business, a functioning judiciary and addressing the issues of bribery and corruption. Appropriate legislation must be put in place for proper adjudication. The government monetary policy should focus on containing or reducing inflation and interest rates. The fiscal policy framework should be strengthened. There is the realization that the privatization of state owned enterprises should be carried out so as to be able to attract MNEs and hence enhance capacity and credibility to the regional investment and business services strategy of the government. This would no doubt attract foreign investors to participate in the process of privatization.

Recent large investments are generating significant multiplier effects for African economies through the transfer of technology (the generation of employment), improved productivity, and the fulfillment of demand for services. Examples of successful ICT investments abound in every region on the continent.

MNCs may pay low wages by western standards but, this is arguably better than the alternatives of not having a job at all. Also, some multinationals have responded to concerns over standards of working conditions and have sought to improve them.

Some criticisms of MNCs may be due to other issues. For example, the fact MNCs pollute is perhaps a failure of government regulation. Also, small firms can pollute just as much.

MNCs are evidently in cognizance as regards to the contract that they signed is one sided and they are not worried because it is part of their nature to maximize profit. Therefore, they are very cautious and clever in dealing with the Nigerian government. MNCs have used the political elite in developing countries to seek to advance their global earnings and competitive advantages by offering bribes and other inducements to secure government contracts in Nigeria and to reduce legally allowed taxes and custom charges. More so, anytime the government wants increased tariffs and company taxes, MNCs will counter that move and at the same time try to make gains through the process of double accounting. MNCs are, first and foremost, creatures of their home countries. The home country always gets first priority whenever MNCs have to make hard choices: If faced with a downturn in the market, multinationals will close facilities abroad to protect those at home.

The influence of a multinational can also be gauged by its effect on local suppliers as it creates new demand and sets new standards of quality. All these elements are part of a world where the local production of MNCs in overseas markets now greatly exceeds the sum of world trade. The resulting deep integration of national economies is growing so fast that any suggestion in developed economies that the domestic-policy agenda can be isolated from the global economy seems antediluvian. Governments in some of these countries like Nigeria now find that they must contend with both host-and home-country influences in their negotiations with MNCs. In principle, stricter penalties and sanctions have the potential to curb corrupt practices, but the prospect of these being introduced in Nigeria, as the evidence shows, is unlikely. More severe penalties should be imposed on directors of companies and threats of corporate closure should be entrenched in a global agenda against corruption.

The global environment for development has changed quite significantly in recent years, with the rapid growth in world trade, capital flows and information and communications technology. Nigeria can benefit from these changes by providing a more conducive investment climate in the country.

Nigeria as a country, given her natural resource base and large market size, qualifies to be a major recipient of FDI in Africa and indeed is one of the top three lending African countries that consistently received FDI in the past decade.

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