Ogunleye Oyin

THE EFFECT OF FOREIGN DIRECT INVESTMENT: CASE STUDY NIGERIA

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<td>Author</td>
<td>Ogunleye Oyin</td>
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<tr>
<td>Supervisor</td>
<td>Petri Ahokangas (Professor, D.Sc.)</td>
</tr>
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Abstract

Foreign direct investment involves a business or production investment by a company to one or more countries. FDI enables host countries to achieve economic growth through investments that outweighs that of the host country’s local investment. It increases the capital formation of host countries, which in the long run lead to growth in both the private and public sectors. Host countries usually benefits from foreign direct investment because of new technologies, capital, employee training, and other incentives which investors bring with them.

This paper tends to look at the relationship that exists between the host country and foreign direct investment. The biggest challenge investors’ encounter in developing countries like Nigeria is the lack of infrastructural facilities and this has reduced the amount of FDIs Nigeria. Various articles from different writers are used in this research work on how foreign direct investment affects the host country.

At the end, it was discovered the foreign direct investment helps in developing the economy of developing countries like Nigeria.

Keywords

Foreign direct investment, Nigeria, infrastructure, and growth
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1 INTRODUCTION

In the history of the world, there had been so many revolutions, which had changed the pattern of relationship among nations within the global environment. First World War brought about peaceful and friendly relations among the countries internationally because there was a need for them to come together and resolve the various issues that could lead to another war among them and this led to the formation of League of Nations, the War was regarded to be War to end all Wars. It was quite unfortunate that League of Nations couldn’t prevent the coming of the Second World War in 1939 to 1945 and after this war, there was cold war within the global environment, which ended the friendly relations among the countries in the world and the issue of security came to be prominent and important to them. There was no mean for economic interdependence whereby a multinational company could expand its branch beyond its sovereign state.

From Second World War to 1970s Foreign Direct Investment could not convince so many countries especially developing countries about its advantages and the fear of domination as well as the belief of national security could not allow foreign investors to penetrate beyond their political boundaries in fact, there was nothing like economic relations among the nations then. But from 1970s upward, the need for economic relations and interdependence came to be significant to countries in the world and most in particular, developing nations. And the various benefits of Foreign Direct Investment as a roadway to success for economy development of the developing economies came to be very important to developing countries. FDI had done so much to many nations considering their efforts in Korea after Korean War, Japan after the destruction of Hiroshima and Nagasaki by United State during the World war II, China and India the two most populous countries in the world with poor economy to sustain their people. These countries had economy development by incorporating their local investment with the use of foreign skills, technologies, experts and management through FDI.

The need for Nigerian government to follow this trend came to be very important considering the various efforts of the government to bring foreign investors into the country. Nigeria as a country has been regarded to be Giant of Africa due to her leading roles in the continent but the country remains to be poor and underdeveloped. The inability of the country to develop economically necessitates the need to invite the efficacies FDI inflow into the country. But it was quite unfortunate that African countries in general had not been be to attract much attention of foreign investors due to the struggling economies of the
region, as well as lack of various determinants of FDI inflow in host countries. Developing countries including Nigeria have not exploited foreign direct investment to its maximum due to the hostile investment climate. (Asiedu, 2002).

The importance of foreign capital for the economies development of developing nations including Nigeria has contributed to the growth of a developing country (Obiwona, 2004). Foreign direct investment (FDI) significant for economic growth in the developing countries because it affects the economic growth by stimulating domestic investment, capital formation expansion and also, enhancing the technology transfer in the host countries. (Falki, 2009).

Due to various advantages and effects of FDI to economic development of the host countries, as explained by different writers and scholars of the discipline. Falki (2009) explained that the effects of FDI on the host economy result to increase in employment, enhance productivity, boost in exports and transfer of technology. According to Khan (2007), foreign direct investment (FDI) has emerged as the most significant source of external resource flows to developing countries over the years and has become an important part of capital formation in these countries, though the global distribution of FDI has continued to decline. Government of these developing should encourage foreign direct investment in order to attain a level of development. But it is also quite disheartening that, the continent still remain underdeveloped and poor and some writers accounted for this to be as result of unattractiveness of the region to foreign investors due to the lack of some major determinants of FDI in the host countries. According to (Anyadike, 2012); this slow economic growth and development has been due to the lack of inflow of foreign investment. According to Aremu (1997), Nigeria has adopted a number of measures aimed at improving growth and development in the domestic economy, one of which is attracting foreign direct investment (FDI) into the country.

African countries including Nigeria had made several attempts to attract the interest of Foreign Investors but with all these efforts, they have not been able to achieve their aims to the fullness. The issue of infrastructural facilities as a major obstacle of FDI inflow to the region most in particular Nigeria would be the center focus of this research work. proper infrastructure such as railways, telecommunication, stable power supply, transportation and good health care. The inability of the Nigeria in particular and African countries in general to enhance the development of their infrastructure has made it difficult for foreign investors to come into the region. Though there are other factors that could make a country more attractive to inflow FDI according to different authors. Dinda (2009) revealed that the
blessings of natural resources, openness, macroeconomic risk factors like inflation and exchange rates are significant determinants of FDI inflow to Nigeria. Asiedu (2006) found natural resources, large market size, lower inflation, good infrastructure, an educated population, openness to FDI, less corruption, political stability and a reliable legal system as major determinants of FDI flows. Anyanwu (1998) identified change in domestic investment, change in domestic output or market size, indigenization policy, and change in openness of the economy as major determinants of FDI. But this finding shall be done to rigorously examine the influence of Infrastructure to the inflow of FDI in Nigeria in particular.

1.1 Nigeria and Nigerian economy

The official name of the country is Federal Republic of Nigeria. It comprises of thirty (36) states with federal capital territory at Abuja. It shares bounders with Cameroun and Chad at the east, Benin at the Western part, and Niger at the northern part and the country is situated in West Africa. According to the World Bank, 2011, the country was classified as a mixed economy emerging market, and has already reached middle income status with its abundant supply of natural resources, well-developed financial, legal, communications, transport sectors and stock exchange which is the second largest in Africa. The country is regarded to be 12th largest producer of petroleum in the world and the 8th largest exporter, and it also has the 10th largest proven oil reserves. Petroleum plays a significant role in the Nigerian economy, with the account of for 40% of GDP and 80% of Government earnings (United States Energy Information Administration Independent Statistics and Analysis, (2010). The country is blessed with the wealth of natural resources as well as good number of agricultural products produced on vast lands in the country.

The country has long been experiencing economic stagnation and declination in good standard of living and these had turned Nigeria to poorest region. The nation has enough natural resources but the economy of the country has unable to take care of the majority of people and this has been accounted to be as result of many factors. The co-existence of vast wealth in natural resources and extreme personal poverty in developing countries like Nigeria is referred to as the “resource curse” or 'Dutch disease' (Auty, 1993).

Nigeria is a country that is naturally endowed with arable land and sufficient natural resources. Governmental policies must be designed toward the improvement of the country and this leads government to invite the foreign investors into the country. Government policies and strategies towards foreign direct investments in Nigeria based on two principal objectives: the desire for economic independence and the demand for economic
development (Garba, 1998). The underdevelopment of the Nigerian economy has hindered economic development and this has resulted to the need for Foreign Direct Investment into the country. Aremu (1997), postulated that Nigeria as a developing country of the world has adopted a number of measures aimed to facilitate growth and development of the economy, one of which is attracting foreign direct investment (FDI).

The Nigerian governments recognizes the importance of Foreign Direct Investment thereby developing various strategies designing favourable policies and regulatory with the aim of increasing the inflow of FDI to the country (Onu, 2012). FDI is considered as a strategic instrument for economic growth in developing countries like Nigeria.

1.2 Statement of research problem
According to Ayanwale (2007), many countries especially developing countries now see FDI as an important element of economic development. FDI is seen as a combination of capital, technology, marketing and management. Many African countries are improving their business climate in order to attract FDI. Nigeria as a country, given its vast natural resource and large market size is a major recipient of FDI in Africa and indeed is one of the top three leading African countries that consistently receives FDI. However, the level of FDI attracted by Nigeria is not encouraging (Asiedu, 2003) compared with the resource base and potential need.

In the case of Nigeria, investors have highlighted the poor state of the infrastructure. The major challenges of Nigeria’s economic development is the lack of infrastructure which make the cost of production increase due to the lack of key infrastructure like power, road and a condusive business environment for foreign investment.

The UNCTAD World Investment Report 2006 shows that FDI inflow to West Africa is mainly dominated by inflow to Nigeria receiving over 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. The foreign direct investment has over the years concentrated in the booming oil sector in Nigeria, hence contributing to the underdevelopment of other sectors.

1.3 Research Questions
1. what are the relationships between the economic growth of the host countries and foreign direct investment?
2. Does the level infrastructural facilities in a country determines the inflow of foreign direct investment?
3. Can Foreign Direct Investment affect the economic of the host country negatively?
4. What are the impacts of Chinese Investment in Nigeria?
5. Is Nigerian society an attractive ground for foreign investors?

1.4 Objectives of the study
The following objectives of the study have been established and they include;
(1) To discuss the current state of infrastructural facilities relevant to foreign direct investment in Nigeria.
(2) To determine the major determinants of foreign direct investment in African countries but Nigeria to be specific.
(3) To examine the effect of infrastructure on the inflow of foreign direct investment in Nigeria.
(4) To examine the relationship between Chinese foreign direct investment and different sectors of Nigerian economy.

The results of studies carried out in the past in Nigeria were largely on the linkage between FDI and economic growth in Nigeria, which are not unanimous in their submissions. A closer examination of these previous studies reveals that conscious effort was not made to take care of the fact that infrastructural logistics influence the amount of FDI inflow into the country. Hence, this study actually modeled the influence of infrastructure on FDI in Nigeria.

This study is important because Nigeria (before the year 2003) had experienced declining and fluctuating foreign investment inflows. Beside, Nigeria alone cannot provide all the funds needed to invest in various sectors of the economy, to make it one of the twenty largest economies in the world by 2020 and to meet the Millennium Development Goals (MDGs) in 2015. The study will seek to evaluate the role of infrastructural facilities in ensuring increase in FDI in the country.

It is hoped that this study will shed more light on the current state of infrastructural facilities in the country for foreign investors, especially for those contemplating entry into the Nigerian market and also provide useful insight for international investors currently operating in Nigeria. It is worthy of note that the study also seek to point out the most important determinants of foreign direct investments in Nigeria at different market conditions. It should be understood that any improvement in the provision of infrastructural facilities in the country will not only benefit the businesses in the country but also the amount of foreign direct investment into the country and the economy as a whole.
There is an increasing resistance to further liberalization within the Nigerian economy. This limits the options available to the government to source funds for development purposes such as infrastructural facilities and makes the option of seeking FDI much more critical. This study contributes to the literature by examining the relationship between FDI inflows and Nigeria’s economic growth, hence addressing the country’s specific dimension to the FDI growth debate.

Finally, the findings of this study would make a significant contribution to knowledge; it would identify the relevance of infrastructure in the quest for foreign direct investment inflow in the Nigerian economy. It is believed that the research will add and subsequently compliment a great deal to the growing list of literature upon which further research work will be based. It is envisaged that this study will also provide another platform upon which future research will be conducted in the not too distant time.

This study will look into the role of infrastructures in the flow of foreign direct investment in Nigeria. The study will be making use of extensive secondary method of research in order to achieve its outlined objectives. The study would be limited to the effect of infrastructural facilities on the inflow Foreign Direct Investments in the country though attempt shall be made to discuss some other factors that determine the inflow of FDI in the country in brief but more emphasis shall be laid on infrastructural facilities in the country. This study is also limited to the use of secondary data (qualitative) alone where statistical analysis would not be needed in the research work but basically the use of various data obtained by other scholars of the discipline.

1.5 Definition of terms:

Nigeria
Nigeria, officially the Federal Republic of Nigeria, is a federal constitutional republic comprising 36 states and its federal capital territory, Abuja. The country is located in West Africa and regarded as the most populous black nation in the world.

Foreign direct investment
FDI is an investment made to acquire a lasting management interest (normally 10% of voting stock) in a business enterprise operating in a country other than that of the investor defined according to residency. (World Bank, 1996).

Infrastructures
Infrastructure is basic physical and organization structure needed for the operation of a
society or the services and facilities necessary for an economy to function. The term refers to technical structures that support a society, such as roads, bridges, water supply, telecommunications etc.

**Logistics**

Logistics is the management of the flow of resources between the point of origin and in order to meet some requirements. The resources managed can be physical items or abstract items.

**Economic growth**

Economic growth can be defined as the increase in the capacity of an economy to produce goods and services compared from one period to another. It is the increase in the amount of the goods and services produced by an economy over time.

1.6 **Structure of the research**

The paper will be based on theoretical aspects of supply chain process and foreign direct investment and finally applying the theory.
2 THEORIES, DETERMINANT, AND CRITICISM OF FOREIGN DIRECT INVESTMENT

This chapter extensively examines the contributions of other authors and researchers on the subject matter of the effect of infrastructural facilities on the amount of foreign direct investment in Nigeria. It discusses the Nigeria and the Nigerian economy, economic growth in Nigeria, infrastructural facilities in Nigeria, foreign direct investment, factors affecting the amount of foreign direct investment, foreign direct investment in Nigeria, effect of FDI, criticism of FDI, impact of FDI in Nigeria and effect of infrastructural facilities. It should be made known that; most of that facts and information use in this chapter are going to be borrowed from the documentaries and articles written by different authors.

2.1 Foreign direct investment

There are different comprehensive definitions and basic features attached to FDI as a concept according to different writers. The effects of the FDI had been discussed from both positive and negative spill over effect in developing countries mostly and part of scholars’ ideas about its meaning and features are going to be reviewed. It can simply be defined as the official action of a country to acquire the ownership of assets in another country with the different business oriented purposes like production, distribution, advertisement etc.

According to the United nations 1999 World Investment Report (UNCTAD, 1999) FDI is simply defined 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 parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise, affiliate enterprise or foreign affiliate)’. According to Montiel and Reinhart (2001), one important component of international capital flows is the Foreign Direct Investment (FDI), which refers to movement of financial and human capital from abroad for investment in another country.

According to World Bank 1996; FDI is defined as ‘an investment made to acquire a long term ownership and controlling interest (at least one-tenth of the equity) in firm operating outside the investors’ own country. Foreign Direct Investment (FDI) has been defined as the investment of resources in business activities outside a firm’s home country (Hill, 2003). Caves (1996) is on the opinion that attracting more FDI is based on the fact that FDI impact positively on the developmental challenges of host economies.

Mallampally and Sauvant (1999), define FDI as investments by multinational corporations in foreign countries with the aim of controlling assets and managing production activities in those countries. Ayanwale (2007) offers an expanded explanation of the operational meaning
of FDI as ownership of at least 10% of the ordinary shares or voting stock in a foreign enterprise. Thus, ownership of 10% ordinary shares is the criterion for the existence of a direct investment relationship while ownership of less than 10% is recorded as portfolio investment. Annaek (2007) defines Foreign Direct Investment as the process whereby people in one country obtain ownership of assets for the purpose of gaining control over the production, distribution and other activities of a firm in a foreign country.

FDI has been classified to different types according to different authors. It could be seen as Inward FDI and Outward FDI. The Inward has to do with the attempt of the developed multinational companies in the rich countries to invest in the developing countries while the Outward stated the efforts of the developing economy countries to extend their investments out of their countries to developed nations. There are four types of FDI derived from ownership location and internalization (OLI) theory according to Dunning. These are market-seeking FDI, resource-seeking FDI, efficiency seeking FDI and strategic asset seeking FDI. The primary aim of the market-seeking FDI is to penetrate the local markets of host countries in respect to market size and per capita income, market growth, access to regional and global markets, consumer preferences and structure of domestic market. The resource-asset seeking FDI seek and secure natural resources, for example, raw materials, lower unit labor cost of unskilled labor force and the pool of skilled labor, physical infrastructure (ports, roads, power, and telecommunication), and the level of technology. The efficiency-seeking FDI is motivated by creating a source of competitiveness for firms and it goes where the costs of production are lower. And lastly, strategic asset seeking FDI aims at advancing firms’s global or regional strategy on how to operate in the internalizational market.

According to Harunadanja (2012), FDI and international capital flows as closing the savings gap in developing countries. Foreign direct investment (FDI) has been regarded to be among the fastest growing economic activities around the globe. The FDI flows across the globe has risen sharply, from an annual average of US$142 billion during the period of 1985-1990 to over US$385 billion in the year 1996 and then it made a record by reaching a record of US$1.9 trillion in the year 2007 (UNCTAD, 2009). The developing countries are not an exception to this. These countries increase their annual share out of total world FDI from 15 % in 1990 to 30 % in 2006 and then to 37 % in the year 2008 (UNCTAD, 2009). The increasing FDI flows to developing countries since 1990 indicates that multinational companies have considered these host countries as the profitable investment destinations (Kokko, 2000). For developing countries as well FDI plays a significant role as a source of finance. FDI plays a very important role in enhancing the welfare of host country due to
benefits related to new innovation, new technology, new managerial techniques, development of skills, increased capital, creation of job opportunities and improvement in the working condition of employees and development of industrial sector in the host country (Markusen and Venables, 1999).

Dunning (1990) postulates that for a country to attract FDI, it should take into considerations the following conditions: Firstly, the firms should possess ownership advantages, which enable them to compete efficiently in the local market. Secondly, the host countries should possess some locational advantages which encourage outside firms to serve local market directly rather than going for exports.

2.2 Infrastructural facilities in Nigeria

There is a 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. The word infrastructure has been referred to as resource systems that have been harnessed for the development of a society according to Frischmann, 2007. And he further itemized these systems to be; telecommunication, energy, transportation, governance, and other public utilities. 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.

According to American Heritage Dictionary, defines the term “infrastructure” as The basic facilities, services, and installations needed for the functioning of a community or society, such as transportation and communications systems, water and power lines, and public institutions including schools, post offices, and prisons.

Many authors have reviewed the concept of infrastructure but basically the whole definitions are always base on the same issues, which are roads, telecommunications, educations, water supply, energy, power grids and hospitals. (Udjo, 2000) identifies infrastructure as having both direct and indirect impact on the growth of an economy. Infrastructure is said to add to economic growth and development by raising efficiency and providing facilities, which enhance the quality of life. Akinyosoye (2010) defined infrastructure as the “unpaid factor of production” which tends to raise productivity of other factors while serving as intermediate inputs to production. The services engendered as a result of an adequate infrastructure base will translate to an increase in aggregate output. Canning and Fay (1993) also found that the
developing countries demonstrated a high rate of return on transport infrastructure, which compared favorably with those of developed countries.

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. Sanusi (2012) identified the poor level of infrastructure in Nigeria as the major constraint towards achieving the nation’s vision of becoming one of the 20 largest economies in 2020. He further analyzed that about 70 percent of the 193,000 kilometres of roads in the country is in poor condition, power outages in the nation experiences amount to over 320 lost days a year, with over 60 percent of the population lacking access to electricity with over $13 billion spent annually to fuel generators and that Nigeria, which once had one of the most extensive railway systems in Africa, could now barely boast of a functional route either for passengers or freight.

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, 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. Inadequate infrastructure was cited as a major cause of several crises including the 1967-70 civil war, general industrial strikes, students’ demonstrations in Nigerian higher institutions, and the spate of militancy in the Niger Delta of Nigeria (Babawale and Odukoya, 2005).

2.3 Theoretical framework
Several economics theories attempted to evaluate the role of FDI in the country both from positive and negative point of view. Economic theories like neo-classical theory, dependency theory, and endogenous growth model theory are going to be considered as basic points of discussion. Neoclassical perspective is based on a basic principle in economics, which suggests that economic growth requires capital investment in the form of long-term commitment (Adams, 2009). This simply means that this theory creates a better relationship between the FDI and economy development of every society most in particular developing countries.
The second theory to be considered is **dependency theory**; According to Aremu (2005), dependency theory maintains that, the poorness of developing countries is due to: imperial neglect; overdependence upon primary products as exports to developed countries; foreign investors’ malpractices, particularly through transfer of price mechanics; foreign firm control of key economic sectors with crowding-out effect of domestic firms; implantation of inappropriate technology in developing countries; introduction of international division of labour to the disadvantage of developing counties; prevention of independent development strategy fashioned around domestic technology and indigenous investors; distortion of the domestic labour force through discriminatory remuneration; and reliance on foreign capital in form of aid that usually aggravated corruption.

Furthermore, the **dependency theorists** also focused on the several ways by which, FDI of multinational corporations distort developing nation economy. Some scholars of this theory believed that, distortive factors include the crowding out of national firms, rising unemployment related to the use of capital-intensive technology, and a marked loss of political sovereignty (Umah, 2007). It has also been argued that FDI are more exploitative and imperialistic in nature, thus ensuring that the host country absolutely depends on the home country and her capital. (Anyanwu, 1993). This theory from its points of analysis could be discovered that it creates negative relationship between FDI and economy growth of the developing countries. The theory is of great belief that the economy involvement of developed countries into developing nations under multinational companies and FDI will surely resort to economy disadvantages of developing nations.

The last theory to be considered is **endogenous growth models theory**; while neoclassical theory assumes the notion that long term investment is a great determinant of the economy growth of the country, endogenous growth model theory explained that physical investment is not a measure of economy growth of a country but the effectiveness and efficiency in the use of these investments. Economic models of endogenous growth have been applied to examine the effects of FDI on economic growth through the diffusion of technology. (Barro, 1991). Romer (1990) argues that FDI propels economic growth through strengthening human capital, the most essential factor in R&D effort; while Grossman and Helpman (1991) emphasize that an increase in competition and innovation will result in technological progress and increase productivity and, thus, promote economic growth in the long run. From the analyses made under this theory, it can be discovered that the theory suggests a better relationship between the FDI and economy growth of the developing countries.
2.4 Criticism of Foreign Direct Investment (FDI)

This has been a central debate without particular meeting points among the scholars of the discipline about the analysis of how much harms and good can FDI offers the developing economies. Some researchers examine the failure attempts of the FDI to improve the economy of the host countries as lapses on the part of the host countries to improve their major determinants of FDI basically infrastructural facilities. Some researches reviewed 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). While some writers relate the negative effects of FDI to the lapses of the host countries and only emphasized on the various positive effect to host countries alone discussing on the fact that policymakers in a large number of countries are engaged in creating all kind of incentives (e.g. export processing zones and tax incentives) to attract FDI, because it is proposed to affect local economic development positively.
Figure 1: Theoretical framework
3 NIGERIA INFRASTRUCTURE AND FDI SYSTEM

This chapter is designed to critically analyse the various growth relationships between foreign direct investment and Nigerian economy using the view of different authors. This will facilitate the effects of FDI in the country and how different authors discuss the operation of FDI in the country. This chapter shall also discuss some related points like the operational meaning of FDI, the Nigerian meaning of FDI, theories of FDI, the growth-relations of FDI and majorly attempt shall be made to centralize the research work by focusing on one of the sources of FDI in the country which Chinese FDI in the country with its various contributions to Nigerian economic shall be discussed.

3.1 Definitions of FDI

According to OECD library, “FDI is defined as cross-border investment by a resident entity in one economy with the objective of obtaining a lasting interest in an enterprise resident in another economy. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the direct investor on the management of the enterprise. Ownership of at least 10% of the voting power, representing the influence by the investor, is the basic criterion used”.

Wikipedia defines “Foreign direct investment (FDI) as a direct investment into production or business in a country by an individual or company of another country, either by buying a company in the target country or by expanding operations of an existing business in that country. Foreign direct investment is in contrast to portfolio investment which is a passive investment in the securities of another country such as stock and bond”

Investopedia defined FDI as “An investment made by a company or entity based in one country, into a company or entity based in another country. Foreign direct investments differ substantially from indirect investments such as portfolio flows, wherein overseas institutions invest in equities listed on a nation's stock exchange. Entities making direct investments typically have a significant degree of influence and control over the company into which the investment is made. Open economies with skilled workforces and good growth prospects tend to attract larger amounts of foreign direct investment than closed, highly regulated economies”.

3.2 FDI and Nigeria meaning

“In the Federal Republic of Nigeria, foreign direct investment (FDI) is defined as investment undertaken by an enterprise that is either wholly or partly foreign-owned. The Investment Code that created the Nigerian Investment Promotion Commission (Decree No. 16 of 16th January 1995) and the Foreign Exchange (Monitoring and Miscellaneous Provision) also enacted in 1995 give full legal backing for FDI in the country”. (UNCTAD, 2006).

3.3 FDI IN NIGERIA AND COUNTRY OF ORIGIN

Before 1970s, Nigerian foreign direct investment was mainly on agricultural products and raw materials. According to UNCTAD report (2009), the foreign direct investment in the oil sector amounted to only ten percent of total inflows in the early nineteen seventies. This simply means that FDI inflows were mainly focused in the commercial sector, making exportation of agricultural product favourable. Today, foreign direct investment focuses more on the oil sector. Majority of the investors in the Nigerian business environment had been from those countries where the oil barons had originated from. For example, The Royal Dutch Company Shell from the Netherlands, Total Oil from France and ENI from Italy as well as Exxon Mobil, Texaco and Chevron form the United States of America (UNCTAD, 2009).

3.4 Determinants of Foreign Direct Investment

The issue of determinants of foreign direct investment is somehow difficult to understand and generalize because the nature of businesses differ with their different requirements so it is of great assignment for the foreign investors to find a better environment suitable for their investments. But generally, it can be agreed upon that, those factors suitable for domestic investments could be of great importance to foreign investments as well such as political, economic, social and cultural and geographical location of the country. It is also true that some determinants may be more important at a given time than to another investor (Ajayi, 2006). While it is difficult to determine the exact quantity and quality of FDI determinants that should be present in a location for it to attract a given level of inflows, it is nevertheless clear that a critical minimum of these determinants must be present before FDI inflows begin to occur (Ngowi, 2001). These suggested factors that could enhance the inflow of FDI generally could be listed and explained as follow:

**Infrastructure:** poor infrastructure is one of the main hindrance and obstacles of the FDI inflow in any country and good infrastructural facilities will sure make a nation more attractive to foreign investors as well improve the qualities of the domestic investment.
Infrastructure covers many dimensions, ranging from roads, ports, railways, and telecommunication systems to institutional development (e.g., accounting, legal services) Ajayi (2006). Asiedu (2002b) stated that good infrastructure increases the productivity of investment and can therefore stimulate FDI flows. With the use of cross-section data, Alfaro et al. (2001) found that poorly developed financial infrastructure can adversely affect an economy’s ability to take advantage of the potential benefits of FDI. In a study by Bhinda, Griffith-Jones, and Martin (1999), it was found that problems related to funds mobilization were on the priority list of the factors discouraging investors in Uganda, Tanzania, and Zambia. Surveys in sub-Saharan Africa indicate that poor accounting standards, inadequate disclosure, and weak enforcement of legal obligations have damaged the credibility of financial institutions to the extent of deterring foreign investors. Bad roads, delays in shipments of goods at ports, and unreliable means of communication have added to these disincentives (Ajayi, 2006). FDI depends only on the infrastructure of the host countries so it is very imperative for every nation to develop her infrastructure in order to improve her domestic investments and also to attract the foreign investors.

**Labour Cost:** the idea of investing in the developing countries is considering advantageous due to the low labour cost and wages. According to Pigato (2001), all other factors remaining unchanged, lower labor cost reduces the cost of production, but the availability of cheap labor justifies the relocation of a part of the production process in foreign countries. Pigato shows that with FDI moving toward technological intensive activities, low-cost unskilled labor is not in vogue; rather it is the demand-qualified human capital that counts. Konings and Murphy (2006) found that in the post-1992 United States FDI in EU periphery was discouraged in high labor cost countries. Braconier et al. (2005) found that about 20% of U.S. multinational sales are based on low wages of skilled labor. Konings and Murphy (2006) argued that wage level is not the only labor-related factor that determines FDI investment decisions, but it is the availability of skilled labor and its productivity that seems to be important for firms. Azemar and Desbordes (2009) and Suliman and Mollick (2009) analyze FDI flows to developing countries and conclude that the relatively low FDI flows into sub-Saharan Africa are partly explained by poor human capital and illiteracy. Noorbakhsh et al. (2001) wonder why FDI flows to developing countries have reached only a limited part of them. Both affordable labour cost and the quality of labour with high level of education attract the interest of the foreign investors to come into the economy of any nation.

**Resources:** availability of natural resources is of great interest to any nation domestically and also to bring the foreign investors into the country. Africa had the influence of FDI
basically because of the presence of resource in the region. Traditionally, about 60% of Africa’s FDI is allocated to oil and natural resources UNCTAD (1999). The rising profits in the sector induced a flow of investment. Asiedu (2006) concludes that, besides market size, natural resources are the key determinants for FDI in Africa. Nigeria is blessed with enough resources to attract the interest of FDI in the country but the major problem facing the country in both improvement in domestic investments and foreign investment is leadership problem.

**Political factor:** this has to do with the abnormal changing of leaders, governmental policies, and security issues to government, and regime type. The stability of political administration of a nation is of great significant to the operation of a multinational companies. The issue of security is also very paramount to them because failure attempt of government to assure foreign investors with high level of security will discourage them to operate without undue risk of their both capital and personnel. Nigeria and Angola are examples of the countries with better natural resources that could really attract the interest of the foreign investors but what about the issue of security in those countries and their regime type?

**Privatization:** some foreign investors can be attracted by privatization and this took place in some countries like Ghana in 1995 and Nigeria in 1992. This has to do with the fact that, some governmental companies are taken over by the private individual, which could lead to competition among the private ownership of productions. Competition is of great advantage to the final consumers because it will give room for multiple options and better environment for some FDI to operate successfully.

**Openness:** open economies of the developing countries is a vehicle of success for FDI to penetrate compare with closed economy countries, which hardly gives room for external intervention. There are numerous findings that suggested the fact open economy is a great determinant of FDI inflow. Ajayi (2006) study indicates that exports, particularly manufacturing exports, are a significant determinant of FDI flows and tests show that there is strong evidence that exports precede FDI flows. China has been regarded in particular, to attract much foreign investment into the export sector. Several studies also find a better positive effect of openness on inward FDI.

**Macroeconomic:** most of the factors discussed under the constraints of inflow of FDI are also the considering factors that determine the inflow of FDI. When they are not put in place, they will sure hinder the FDI inflow and when they perfectly taken care of, they facilitate the
operation of FDI. The stability of macroeconomic variables such as; low level of inflation, little external debt, stable currency, better GDP rate will sure encourage the interest of the FDI inflow in any country. These are what is lacking in developing countries and which have been hindering the inflow of FDI in the region. Serven (2002) proves that exchange rate uncertainty, i.e., volatility, discourages private investment into developing countries. Clark and Kassimatis (2009) find that default risk leads to FDI drops in Latin America.

In conclusion, some authors also stated some factors to be related to the above-discussed factors as determinants of FDI inflow in any nation. Like; Salako and Adebusuyi (2001) examined the empirical determinants of FDI in Nigeria. Their results indicated that exchange rate; infrastructures development and credit to the domestic economy were some of the main factors that influence FDI flows to Nigeria. It was also observed that FDI was sensitive to domestic interest rate and real per capita income while there is need to maintain political stability in order to attract FDI to Nigeria. ; Anyanwu (1998) identified change in domestic investment, change in domestic output or market size, indigenization policy and change in openness of the economy as major determinants of FDI. He further noted that the abrogation of the indigenization policy in 1995 encouraged FDI inflow into Nigeria and that effort must be made to raise the nation’s economic growth so as to be able to attract more FDI.

3.5 INFRASTRUCTURAL FACILITIES IN NIGERIA

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. The word infrastructure has been referred to as resource systems that have been harnessed for the development of a society according to Frischmann, 2007; Pendse, 1980. And they further itemized these systems to be; telecommunication, energy, transportation, governance, and other public utilities. 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. From Frischmann’s infrastructural theory, the abundant resources in Nigeria can be utilized to ensure adequate infrastructure for Nigerians.

In the overview of the U.S. public policy, the definition of “infrastructure” has been so ambiguous and evolutionary. Around twenty (20) years ago, “infrastructure” was defined primarily in debates about the adequacy of the nation’s public works—which were viewed by many as deteriorating, obsolete, and of insufficient capacity. In a 1983 report, the Congressional Budget Office (CBO) defined “infrastructure” as facilities with “the common
characteristics of capital intensiveness and high public investment at all levels of government.

Many authors have reviewed the concept of infrastructure but basically the whole definitions are always base on the same issues, which are roads, telecommunications, educations, water supply, energy, power grids and hospitals. Udjo et al. (2000) identifies infrastructure as having both direct and indirect impact on the growth of an economy. Infrastructure is said to add to economic growth and development by raising efficiency and providing facilities, which enhance the quality of life. Akinyosoye (2010) defined infrastructure as the “unpaid factor of production” which tends to raise productivity of other factors while serving as intermediate inputs to production. The services engendered as a result of an adequate infrastructure base will translate to an increase in aggregate output. Canning and Fay (1993) also found that the developing countries demonstrated a high rate of return on transport infrastructure, which compared favorably with those of developed countries.

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). United State could be regarded as one of the most developed countries in the world today majorly because the country understood the need for best infrastructural facilities. The United States has acutely aware of the importance of civil infrastructures and their criticality to the nation’s economy and quality of life (Baker, 2007).

Sanusi (2012) identified the deficit level of infrastructure in Nigeria as the major constraint towards achieving the nation’s vision of becoming one of the 20 largest economies in 2020. He further analyzed that about 70 percent of the 193,000 kilometres of roads in the country is in poor condition; that enterprise surveys show that the power outages the nation experiences amount to over 320 lost days a year, with over 60 percent of the population lacking access to electricity with over $13 billion spent annually to fuel generators and that that Nigeria, which once had one of the most extensive railway systems in Africa, could now barely boast of a functional route either for passengers or freight.

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. Inadequate infrastructure was cited as a major cause of several crises including the 1967-70 civil war, general industrial strikes, students’ demonstrations in Nigerian higher institutions, and the spate of militancy in the Niger Delta of Nigeria (Babawale and Odukoya, 2005). 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.

Infrastructure has been discussed in differs of ways within the body of this paper work, it has been discussed as one of the main determinants and one of the major obstacles of FDI inflow in the host country. The importance of FDI and infrastructure of the host country is one of the main backbone of this research work and this necessitate the reason to lay much emphasis on it using the view of different authors. The success of FDI operation in economic growth of the host countries is said to have depended majorly on the good infrastructure. Attempt shall be made to review the ideas of different authors on the significant effect of infrastructure on foreign direct investment and the various relationships between them. Coughlin et. al. (1991) found a statistically significative correlation between FDI in the United States and several measures of infrastructure. And Head and Ries (1996) also found similar results for Chinese cities. Cheng and Kwan (2000) as well report that good infrastructure, among other factors, positively influenced the location decisions of foreign investors in China from 1985 to 1995. Kumar (2001) found that infrastructure availability does contribute to the relative attractiveness of a country as a location site for FDI inflows.

Some findings made it known that developing countries have not been enjoying the merits of FDI because of the poor nature of their infrastructures. It was found out that developed economies enjoyed more of FDI inflows than developing economies and this is the reason why Xu (2000) shows that a country needs to reach a minimum human capital threshold level in order to benefit from the technology transfer of MNEs. And he further observes that most LDCs do not benefit from FDI flows because they fail to meet this threshold requirement. Coughlin et al (1991) discovers that more modern and extensive transportation infrastructures have better relationship with the increased FDI. Wheeler and Mody (1992) also find out that quality infrastructure is an important variable for developing countries with
the aim of attracting FDI from the United States, but not as much paramount for developed
countries with already high quality infrastructures. They are of the fact that infrastructure
enhances FDI’s contributions by reducing their operating costs and increasing the
productivity of investments. This simply correlate with the fact that the successful impact of
FDI in any host country is not by magic but depends on the certain levels of the nation’s
economic performance and infrastructural facilities.

Khadaroo and Seetanah (2008) claim the gains rendered by infrastructure growth are
associated with greater accessibility and reduction in transportation costs. Some recent
empirical studies also propose that public goods have vital impact on cost structure and
productivity of private firms (Morrison and Schwartz, 1996). Erenberg (1993) assumes that
if such kinds of infrastructure were not extend to local and multinational enterprises
publicly, then these enterprise would be operating with less efficiency as they would have to
build their own infrastructure which is results in duplication and wastage of resources and so
public inputs reduces their transportation cost.

Nadiri and Mamuneas (1994) reported a cost elasticity forecasts with reference to
infrastructure capital range from -0.1 to -0.21 depending on the business sector. Whereas,
Bae (2008) recognizes that investment in public inputs does not pose statistically substantial
opposes as that availability of public goods lower the cost of private firms even if there is no
direct role of infrastructure in the production performance and cost structure of private firms.

From the findings of Globerman and Shapira (2003) on the effect of infrastructure on the
probability of attracting FDI and the infrastructure to attract FDI. They found that public
infrastructure such as the aspect of legal system is important for attracting of FDI. Behname
(2012) states that a location/cities with good infrastructure is more attractive than a location
with other things. A country with good infrastructural facilities like good railways, effective
telecommunication, good transportation, stable power supply, clean environment and better
governmental policies will not only enhance the inflow of FDI but also promote the quality
of services of the domestic investment so quality of infrastructure has great impact on FDI.

Iwanow and Kirkpatrick (2006) argued that, the significant contribution of quality
infrastructure improvement in export performance. Furthermore the study indicates
quantitative results that an improvement of 10% in infrastructure will yield 8% improvement
in export performance in a developing country. Suh and Khan (2003) explore the impact of
infrastructure in the form of increased exporting level of major trade blocks. In emerging
economies, the role of infrastructure is two fold, promotion of FDI and greater return on investment to business owners.

Fung et al. (2005) attempts to classify infrastructure as hard in the shape of roadways, communications installations and highways and soft infrastructure are termed with transparent institutions and intensive reforms. Soft infrastructure is far important as to hard infrastructure to FDI. Furthermore, the study describes that soft infrastructure provides twice returns, economic reforms and particularly a more market friendly soft infrastructure invites higher inward FDI in emerging economies. Looking at the impact of infrastructure on both developed and developing economies according to some authors, in developing countries, infrastructure has a significant attractiveness for FDI inflows (Khadaroo and Seetanah, 2010; Asiedu, 2006). Sekkat and Varoudakis (2007) assess that infrastructure has a significant attractiveness of FDI even than that of openness and investment climate in developing countries. Addison et al. (2006) acknowledge such promotional impact only for developed nations but, on the other hand, such situation not exists for developing countries. Whereas, Bae (2008) states that in developed countries, infrastructure is not a motivator but an indicator to attract FDI in large emerging economies.

3.6 Effect and Impact of FDI in Economic growth of Nigeria

The various effect of FDI in the country has always been focal 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. 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. (Falki, 2009). Aremu (2003) observes that 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.

According to Todaro (1994); 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 (Andenyangtso, 2005). 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. However, empirical studies of the impact of FDI on growth are concerned with either the overall effect on growth (or net welfare) or with specific aspects of the FDI impact on employment, technology, trade, entrepreneurship and other areas of the economy, such as, infrastructures, education and health. Thus, the impact of FDI on economic growth remains unclear. FDI stimulates product diversification through investments into new businesses, stimulates employment generation, increase wages and accelerate declining market sectors of the host economies (Aremu, 2003).

According to Ariyo (1998); the impact of FDI on Nigeria’s economic growth and discovered that only domestic investment contributed to raising GDP growth rates during the period 1970-1995. Adelegan (2000) also explored the seemingly unrelated regression model to examine the impact of FDI on economic growth in Nigeria and discovered that FDI is pro-consumption and pro-import and negatively related to gross domestic investment. His result was based on the fact that there is no positive relationship between FDI and GDP in the country while some authors found some meaningful relationships between them. Unlike Osaghale and Amenkhieman (1987) in their research conducted to determine whether foreign capital inflows, oil revenues and foreign borrowing had any positive impact on the economic growth of Nigeria. They found out that there was increment in Nigeria’s revenue from oil export between 1970 and 1982 and that there was a substantial growth in her total foreign debts and FDI. The result of the investigation made it known that there was a positive relationship between FDI and Gross Domestic Product (GDP). And the conclusion of the study was of the view that the economy would perform better with greater inflow of FDI; and it also recommended that less developed countries (LDCs) should create more conducive environments for FDI.

Akinlo (2004) found out from his study that foreign capital has a small and statistically insignificant effect on economic growth in Nigeria. His own result was of the negative effect of FDI on the economic growth of the country. Amadi (2002) examined the impact of the macroeconomic environment on foreign direct investment in Nigeria using the ordinary least square regression technique for the period 1970-1997. In his findings, while some macroeconomic variables such as GDP per capita, interest rate and exchange rate had significant and very strong influence on FDI, others variables like inflation rate, unemployment record had weak relationship with FDI. The conclusion of the study was of
the view that macroeconomic environment plays a vital role in determining the volume of FDI inflows.

There are many professionals who have argued that foreign direct investment (FDI) is capable of accelerating the process of economic growth of a developing country (Obiwona, 2001). 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). This would be furtherly discussed very well when considering those factors militating against the effective inflow of FDI in the country. Edozien (1968) stresses the linkages generated by foreign investment and its impact on the economic growth of Nigeria. He contends that FDI induces the inflow of capital, technical know-how and managerial capacity which accelerate the pace of economic growth. He also observed the pains and uncertainties that come with FDI. Specifically, he noted that foreign investment could be counter productive if the linkages it spurs are neither needed nor affordable by the host country; and concluded that a good test of the impact of FDI on Nigeria’s economic growth is how rapidly and effectively it fosters, innovates or modernizes local enterprises.

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.

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. The reforms were designed to increase the attractiveness of Nigeria’s investment opportunities and foster the growing confidence in the economy so as to encourage foreign investors to invest in the economy (Ojo, 1998).

Romer (1993) argues that idea gaps exist between the rich and poor countries and foreign investment can ease the transfer of technology and business understanding of the poorer countries. Boyd and Smith (1992) however argued to the contrary. According to them, FDI can affect resource allocation and growth negatively where there is price distortion, financial, trade and other forms of distortions existing prior to FDI injections. Wheeler and Mody (1992) also supports the view of Boyd and Smith (1992).

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. And so, FDI introduces new market entrant beyond the domestic economies hosting TNCs affiliates (Apter, 1965). In contrast to this submission by the pro-foreign investment school, the dependency theory advocates see FDI as the advanced guard for a new diplomacy of economic imperialism (Hejidra, 2002). To them, foreign investors’ penetration into a host economy would result in ‘disarticulated development’.

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3.7 Factors Affecting the amount of Foreign Direct Investment

Nigeria as a nation has differs of inherent features, which made the nation unique in Africa as a continent and in the world in general. The nation blessed with enough natural resources to survive on its own sufficiently but still in battle of development up till tomorrow. There are numerous of 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. The tremendous advantages of FDI to the economic growth of the developing countries had made it official for every nation to try her best by making themselves an attractive ground for the foreign investors to come into their nations, in fact some finding made it known that Pakistan’s ability to develop is dependent upon the country’s effective capacity to attract the foreign investors. It is however, important to discuss some inherent factors in developing countries, which could actually affect the smooth inflow of FDI in the continent.

**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. According to Rogoff and Reinhart (2003) in their investigation about how susceptible the region is to the occurrence of war within the year 1960-2001 and they had their result base on the fact that the regional susceptibility to war index is 26.3% for Africa compared to 19.4% and 9.9% for Asia and the Western Hemisphere, respectively. The study also made it known that there is a statistically significant negative correlation between FDI and conflicts in Africa, which emphasizes on the fact, intervention of foreign business in the country 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, which precipitates to incessant changing of government will also lead to incessant changing of policies because new government with the institution of new policies and this automatically make it difficult to actually predict what the policies of government 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.

Unstable Macro-economic: effective presence of macroeconomic 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 Africa 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).

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 make 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 GDP rate is low with relative small market size so this hinders the inflow of FDI in the region. Ibadawi and Mwega (1997) show that economic growth is an important determinant of FDI flows to the region.

Poor Infrastructure: this has been a very important topical issues in this research work where infrastructural facilities have been measured in Nigeria compared with the level of interest of the foreign investors looking at the various view of different authors. The relationship between infrastructure and interest of the foreign investors in the country has been discovered contradictory with each other. African countries in general lack proper and adequate infrastructure like telecommunication, transport, power supply, professional labours, etc to facilitate the interest of foreign investors in the region. According to Asiedu (2002b) and Morrisset (2000), they provided evidence that good infrastructure has a positive impact on FDI flows to Africa. And Onyeiwu and Shrestha (2004) also find no evidence that
infrastructure has any impact on FDI flows to Africa.

**Corruption and Maladministration:** corruption is embedded in Nigerian governments and governments of African nations in general. There are no laws designed to eradicate corruption because the leaders who are to make such laws are the backbone behind success of corruption in the region. The government succeeded only in maladministration and this makes security issues to be left without taking of proper care of, so foreign investors could find so detrimental to invest in the region where their security are not certain. Ogundele and Opeifa (2004), describe corruption as consisting of several elements including deceit, trickery, cheating, intentional deception, dishonesty and the conscious premeditated action of a person or group of persons to alter the facts of a matter or transaction for the purpose of selfish personal gains. Bardhan’s (1997) definition of corruption as the practice whereby a government official demands bribes from a foreign business in return for the right to operate in a country, industry or location. Wei and Shleifer (2000) found that corruption affects both the volume and the composition of capital inflows into emerging markets negatively because it reduces inward FDI substantially.

### 3.8 FDI – Growth relations with Nigerian economy

Different analysis had been made by different authors to create a linkage and relationship between FDI and economic-growth of the country. Some authors like Aluko 1961 also discuss this, Brown 1962, Obinna 1983 and some authors concluded that there are positive linkages between FDI and Nigerian economic growth and some are of negative linkages between them. Ogiogio (1995) reports negative contributions of public investment to GDP growth in Nigeria for reasons of distortions. Aluko (1961), Brown (1962) and Obinna (1983) cited in Adeolu (2007) report positive linkages between Foreign Direct Investment (FDI) and economic growth in Nigeria. Endozen (1968) cited into Adeolu (2007) discusses the linkages effects of Foreign Direct Investment (FDI) on the Nigerian economy and submits that these have not been considerable and that the broad linkage effects were lower than the Chenery-Watanaba average (Chenery and Watanaba, 1958). Oseghale and Amonkhienam (1987) found that Foreign Direct Investment (FDI) is positively associated with Gross Domestic Product (GDP), concluding that greater inflow of Foreign Direct Investment (FDI) will spell a better economic performance for the country.

According to Jhingan (1998) direct investment is the formation of a concern (business) in which company of the investing country has a majority holding. The formation of the business concern may be financed exclusively from foreign source lending to the creation of
fixed assets. In the same vein, the World Bank (1996) conceptualized Foreign Direct Investment (FDI) as investment that is made to acquire a lasting management interest (usually 10% of voting stock) in an enterprise and operating in a country other than that of the investors (define according to residency) the investors purpose being an effective voice in the management of earning either long term capital or short term capital as shown in the nations balance of payments account statement.

Jerome and Ogunkola (2004) assessed the magnitude, direction and prospects of Foreign Direct Investment (FDI) in Nigeria. They noted that while the Foreign Direct Investment (FDI) regime in Nigeria was generally improving, some serious deficiencies remain. These deficiencies are mainly in the area of the corporate environment (such as corporate law, bankruptcy, labour law etc). And institutional uncertainly, as well as the rule of law. The establishment and the activities of the economic and financial crimes commission (EFCC), the independent corrupt practices commission, and the Nigerian investment promotion commission are efforts to improve the corporate environment and uphold the rule of law. Has there been any discernible change in the relationship between Foreign Direct Investment (FDI) and economic growth in Nigeria in spite of these policy interventions?

Edozien (1968) discussed the linkage effect of FDI on the Nigerian economy and submits that these have not been considerable and that the broad linkage effects were lower than the Chenery-Watanabe average. Oseghale and Amonkhienan (1987) found that FDI is positively associated with GDP, concluding that greater inflows of FDI will spell a better economic performance for the country.

Adelegan (2000) explored the Seemingly Unrelated Regression model (SUR) to examine the impact of FDI on economic growth in Nigeria and found out that FDI is pro-consumption, pro-import and negatively related to gross domestic investment. 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. Similarly, Ayanwale and Bamire (2001) assessed the influence of FDI on firm level productivity in Nigeria and reported positive spill over of foreign firms on domestic firm productivity.

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. He therefore suggested the need for an
institutional rearrangement that recognizes and protects the interest of major partners in the
development of the economy.

Odozi (1995) placed special emphasis on the factors affecting FDI flows into Nigeria in both
pre and post Structural Adjustment Programme (SAP) eras and found that the macro policies
in place before SAP where discouraging investors. This policy environment led to the
specifically controlled for the oil, - non-oil FDI dichotomy in Nigeria. He investigated the
impact of foreign direct investment (FDI) on economic growth in Nigeria, using an error
correction model (ECM). He found that both private capital and lagged foreign capital have
small and not a statistically significant effect on economic growth. Further, his results
support the argument that extractive FDI might not be growth enhancing as much as
manufacturing FDI.

3.9 Nigeria economy

According to the article written by Djeri-wake Nabine, 2009: “The impact of Chinese
Investment and Trade on Nigeria Economic growth”. The contribution of increased-
industrialization to the advancement of Nigerian economy cannot be over-emphasized. The
country has improved over the last few years as result of the rapid phase of industrialization.
The impact of Foreign Direct Investment to the economic development of the country
presently compared with the level of the country’s economic grade in the past apparently
shows that Nigeria has really enjoyed some certain parts of qualities from the investments of
multi-nationals companies in the country. Economic of Nigeria dated back during the phase
of colonialism when Nigeria was under the British rule, agricultural products happened to be
the source of the country’s foreign exchange, which was exportation of minerals to foreign
countries along with food grains and Nigerian economy then was only serving the
development of foreign countries. But after the country had independence in 1960, differs of
economic reforms took place to adjust the economy to meets the needs of the nation and in
1970s there was discovery of oil in the country, which changed the stands of the country in
international environments and Nigeria became partner economically with many foreign

According to the article written by Djeri-wake Nabine, 2009: The impact of Chinese
Investment and Trade on Nigeria Economic growth in agriculture, “Nigeria was explained to
have been a very good fertile land and one of the major cash crop producing lands of Africa.
Nearly 70% of Nigeria’s rural population is dependent on agriculture with it serving as the
major source of income for them. The main crops that are widely produced are - beans, cashew nuts, groundnuts, cola nut, melon, palm oil, rubber and rice. Also cattle rearing, grazing of sheep and well-maintained livestock farm are also practiced in parts of rural Nigeria. The presence of wide natural resources attracted foreigners and traders from different parts of the world in Nigeria. The rich deposits of oil and petroleum have served as the major revenue of income for the country throughout the years. Over the years, U.S.A has remained to be the vital oil consumer of Nigeria’s petroleum and gas. But due to the absence of proper distribution system, these oil-enriched reserves are not well marketed even within the country. Other chain of industries includes crude oil, coal, tin, cotton, rubber, wood, textiles, cement, footwear, chemicals, fertilizer, ceramic products, steel and most prominently the ship construction industries”.

According to Djeri-wake Nabine (2009). Nigeria had a bilateral ties with other countries and this has really helped the trade scenerio in the country. The effect of FDI to economy of the country has been discussed time without in the body of this research work because discussion of Nigerian economy without reference to the influence of the FDI would be an incomplete exercise. Djeri-wake Nabine explained that, Nigerian government unleashed a set of economic reforms intended to bring about a radical change in its current financial growth. The major trading partners of Nigeria are China, United States, United Kingdom, Netherlands, France, Germany and Italy. In 1971, Nigeria became a member of O.P.E.C (Organization of the Petroleum Exporting Countries) which then made the country one of the important oil producing nations of the world standing at seventh position.

He explains further that Though the defective infrastructure facilities have hampered the constant growth of the country, yet efforts are made to revive those sick industries of the country through foreign collaborations and investment. The agriculture and oil has been on the top of the priority list of economic growth of the country, efforts are made to modify other industries. The previous chapter of this paper discussed determinants and different obstacles of foreign investors’ interest in the country but the fact still remained that the country remained very special and unique market ground for some multi-national companies, which china would be considered as a typical example.

3.10 China-Nigeria relationship
The relationship between china and African region started in the late 1950s, which North Africa, Egypt in particular happened to be Chinese major partners then but now, many African countries had created good relationship with Chinese products and services. The first relationship between china and Nigeria was stated be imbalance initially but china has
adopted different methods to enhance and augment the economy of Nigeria. According to the China Customs, “the bilateral trade volume between China and Nigeria in 2006 reached US$3.13 billion, up by 10.6, from 2000 to 2006, among which China’s export to Nigeria was US$2.85 billion, up by 23.9, while China’s import from Nigeria was US$280 million, down by 47.3. China had a surplus of US$2.57 billion. China mainly exported motorcycles, machinery equipment, auto parts, rubber tires, chemical products, textiles and garments, footwear, cement. Nabine D.W. (2009).

Some authors believed that, there is evidence that Nigeria has made some positive improvements, which have been highly attractive to foreign investors, especially, the Chinese investors. In this regard, the Chinese government regularly commissions state-owned enterprises (SOEs) for infrastructural aid projects in countries where it wishes to expand its sphere of influence (Giovannetti & Sanfilippo, 2009). “China’s foreign direct investment (FDI) in Nigeria is actively facilitated by governmental aid programs, with a major emphasis in the oil industry.” Jeremy G. (2012). There are three main types of Chinese FDI in Africa: FDI targets the Chinese world market import of natural resources, second; it targets the African market export of low-cost manufactures, and the third one is; it targets the world market tariff-jumping (Giovannetti & Sanfilippo, 2009).

3.11 Impact of Chinese FDI on the Nigerian economy
The emerging Chinese Giant is undisputable at the center of the explosion of Africa-Asian trade and investment, with the experience of a new advancement in South-South commercial affairs (Broadman, 2007). There are many projects sponsored and carried out by Chinese FDI in the country, which made its presence to augment Nigerian economy. In discussing the effectiveness of the relationships between China-Nigeria FDI, Nigeria is said to occupy the 12th position as host countries of Chinese investments between the year 2003 and 2006 with the estimation of the investments worth of US$191.01 million. There was an increment in Chinese FDI to Nigeria from average of $0.55 million in between the year 1999-2000 to about $5.5 million in 2006. Chinese investments cover mainly manufacturing and construction activities particularly in the area of infrastructure and services” (Oyeranti O.A; Babatunde M.A; Ogunkola E.O; Bankole A.S 2010,).

China has set up over 30 solely – owned companies or joint venture in Nigeria in the construction, oil and gas, technology, services and education sectors of the Nigerian economy (Ogunkola, Bankole and Adewuyi, 2006). In order to examine the impacts of Chinese FDI in Nigeria, Chinese FDI on manufacturing growth shall be discussed with five
case studies namely, Kajola Specialised Railway Industrial Free Trade Zone, Ofada Vee Tee Rice Limited, and Ogun Guangdong Free Trade Zone (OGFTZ), China Town in Lagos, and Lekki Free Trade Zone (LFTZ) (Oyeranti, 2010).

The advent of Chinese infrastructure is valuable for Nigeria because it has improved Nigeria’s manufacturing sector and increased quality and speed of construction (Osakwe A., 2012). China has basically made its prime commercial footprint in Africa through Construction and infrastructure sectors (Corkin, 2008).

Kajola Specialized Railway Industrial Free Trade Zone:
In journal written by Osakwe A., (2012): “China-Nigerian Relations: the Nigerian Niger Delta and Continent Wide Pattern”. This Chinese project was explained to be under the management of Ogun State government executed to take maximum advantage of the railway modernization programme and the projected inland container terminal project of the federal government. And the main objectives of the project was to attract industries and businesses that specialize in offering complementary services to the projects of railway modernization programme and projected inland container for the federal government. And expected investors for the project are: railway industrial park, locomotive workshop, railway related service, foundries, metal fabrications, logistics, new towns development, shopping centres, commerce & industries (fruit juice processing, ceramic making, diary production, furniture making, garment production and Kola processing) (Ogunkola, 2008).

In discussing the advantages of this project, Nigerian government made it known that the project enables facilitation of rapid mechanization of the state and encourages the smooth inflow of FDI in the state. It is also explained that since the project is one of the three free trade zones recognized in the state, it is originally established to serve as a growth pole. Larger concept of concurrent development of all parts of the state surrounded the project (Ogunkola, 2008). The zone is a joint venture of Chinese Civil Engineering Construction Company (CCECC), and the Ogun State Government. The estimation of the company’s investment was about N115.8 billion.

Ofada Vee Tee Rice Limited: Osakwe A. (2012) also explained this as the second project that brought a linkage between Ogun state government and Chinese firm. Ogun state government, Nigerian federal government and Vee Tee Group owned the company’s equity shares. The total of 225, 000 (9000 bags) capacity of tons of rice per day was said to be designed by the company for the people. Another task of the company is production of rice, which will be compared positively with other countries around the world in order to measure
the quality of the production. Paddy rice are sourced by the local formers to the company for it to be processed (de-husking, de-stoning, parboiling, sorting, polish, packaging and marketing) by the company.

Osakwe A. (2012), further explained on this project stating the advantages company of self-sufficient food production and foreign exchange savings. There was a need for effective incorporation of the local rice farmers as sources of employment opportunities for them in the state in order to enjoy the optimal benefits from the formation of Ofada Vee Tee Rice Company. Though the promise made by the company to provide seeds and extension services may be unsatisfactory. But there was a plan for over-as and under-supply of paddy rice to the company by the local rice farmers (Ogunkola, 2008). In order to understand the benefits of this company, the negative effects of its backward linkage must to the economy in terms of employment and rural livelihood must be taken into considerations, considering the estimation of approximately 30,000 farmers who are to supply paddy rice to the company. Other advantages discussed by these authors include transporters and traders of the raw materials and the finished products (Ogunkola, 2008).

**Ogun Guangdong Free Trade Zone (OGFTZ)**: According to Margaret Egbula and QI Zheng, (2011), this is project work that was carried out in Ogun state, south-western Nigerian state that shares border with Lagos state. The project was said to cover an area of 100 square kilometers (10,000 Hectares). The site for the project is 30km from the Apapa seapot and Murtala Mohammed International Airport, in Lagos. 82% equity was under the control of the publicly owned china-Africa investment co., and the 18% remaining was given to the Ogun Sate government. The funding for the construction on the zone is also explained in the following ways; Guangdong Xinguang funding the USD 500million, and the first bank of Nigeria performing the task of investment banking, project finance and business advisory services. The construction materials for the OGFTZ are also stated to be materials and ceramics, ironware, furniture, timber processing, pharmaceuticals, computers and lighting. (Margaret E. and QI Zheng, 2011).

**China town in lagos:**

According to the journal written by Oyeranti et al., 2010:

- There are about 120 shops, which 75% of them are owned by Chinese people. This exemplifies the prevalence of Chinese enterprises prevalent in the Nigerian markets.
- For employment opportunity for the people, Average of two Nigerians are working as shop attendants in Chinese shops.
• Chinese Enterprises in Nigerian market make provisions for the cheap products such as textiles and apparels, lace materials, baby wears and toys, foot-wears, handbags, household utensils, personal effects, items for decorations, electrical appliances, art works, among others: light manufactures

• Investigation carried out by researchers made it known that there are Chinese firms in Nigeria that produce some of these products and some other products are imported from China due to lack of needed raw materials for production.

**Lekki Free Trade Zone (LFTZ)**: According to the journal written by Oyeranti et al., 2010: This is simply a conjunction venture between the LGSG (represented by Lekki Worldwide Investment Limited-LWIL) and the Chinese Government (represented by Nanjing Jiangning Development Zone in the Jiangsu Province and the China Railway Construction Corporation).

The basic reasons behind the formation of LFTZ have been stated in the following ways: development of an offshore economic growth zone; attraction of foreign investment; promotion of export; creation of job opportunities for the people; minimisation of capital flight; and establishment of a one-stop global business haven.

The considering benefits derived from this project is better opportunities for the investors to supply raw materials to the host country basically for activities such as agro-processing, clothing and textiles, food and beverages, forestry, mining and pharmaceuticals to be created by the zone (Oyeranti, 2010).
4  DISCUSSIONS AND CONCLUSION

This chapter discusses the theories of FDI, effect of FDI in the host country, different
determinants of FDI, criticisms of FDI, and contributions of FDI to Nigerian society.
Finally, it concludes with how foreign direct investment impact the host country.

4.1 Discussion

Various attempts have been made by the researcher to examine the relationship between
Foreign Direct Investment and Nigerian economy. The study was done in a general way by
looking at the theories of FDI, effect of FDI in the host country, different determinants of
FDI, criticisms of FDI, contributions of FDI to Nigerian society, etc. There are many
advantages of FDI to the host countries as discussed by different authors, though there are
certain criticisms raised against it as well. But the efforts of FDI to augment the local
investments and develop the standard of economy of the host countries cannot be over
emphasized. Borenstein et al (1998) explains that foreign direct investment is as an
important vehicle for the transfer of technology, contributing to growth in larger measure
than domestic investment. Findlay (1978) opines that foreign direct investment increases
the rate of technical progress in the host country through a “contagion” effect from the more
advanced technology, management practices and so on, used by foreign firms.

Caves (1996) observe that the rationale for increased efforts to attract more FDI stems from
the belief that FDI has several positive effects. Among these are productivity gains,
technology transfers, and the introduction of new processes, managerial skills and know-
how in the domestic market, employee training, international production networks, and
access to markets. Foreign direct investment also contributes to economic growth via
technology transfer. Transnational companies can transfer technology either directly
(internally) to their foreign owned enterprises (FOE) or indirectly (externally) to
domestically owned and controlled firms in the host country (Blomstron et al., 2000;
UNCTAD, 2000).

Some authors discussed FDI to have better relationships with growth theory in host
countries. Foreign direct investment has empirically been found to stimulate economic
growth by many researchers. Some of them are (Borensztein et al., 1998; Glass and Saggi,
1998). Dees (1998) emphasizes on the significance of foreign direct investment on China’s
economic growth, while De Mello (1997) explains a positive correlation for selected Latin
American countries. The normal Inflows of foreign capital are assumed to increase
investment levels. There are two classifications made between foreign direct investment and
economic growth. Firstly, foreign direct investment has been explained to have direct impact on trade through which the growth process is assured (Markussen and Vernables, 1998). Secondly, foreign direct investment is assumed to augment domestic capital thereby stimulating the productivity of domestic investments (Borensztein et al., 1998; Driffield, 2001). These two arguments are in conformity with endogenous growth theories (Romer, 1990) and cross-country models on industrialization (Chenery et al., 1986).

In a nutshell, FDI has been explained by different scholars to have positive contributions to the economy and social development of the host country. It has also been explained in relation to economy growth theories. All these FDI advantages made it important for developing countries like Nigeria to ensure that FDI are comfortably welcomed in the economy of the country. Africa in general now depends very much on foreign direct investment for so many reasons some of which are amplified by Asiedu (2001). The preference for foreign direct investment stems from its acknowledged advantages (Sjoholm, 1999; Obwona, 2001, 2004). The leaders of African countries have been trying all their possible efforts to improve their business climate because of the desire to attract foreign direct investment. In fact, one of the pillars on which the new partnership for Africa’s development (NEPAD) was launched was to increase available capital to $64billion US dollars through a combination of reforms, resource mobilisation and a conducive environment for foreign direct investment (Funke & Nsouli, 2003).

According to UNCTAD (1999) opines that foreign direct investment has either a positive or negative impact on output depending on the variables that are entered alongside it in the test equation. These variables include the initial per capita gross domestic product, education attainment, domestic investment ratio, political instability, terms of trade, black market, exchange rate premiums, and the state of financial development. Examining other variables that could explain the interaction between foreign direct investment and growth, Olfsdotter (1998) submits that the beneficiary effects of foreign direct investments are stronger in those countries with a higher level of institutional capability. He therefore emphasized the importance of bureaucratic ideas in enabling foreign direct investment effects.

This simply states the fact that, some certain conditions make FDI a success at any host country. Bengos and Sanchez-Robles (2003) opine that even though foreign direct investment is positively correlated with economic growth, host countries require minimum human capital, economic stability and liberalized markets in order to benefit from long-term foreign direct investment in flows. African leaders made several efforts to put things in better place in order to make the continent an attractive location for the foreign investors.
But it is mentioned that Africa as a continent has not really been a better option for the foreign investors. However, Nigeria as a country, with the nature of the country’s natural resource base and large market size should be qualified to be a major recipient of foreign direct investment in Africa and indeed is one of the top leading African countries that have consistently attracted foreign direct investment in the last decade. But the level of foreign direct investment attracted by Nigeria is mediocre (Asiedu, 2003) compared with the resource base and potential need. Further, the empirical linkage between foreign direct investment and economic growth in Nigeria is yet unclear; despite numerous studies that have examined the influence of foreign direct investment on Nigeria’s economic growth with varying outcomes (Oseghale & Amonkhienam; 1987; Odozi, 1995; Adelegan, 2000; Akinlo, 2004; Ayanwale, 2007).

There are many determinants of FDI as they have been explained according to authors in the body of the dissertation. There are three main determinants of FDI, namely firm-specific advantages, internalization advantages, and locational advantages. According to Akinkugbe (2003) articulates locational advantages into what is called the ‘pull-factor’. The pull-factor examines the relationship between the host country’s specific conditions and the inflow of investment. This means that, the amount benefits a nation can derive from FDI is also dependent on the availability of needed factors that FDI needs to survive and blossom in the country. In respect to this assertion, MEC determines how much risk the investor can accommodate. Also, in the case of a sector that has mineral deposits, land, forestry and fisheries resources, investors usually move to them. As part of the pull-factor theory, certain socio-economic and political factors determine available business opportunities. These factors relate to availability of natural resources, infrastructure, market size, human capital development, distance from major markets, labour cost, openness of the economy to international trade, fiscal and other non-tax incentives, etc. These factors, as shown in many literatures, place Nigerian agricultural sector in a relatively more advantageous position to attract sufficient foreign investment (Ogbanje et al., 2010, p.17).

Looking at the availability of natural resources in Nigeria, the society should be considered as a better ground for the foreign investors. Arene and Okpukpara (2006) posit that the characteristics of a nation’s natural resources influence the amount of her Gross Domestic Product (GDP). For Nigeria, oil and agricultural sectors constitute the major proportion of natural resources that contribute significantly to its economy. The role of FDI can be positive, negative or insignificant, depending on the economic, institutional and technological conditions in the host countries. Development and growth in Nigeria with varying results and submissions. For example, Odozi (1995) reports on the factors affecting
FDI flow into Nigeria in both the pre and post structural adjustment programme (SAP) eras and found that the macro policies in place before the SAP were discouraging foreign investors. Ogiogio (1995) reports negative contributions of public investment to GDP growth in Nigeria for reasons of distortions. Aluko (1961), Brown (1962) and Obinna (1983) report positive linkages between FDI and economic growth in Nigeria. Endozien (1968) discusses the linkage effects of FDI on the Nigerian economy and submits that these have not been considerable and that the broad linkage effects were lower than the Chenery–Watanabe average (Chenery and Watanabe, 1958). Oseghale and Amonkhienan (1987) found that FDI is positively associated with GDP, concluding that greater inflow of FDI will spell a better economic performance for the country.

For FDI to be a success at any host country, the following factors have been explained in the body of the dissertation as determinant factors that must be put in place by the host country. Good infrastructure, labour cost, availability of natural resources, political stability, privatization, openness, macroeconomic. Looking at the availability of all these factors in Nigeria, the country is not qualifying enough to attract the attention of the foreign investors. This dissertation attempts to discuss infrastructure as a lacking factor, which hinders the success of the FDI in Nigeria. But it should be made known that infrastructure is not the only problem hindering FDI in the country.

There are different challenges discussed in the body of the dissertation as well facing FDI in Africa generally and Nigeria in particular; the problem political instability, unstable macroeconomic, environmental problem, market size and GDP growth-rate, poor infrastructure, corruption and maladministration, etc. There are several authors discussing the problems facing FDI in Nigeria in different perspectives. But this dissertation found out that poor infrastructure has been a general considering factors discussed by them. Dupasquier, and Osakwe (2006) identified poor corporate governance, unstable political and economic policies, weak infrastructure, unwelcoming regulatory environments and global competition for FDI flows as impediments standing in the way of attracting significant FDI flows.

Ogunkola (2004) assesses the magnitude, direction and prospect of FDI in Nigeria. The authors ascribed the low level of FDI in Nigeria to deficiency in the country's legal framework concerning corporate law, bankruptcy and labour law, in addition to institutional uncertainty. Ayanwale (2007) explains that the determinants of FDI in Nigeria are market size, infrastructure development and stable macroeconomic policy. Ekpo (1995)'s study makes use of time series data, opines that the variability of FDI into Nigeria can be
explained by the political regime, real income per capita, rate of inflation, world interest rate, credit rating and debt service. Anyanwu (2011) identified change in domestic investment, change in domestic output or market size, indigenization policy and change in openness of the economy as major determinants of the FDI.

The word infrastructure has also been reviewed in the body of the study with the use of different authors’ perceptions. It has to do with resource system that has been harnessed to develop a society. These systems comprise of telecommunication, energy, transportation, governance and other public utilities (Frischmann, 2007; Pendse, 1980). According to Mandel (2008) the sufficient resources in Nigeria can be effectively utilised to ensure adequate infrastructure for Nigerians. But the question that could come to mind is with enough and sufficient resources in Nigeria, why do infrastructures remain inadequate in the country? Frischmann (2005) developed the “Economic Theory of Infrastructure and Commons Management” discusses under this that important resources should be equitably used in Nigeria for the advantage of all members of the society. But unfortunately, Nigerian level of infrastructures is inadequate in nature and the different efforts made to improve them have not been successful so far.

The higher percentage of Nigerian populations has suffered as a result of endemic corruption. 80 percent of the country’s energy revenues flow to the government; 16 percent covers operational costs and the remaining 4 percent goes to investors (Library of Congress, 2006; Kenneth, 2005). According to the estimation made by the World Bank, only 1 percent of the Nigerian population controlled 80 percent of energy sector due to endemic corruption inherent in the country. According to Akinwale (2010:214), there are different cases of inadequate infrastructure in Nigeria, which include irregular supply of electricity, shortage of piped water, fuel scarcity, unreliable health care services, unstable educational institutions, bad roads, malfunctioning ports and erratic telecommunication services.

The nature of Nigerian electricity was explained by Iwayemi (2008) in the following ways “For the past three decades, inadequate quantity and quality and access to electricity services has been a regular feature in Nigeria, a country with 140 million people with a majority living on less than US$2 a day.” The case of inadequate road and transport infrastructure in the country was explained by Akinwale (2010:217) to be problems of faulty designs, inadequate drainage system, potholes, dilapidated pavements, fallen bridges and lack of adequate maintenance. The problem of telecommunication infrastructure in Nigeria is recorded despite the fact the country is rated to have the fastest telecommunication sector growing in Africa by International Telecommunication Union (ITU) (Stats, 2010).
The negative consequences of inadequate infrastructure in the country has been explained by Akinwale (2010:220) to have affected every nook and cranny of the society, especially schools, industries, hospitals and other aspects of both private and public spheres. There have been different crises in the country, which emanated as a result of inadequate infrastructure in the country. The 1967-70 civil war, general industrial strikes, students’ demonstrations in Higher Institutions and the spate of militancy in the Niger Delta of Nigeria (Babawale and Odukoya, 2005). The prevalence of all these crises in the country has led to severe low pace of infrastructure. The little available infrastructures in the country were damaged during all these violent demonstration like that of 1960s and Niger Delta crises (Iwayemi, 2008).

According to World Bank (2006) poor infrastructure would make a country less attractive destination for investors. This is found in the case of Nigeria whereby the inability of government of the country to attract good attentions of the foreign investors despite the enforcement of several bilateral and multilateral agreements. Because of infrastructural problem in the country, it was recorded that some major telecommunication companies used over a million litres of diesel on a daily basis to generate power and this would automatically affect the final consumers. The poor state of health infrastructure in the country is responsible for low life expectancy of less than 50 years (Akinwale, 2010). This came up from the failure of the 1988 National Health Policy goal of “Health for All” in Nigeria (Ayorinde, 2005).

Inadequate infrastructure affected not only the economy or foreign investors in the country alone but also all the members of the society. Nigerians have no interest in the government again because the position of power has always been used to divert the public fund to private use. This led to feelings of hatred of Nigerians toward their government and also resulted in gross violation of laws, environmental pollution, fire disasters, health risks, high level of insecurity, etc. Government don’t care about people’s survival and state of living, political economy of the country is controlled and managed by few elites whereby majority of the population are excluded (Babawale and Odukoya, 2005). “These situations led to high rate of poverty, rising crime waves, inadequate housing, unemployment, high rate of mortality, improper waste management” (Akinwale, 2010).

4.2 Conclusion and recommendation
Different positive contributions of FDI to the economy of host country has been reviewed and discussed along with relationship between FDI and economic growth. FDI would not be
able to succeed in any country without the availability of needed factors, which have been discussed as determinants of FDI in the body of the dissertation. One of the most important factors to attract the attentions of foreign investors is a adequate infrastructural facility. Without the availability of these needed facilities, it would be risky for investors to come into any country. This simply means that, for a nation to enjoy the merits and advantages of multinational companies, her government would have done much more enough to put in place a better infrastructure. This can be concluded that the success of FDI in any host country is dependent upon the level of infrastructural facilities in the country.

Nigeria as a system is faulty. What constitutes the distinct feature of a “system” is that, for a system to work effectively and efficiently, the whole component part of it must be working. A system cannot work when a single part of it is faulty. This implies the fact that, there are many components part of Nigerian system that is faulty not even a single part of it, which means that, the whole system cannot work. Educational system, political system, economic system, environmental system, military system, security system etc are all corrupted in the country. The most terrible problem facing the country is political leaders. Nigeria has enough and sufficient resources that could be harnessed to develop her infrastructure to the best, in order to attract the attention of the foreign investors. But the political leaders of the country are so selfish, heartless and corrupted.

Moreover, Nigerian populations have no interest in their government again; the government as well never cares about the people’s state of being. What became official in the country now is corruption and embezzlement of public fund. It would be difficult for the country to develop, because even if the government starts considering on how to develop infrastructure in the country today, it would be for a particular political gain. And even if infrastructure is developed, what happens to other part of the system like security issues, corruption and crises in the country? It can be concluded that though infrastructure is a major considering problem depreciating the interest of the foreign investors in the country but the fact is infrastructure is not the only determinants of FDI and Nigeria as a country is seriously lacking behind in other determining factors of FDI in the host country. The country as a system is corrupted in every of its part and repairing a single of the system would not make the system works.

This study suggests only one recommendation for the nation Nigeria, which is renovation of the country as a system. Any attempt to solve Nigerian problem would always be a futile efforts because the causes of the every problem has its roots from many factors. So building peace upon a conflict without taking into account its root causes might be an exercise in
futility. A new ideology has to be instituted in the country, which would change the functionality of the whole system. Delete the old corrupted and weak component parts and install the new effective component parts. Suggesting solutions to Nigerian problem will always be a fruitless repetitive exercise because countless of words has been said, millions of journals, books and articles have been written to recommend way out. But the problems facing the country still remain unchanged and things are getting worse as days count.

4.3 Evaluation of research method
One of the main features of qualitative research is reflexivity, which must be taken into consideration when evaluating the success of this research method. Reflexivity states the fact that the research and researcher’s interest cannot be separated from each other. The result of qualitative research is researcher’s oriented. it acknowledges that the researcher’s actions and decisions will inevitably impact upon the meaning and context of the experience under investigation. Coffey (1999) argues that, whilst many qualitative researchers and the authors of methods textbooks identify the role of the researcher in the construction of the research process, they nonetheless tend to: “confine the discussion of the personal and the emotional to particular aspects of the research process, rather than establishing them as pervasive to the whole enterprise”. (Coffey, 1999)

Sandelowski (1993) states that two researchers faced with the same qualitative task will produce different accounts due to their individual philosophies and theoretical commitments. Sword (1999) writes that: “Although some would criticize the subjectivity that is inherent in interpretive work, no research is free of the biases, assumptions, and personality of the researcher. We cannot separate self from those activities in which we are intimately involved.” (Sword, 1999). The use of qualitative research is flexible in nature because it enables the researcher to obtain more additional information about the research topic. Different materials and documentaries were used during the research to obtain more and sufficient information about the effect of FDI in Nigeria and also the problem of infrastructure facing the success of FDI in the country. The use of this method opens the mind of the researcher to the facts that infrastructure was not the only problem facing FDI in the country. The nature of the country is corrupted as a system and this affected the nook and cranny of the country. It gives room for the researcher to add additional needed information to the study and enables the researcher to satisfy his interest concerning all the aspects of the research topic.
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