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FOREIGN DIRECT INVESTMENTS: A REVIEW FROM THE NIGERIAN PERSPECTIVE

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ABSTRACT
As the world economy continues to become more globalized, foreign direct investment (FDI) continues to gain prominence as a form of international economic transactions and as an instrument of international economic integration. In recent years, developing countries like Nigeria with large home markets and some entrepreneurial skills have produced large numbers of rapidly growing and profitable multinational enterprises (MNEs). These MNEs are like their counterparts in other countrirs, looking for markets where they have comparative advantage to invest in. It is therefore important to create the conditions that would attract FDI from such MNEs. In this context, this study outlined the reasons why some Nigerian enterprises decide on outward FDI, their levels of success, and what other countries particularly in sub-Saharan Africa must do to attract FDI from Nigeria. It also examines the flow of FDI to Africa since the 1970s and examined the determinants of FDI with a view to understanding whether the existing policy and operational framework are sufficient for attracting investments. It further discusses the factors that influence FDI, the role of FDI, FDI trends in Africa, sectorial allocation of FDI in Africa, why Africa has lagged behind in receiving FDI, and the various modes of entry. The study ends with clear recommendations for MNEs and policy makers

1. INTRODUCTION

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

Bank of Nigeria Ltd has opened offices in South Africa, the Democratic Republic of Congo as well as in London, Paris, Beijing and Abu Dhabi (First Bank of Nigeria Plc 2011). GTBank has offices in Cote d'Ivoire, Gambia, Ghana, Liberia, Sierra Leone, and the United Kingdom, while United Bank of Africa (UBA) has offices in 19 other countries namely Ghana, Benin, Cote d'Ivoire, Burkina Faso, Cameroun, Gabon, Guinea, Kenya, Liberia, Mozambique, Senegal, Tanzania, Uganda, Zambia, Chad, Congo DR, Congo Brazzaville, the United Kingdom and the United States. Other companies with foreign offices include Zenith Bank Plc, Access Bank Plc, Diamond Bank Plc, and Industrial and General Insurance (IGI) with offices in Rwanda and Uganda (Asiedu, 2006). In the oil and gas sector Oando Plc, an integrated energy group has operations across West Africa in Ghana, Togo, Liberia, and licenses for oil exploration from Turkey and Zambia. The company is building sub-Saharan Africa's largest gas pipeline network and with its foray into power business, the company is poised to contribute several captive power plants to the Nigerian and sub- regional markets (Oando Annual Report & Accounts 2012). There is also the Sahara Group with offices in Nigeria, Cote d'Ivoire, United Arab Emirates, Switzerland, Singapore, Brazil and the Isle of Man. In the telecommunications sector, Globacom Limited operates in the Republic of Benin and Ghana, and has also acquired licenses to operate in Cote d'Ivoire. It has a reputation as one of the fastest growing mobile service providers in the world and aims to be recognized as the biggest and best mobile network in Africa (Anyanwu, 2012).

2. REVIEW OF RELATED LITERATURE

Foreign direct investment (FDI) is a key element in this rapidly evolving international economic integration, also referred to as globalization. According to the Organization for Economic Co-operation and Development (2008) FDI provides a means for creating direct, stable and long-lasting links between economies. Under the right policy environment, it can serve as an important vehicle for local enterprise development, and it may also help improve the competitive position of both the recipient ("host") and the investing ("home") economy. In particular, FDI encourages the transfer of technology and know-how between economies, as is the case with China, India, Phillipines, etc. It also provides an opportunity for the host economy to promote its products more widely in international markets. FDI, in addition to its positive effect on the development of international trade, is an important source of capital for a range of host and home economies. The significant growth in the level of FDI in recent decades, and its international pervasiveness, reflect both an increase in the size and number of individual FDI transactions, as well as the growing diversification of enterprises across economies and industrial sectors. Large multinational enterprises (MNE) are traditionally the dominant players in such cross-border FDI transactions. This development has coincided with an increased propensity for MNEs to participate in foreign trade. In recent years, it is believed that small and medium-size enterprises have also become increasingly involved in FDI (OECD 2008).

2.1 Overview of Foreign Direct Investment

Foreign Direct Investment (FDI) according to World Economic Report (2007, p.245) is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate). FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy or economies. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates; both incorporated and unincorporated (Grant 2010). FDI may be undertaken by individuals as well as business entities. Flows of FDI comprise capital provided (either directly or through other related enterprises) by a foreign direct investor to an enterprise, or capital received from an investing enterprise by a foreign direct investor. FDI has three components: equity capital, reinvested earnings and intra-company loans (UNCTAD 2012, p.245).

In a different premise, Morisset, (2000) argues that FDI is a type of investment that involves the injection of foreign funds into an enterprise that operates in a different country of origin from the investor. Investors are granted management and voting rights if the level of ownership is greater than or equal to 10% of ordinary shares. Shares ownership amounting to less than the stated amount is termed portfolio investment and is not considered as FDI. This does not include foreign investments in stock markets. Instead FDI refers more specifically to the investment of foreign assets into domestic goods and services. Sachs and Sievers (1998) contend that FDIs are generally favoured over equity investment, which tend to flow out of an economy at the first sign of trouble, which leaves countries more susceptible to shocks in their money markets. FDIs can be classified as inward FDI or outward FDI depending on the direction of the flow of money. Inward FDI occurs when foreign capital is invested in local resources while outward FDI is also referred to as ‘‘direct investment abroad’’ (UNCTAD 2007).

Foreign investments create opportunity for improving the firm’s cash flow and enhance shareholders wealth. Hence, it is the responsibility of the firm’s management to develop strategies, which involve the penetration of foreign markets, which will yield the highest rate of return or return on investment (ROI). FDI occurs when a firm invests directly in facilities to produce and or market a product in a foreign country. FDI can be done in two main categories; the first is Greenfield investment in the form of the establishment of a new operation in a foreign country (Loungani and Assaf 2001, p 5)**.** Secondly, FDI can occur by acquiring or merging with an existing firm in a foreign country. FDI can act as a powerful catalyst for economic change, although the option is expensive because a firm must bear the costs of establishing production facilities in a foreign country or acquiring a foreign enterprise (Hill, 2009). FDI is also risky because of the problems associated with doing business in a different culture where the “rules of the game” may be different from that of the investor’s country. If the venture fails, the money invested will be lost and there is always the risk of expropriation. Hence investment decisions by the firms are expected to improve productivity and respond to changes in the competitive environment. Foreign investment also offers technology transfer, management of know-how and access to foreign markets.

2.2. Factors influencing FDI

Why do companies go abroad?

The “eclectic paradigm” attributed to Dunning (1977, 1993) provides a theoretical framework that groups micro and macro level determinants in order to analyze why and where multinational companies (MNCs) invest abroad. It states that firms invest abroad to look for three types of advantages: Ownership (O), Location (L), and Internalization (I) advantages; hence it is called the OLI framework. The ownership-specific advantages (of property rights/patents, expertise and other intangible assets) allow a firm to compete with others in the markets it serves regardless of the disadvantages of being foreign because it is able to have access to, and exploit and export natural resources and resource-based products that are available to it. These advantages may arise from the firm's ability to coordinate complementary activities such as manufacturing and distribution, and the ability to exploit differences between countries. The location advantages are those that make the chosen foreign country a more attractive site (such as labor advantages, natural resources, trade barriers that restrict imports, gains in trade costs and strategic advantages through intangible assets) for FDI than the others, hence the reason for the FDI is to supply the domestic market of the recipient country through an affiliate (horizontal FDI). The location advantages may arise from differences in country natural endowments, government regulations, transport costs, macroeconomic stability, and cultural factors. Internalization advantages arise from exploiting imperfections in external markets, including reduction of uncertainty and transaction costs in order to generate knowledge more efficiently as well as the reduction of state-generated imperfections such as tariffs, foreign exchange controls, and subsidies (Campos and Kinoshita 2003). In this case, the delocalization of all or a portion of the production process (e.g. production of components/parts and/or different locations) leads to low costs benefits (vertical FDI).

Following on these, Dunning (1993) identified four categories of motives for FDI:

- Resource seeking (to access raw materials, labor force, and physical infrastructure resources). Companies extracting oil (in Nigeria), gold (in Ghana) and diamond (in Botswana) belong to this category.
- Market seeking (horizontal strategy to access the host-country's domestic markets) which aims to access new markets that are attractive as a result of their size and/or growth.
- Efficiency seeking (vertical strategy which aims to take advantage of lower labor costs, especially in developing countries), the skills of the labour force, and the quality and efficiency of infrastructure, and
- Strategic-asset seeking (to access research and development, innovation, and advanced technology) (Campos and Kinoshita 2003).

Anyanwu, (2012) stressed that too often, potential investors shy away from Africa because of the negative perception of the continent. This conceals the complex diversity of economic performance and the existence of investment opportunities in individual countries within the continent. Indeed, some African countries have been able to attract FDI based on their macroeconomic policy frameworks and the stable governments in place, while others have not (Ajayi, 2006, p 2). A number of reasons have been identified for firms investing across national boundaries. Though it is difficult in many countries to isolate the different motives, as one motive may overlap into another, the major motives often identified that have particular relevance to Africa are the first three listed above. Policy and non-policy factors have also been identified as drivers of FDI (Asiedu, 2006). Policy factors include openness, product-market regulation, labor market arrangements, corporate tax rates, direct FDI restrictions, trade barriers, and infrastructure. Non-policy factors include market size of the host country (often measured by the GDP), distance/transport costs, factor proportions (or factor endowments) and political and economic stability (Basu and Srivinisan 2002).

2.3 The Push and Pull Factors of FDI

Fernandez-Arias and Montiel (1996) and Gottschalk (2001) present a two-factor classification of the factors that influence FDI flows: as “push” (those that are external to the recipients of FDI — relating to cyclical and structural conditions, irreversibility and herding) or “pull” factors, those internal to them such as economic, socio-political and structural conditions, including uncertainty). A similar classification emerged from the works of Ikiara, (2003) who see these factors as:

- those on the “supply-side” (e.g., skilled labor, research and development, and infrastructure)
- those on the “demand-side” (host country economic and social variables or pull factors, including interest rates, tax and tariff levels, market size and potential, wage rates, income distribution, human capital, cost differentials, exchange rates, fiscal policies, trade policies, physical and cultural distance, among others (Morisset, 2000); and
- ‘’institutional factors’’ (e.g., culture, intellectual property rights, transaction costs, political risk, corruption, and bureaucracy).

2.4 The Roles of FDI

In recent times, developing countries see the role of foreign direct investment as crucial to their development. FDI is regarded as an engine of growth as it provides much needed capital for investment, increases competition in the host country industries, and aids local firms to become more productive by adopting more efficient technology or by investing in human and/or physical capital (Anyanwu, 2012). Foreign direct investment contributes to growth in a substantial manner because it is more stable than other forms of capital flows.

2.5 The Benefits of FDI

The benefits of FDI include serving as a source of capital, generating employment, facilitating access to foreign markets, and generating both technological and efficiency spillovers to local firms. It is expected that by providing access to foreign markets, transferring technology and generally building capacity in the host country firms, FDI will inevitably improve the integration of the host country into the global economy and foster growth (Hill, 2009 pp 45-56). As a result of the potential role of foreign direct investment in accelerating growth and economic transformation, many developing countries in general, and Africa in particular; seek such investments to accelerate their development efforts. Promoting and attracting FDI has therefore become a major component of development strategies for developing countries. In the case of Africa, the role of FDI as a source of capital has become increasingly important not only because of the belief that it can help to bridge the savings–investment gap but also because it can assist in the attainment of Millennium Development Goal targets (UNCTAD 2010). Given the region's low income and domestic savings level, its resource requirements and its limited ability to raise funds domestically, the bulk of its finance for the future will have to come from abroad, mostly in the form of FDI.

Thus a number of African countries have put various measures in place – apart from improving their investment environment – which they hope will attract foreign direct investment to their economies. Some of these, according to Anyanwu, (2012) are incentives (sometimes called "sweeteners") to ensure that resources are directed to areas and sectors where they are badly needed to deal with the issues of employment generation and poverty elimination. Indeed, in some cases, there is the risk of "racing to the bottom" as countries compete for FDI. It is not crystal clear whether FDI is being attracted into industries and sectors that have the greatest multiplier effect in terms of promoting sustained growth and indirectly alleviating poverty. It is not often also realized that in order to fully benefit from spillover effects of FDI, there is a minimum threshold of absorptive capacity that a country must have. Right policies therefore do matter in order to benefit from this aspect of globalization (Ajayi, 2006). For some analysts, the capacity of Africa to attract FDI is determined principally by its natural resources and the size of its local markets. Using Nigeria and Angola as examples, the two countries have been able to attract FDI because of their oil endowments, the unconducive nature of their political systems notwithstanding. In general, however, these two factors are inadequate to explain FDI flows. FDI flows reflect not only the policy and political environment in host countries, but other factors as will be shown later (Anyanwu, 2012).

2.6 Influences of multinational companies on a host country

Benefits for a local country;

- Creating new jobs opportunities
- Improving living standards for people
- Creating competition for domestic businesses and causing them to improve efficiency
- Bringing new technology
- Bringing new management ideas and styles
- Improving the balance of international payments if exporting.

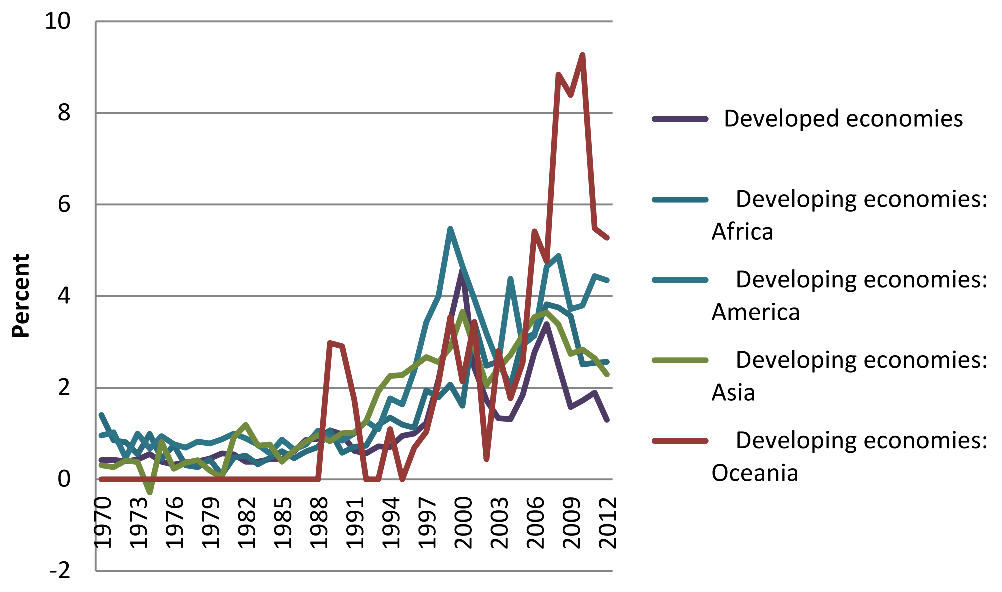
Problems for a local country;

- Resulting in some local firms to close plants or cut down employees
- Affecting the balance of payments if the multinational company imports huge amount of components from other countries
- Causing difficulties in government control because of the strong power of the business.
- Causing environmental problems to the local country

3. FDI and the Globalization Process

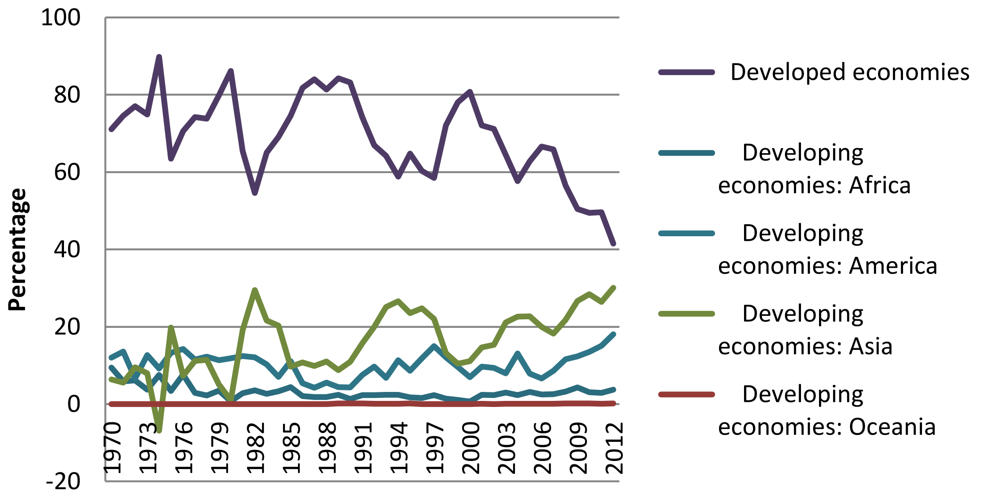
FDI, as an element of the rapid globalization process has made rapid increases in the last few decades. Global inward FDI flows rose from US$54.1 billion in 1980, reaching US$207.7 billion in 1990 to a peak of US$1,401.5 billion in 2000. A fall ensued from 2001 such that by 2003 it had dipped to US$565.7 billion before peaking again at US$2100 billion in 2007 (UNCTAD 2012). Estimates for 2009 put the fall to US$1114.2 billion consequent upon the financial and economic crisis (Figure 1 - UNCTAD, 2010a). After almost ten years of growth, FDI inflows to Africa fell from a peak of US$72 billion in 2008 to $59 billion in 2009 — a 19 percent decline compared to 2008 — due to the financial and economic crisis (UNCTAD, 2010b). As noted above and as Figure 1 shows, Africa has never been a major recipient of FDI flows and lags behind other regions of the world. By 1990, Africa’s share was a meagre 1.37 percent compared to Asia’s 10.92 percent and by 2012 while Africa’s share was just 3.70 percent, Asia received a whopping 30.11 percent (see Figure 2). And as shown in Figure 3, FDI inflows to Africa represent a low percentage of the global total, just as they also represent a low percentage of its GDP and gross capital formation (UNCTAD, 2013).

Figure 1: Trend in FDI inflows (% of GDP) to Developing Regions, 1970 - 2012



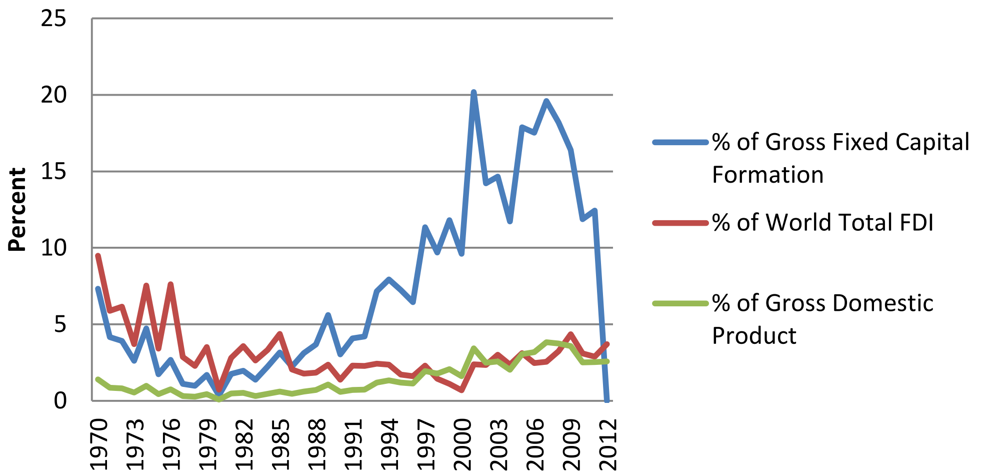
Source: UNCTADSTAT 2013

Fig 2: Trend in % Share of FDI inflows to Developing Regions, 1970-2012



Source: UNCTADSTAT 2013

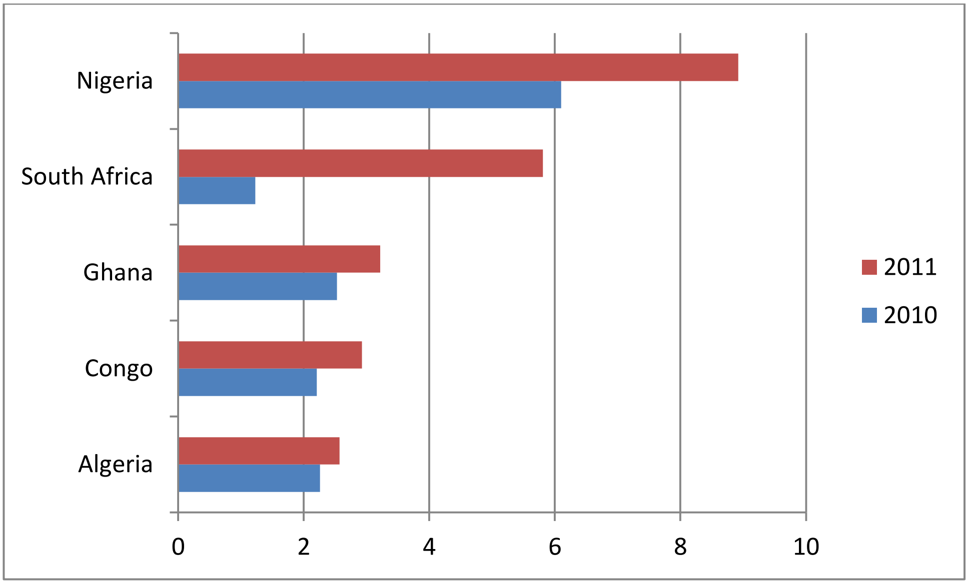
Figure 3: Recent Trend in FDI Inflows to Africa as % of GDP, Gross Fixed Capital Formation and World Total



Source: UNCTADSTAT 2013

The FDI that goes into Africa is concentrated in a few countries, with the five biggest recipients in year 2011 - Nigeria, South Africa, Ghana, Congo and Algeria- pocketing a significant proportion.

Figure 4: Africa-Top Five Recipients of FDI Inflows, 2010 and 2011 (Billions of US dollars)



Source: UNCTAD, World Investment Report 2012

According to the World Investment Report (2012), FDI inflows to Africa as a whole declined for the third successive year, to $42.7 billion. However, the decline in FDI inflows to the continent in 2011 was caused largely by the fall in North Africa; in particular, inflows to Egypt and Libya, which had been major recipients of FDI, came to a halt owing to their protracted political instability. In contrast, inflows to sub-Saharan Africa recovered from $29 billion in 2010 to $37 billion in 2011, a level comparable with the peak in 2008 (UNCTAD 2013). A rebound of FDI to South Africa accentuated the recovery. The continuing rise in commodity prices and a relatively positive economic outlook for sub-Saharan Africa are among the factors contributing to the turnaround. In addition to traditional patterns of FDI to the extractive industries, the emergence of a middle class is fostering the growth of FDI in services such as banking, retail and telecommunications, as witnessed by an increase in the share of FDI to services in 2011 (OECD (2013). The overall fall in FDI to Africa was due principally to a reduction in flows from developed countries, leaving developing countries to increase their share in inward FDI to the continent (from 45 per cent in 2010 to 53 per cent in 2011 in greenfield investment projects) (OECD (2013).

The effects of globalization on businesses

- Globalization has a great deal of influence on many businesses throughout the world.
- The impact may be stronger on some businesses, especially large businesses, but weaker on others.
- There are a number of effects of globalization on businesses.

- Some provide opportunities while others may provide threats to businesses

Table 1: The Effects of Globalization on Businesses	
Increasing competition	More and more foreign businesses have entered local markets so the competition has been intensified
Meeting consumer needs in more effective ways	Consumers have choices for products and services. They can buy the best products for the best prices.
Being able to enjoy economies of scale	Businesses can enjoy as large scale of production in the whole world. Their production costs can thus be reduced
Affecting the choice of location	Businesses can choose the most favorable place for production or business operation. The production of Motorola company in China can reduce the production costs of labor and eliminate the tariff restrictions of exports
Increasing mergers or joint-development opportunities in the world market	Businesses have more partners worldwide. They can join together to produce goods and services or to penetrate foreign markets

Source: OECD (2008)

3.1. FDI Trends in Africa

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

3.2. Sectorial Allocation of FDI in Africa

The structure of FDI worldwide has in general shifted towards services. In the early 1970s the sector accounted for only one-quarter of the world FDI stock; in 1990 this share was less than one-half and by 2002, it has risen to about 60% (UNCTAD, 2010: 15). Africa continues to attract FDI into sectors where competitive advantages outweigh the continent's negative factors. These include minerals, timber, coffee, and oil. Contrary to common perception, the concentration of FDI in Africa is no longer restricted to mineral resources. Even in the oil exporting countries, services and manufacturing are becoming key sectors for FDI. Recently, FDI has been diversifying into other sectors – in particular manufacturing and services. In 1992, 30% of FDI stock in Nigeria was in the primary sector, 50% in manufacturing and 20% in services. Similarly in 1995, 48% of FDI inflows into Egypt were in services, 47% in manufacturing and only 4% in the primary sector. Over time, Mauritius has also been able to attract FDI into the manufacturing sector, mainly in textiles and electronics. Morocco's FDI receipts have risen fivefold in the past decade, most of it in manufacturing and services. In terms of the sources of FDI, Germany's FDI has increasingly been going into the manufacturing sector, while more than 60% of the British FDI stock is in manufacturing and services (Ajayi, 2006, p.14). Also, the FDI from the United States of America has been in manufacturing, mainly in food and primary and fabricated metals (UNCTAD, 1999a). The share of US FDI stock in Africa that is in the primary sector dropped from 79% in 1986 to 53% in 1996 (Ikiara, 2003). A survey of multinational corporations in 2000 indicated that the sectors with the greatest potential to attract FDI in Africa are tourism, natural resources industries and industries for which the domestic market is important. As has happened in many African countries in recent times, telecommunication is in this category. This has assumed great importance with the privatization of telephone companies in many countries and the emergence of the global system of communication (GSM) in many African countries (Ajayi, 2006).

4. REVIEW OF SELECTED CASES

This section provides a brief overview of the three organizations chosen for this study. These are from the financial services sector; the oil and gas sector; and the manufacturing sector.

4.1. First Bank Plc

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

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

4.2. Oando Plc

Oando Oil Plc is one of the largest integrated energy solutions group in Sub-Saharan Africa with a primary and secondary listing on the Nigerian Stock Exchange and Johannesburg Stock Exchange Limited respectively. Their operations are currently focused on West Africa in Ghana and Togo, and include upstream, midstream and downstream activities from exploration and production through distribution to marketing and supply (Oando Annual Report & Accounts 2012).

4.3. Dangote Plc

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

5. MAJOR DETERMINANTS OF FDI

There is no unanimously accepted single factor that determines the flow of investment. Various literatures are replete with information on the full range of factors that are likely to induce the flow of foreign direct investment anywhere. It is often claimed that those factors that are favourable to domestic investments are also likely to drive foreign direct investment. These are the various factors that propel the flow of FDI into a given geographical location, for instance, a country or a region. In making decisions to invest abroad, firms are influenced by a wide group of economic, political, geographic, social and cultural issues (Asiedu 2002; Campos and Kinoshita 2003; Anyanwu, 2012). It is important to note that while the list of factors is fairly long, not all determinants are equally important to every investor in every location at all times. It is also true that some determinants may be more important to a given investor at a given time than to another investor. 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 (Anyanwu, 2012). One would rationally expect that investors would choose a location in accordance with the profitability of that location. The profitability of investment would be expected to be affected by specific factors, however, including country characteristics as well as the types of investment motives. As Campos and Kinoshita (2003) have pointed out, market-seeking investors, for example, will be attracted to a country that has a large but fast growing market, while resource-seeking investors will search for a country with abundant natural resources.

The factors influencing the flow of FDI thus range from the size of markets to the quality of labour, infrastructure and institutions, to the availability of resources (Ajayi 2006 p. 17). These and others are discussed below:

- A number of studies emphasize the importance of the size of the market and growth in attracting FDI. Market size and growth have proved to be the most prominent determinants of FDI, particularly for those FDI flows that are market seeking. In countries with large markets, the stock of FDI is expected to be large since market size is a measure of market demand in the country. This is particularly true when the host country allows the exploitation of economies of scale for import-substituting investment (Anyanwu, 2012).

- The costs as well as the skills of labour are identified as the major attractions for FDI. The cost of labour is important in location considerations, especially when investment is export oriented (Sachs and Sievers 1998). Lower labour cost reduces the cost of production, all other factors remaining unchanged. Sometimes, the availability of cheap labour justifies the relocation of a part of the production process in foreign countries. Recent studies, however, have shown that with FDI moving towards technologically intensive activities, low cost unskilled labour is not in vogue. Rather, there is demand for qualified human capital (Campos and Kinoshita 2003). Thus, the investing firm is also concerned about the quality of the labour force. It is generally believed that highly educated personnel are able to learn and adopt new technology faster, and the cost of retraining is also less. As a result of the need for high quality labour, investors are most likely to target countries where the government maintains a liberal policy on the employment of expatriate staff. This is to enable investors to bring in foreigners to their operation in order to bridge the gap in the skill of local personnel wherever it exists.

- That the availability of good infrastructure as crucial for attracting FDI is well documented in the literature, regardless of the type of FDI. It is often stated that good infrastructure increases the productivity of investment and therefore stimulates FDI flows (Asiedu, 2002). A study by Wheeler and Mody (1992) found infrastructure to be very important and dominant for developing countries. In talking about infrastructure, it should be noted that this is not limited to roads alone, but includes telecommunications. Availability and efficiency of telephones, for example, is necessary to facilitate communication between the host and home countries. In addition to physical infrastructure, financial infrastructure is important for FDI inflow. A well-developed financial market is known from available evidence to enable a country to tap the full benefits of FDI. Campos and Kinoshita (2003), using cross-section data, find that poorly developed financial infrastructure can adversely affect an economy's ability to take advantage of the potential benefits of FDI.

- Country risk is very important to FDI. Several studies have found FDI in developing countries to be affected negatively by economic and political uncertainty. There is abundant evidence to show the negative relationship between FDI and political and economic stability. A study on foreign owned firms in Africa by Sachs and Sievers (1998) conclude that the greatest concern is political and macroeconomic stability, while Campos and Kinoshita (2003) find that countries that are less risky attract more FDI. Perception of risk in Africa is still very high and continues to hinder foreign direct investment.

- Openness of an economy is also known to foster the inflows of FDI. The more open an economy is, the more likely it is that it would follow appropriate trade and exchange rate regimes and the more it would attract FDI.

- The institutional environment is an important factor because it directly affects business operations. In this category is a wide array of factors that can promote or deter investment. The first of these is the existence of corruption and bribery. Corruption deters the inflow of FDI because it is an additional cost and because wherever it exists, it creates uncertainty, which inhibits the flow of FDI (Anyanwu, 2012). The second is the level of bureaucracy involved in establishing a business in a country. Complex and time-consuming procedures deter investment. The third institutional factor is the existence of incentives in the form of fiscal and financial attractions. This last factor is only useful to the extent that other favourable factors are already in place. Fourth, there is also the institution of the judiciary, which is key to protecting property rights and law enforcement regulations. A frequent measure of this is the rule of law, which is a composite of three indicators (Campos and Kinoshita, 2003): sound political institutions and a strong court system; fairness of the judicial system; and the substance of the law itself. It is expected that countries with better legal infrastructure will be able to attract more FDI. Related here is the enforceability of contracts: The lack of enforceability in many African countries raises risk of capital loss and hinders FDI.

- The availability of natural resources is a critical factor in attracting FDI. This is particularly so in Africa where a large share of FDI has been in countries with abundant natural resources. In some cases, the abundance of natural resources has been combined with a large domestic market. African countries that have been able to attract most FDI have been those with natural and mineral resources as well as large domestic markets. Traditionally about 60% of Africa's

FDI is allocated to oil and natural resources (UNCTAD, 1999a/b). The Africa region possesses not only large reserves of oil, gold, diamonds and copper, but also more than half of the world's cobalt and manganese, one-third of bauxite, and more than 80% of chromium and platinum. A number of countries, including Angola, Nigeria, Côte d'Ivoire, Botswana and Namibia, have been host to FDI because of this advantage.

- Foreign investors may be attracted to countries with an existing concentration of other foreign investors. In this case, the investment decision by others is seen as a good signal of favorable conditions. The term "agglomeration economies" is often applied to this situation (Campos and Kinoshita, 2003). The clustering of investors leads to positive externalities. Three types of such externalities have been identified in the literature. The first is that technological spillovers can be shared among foreign investors. Second, they can draw on a shared pool of skilled labor and specialized input suppliers. Third, users and suppliers of inputs cluster near each other because of the greater demand for a good and the supply of inputs, which is provided by the large market.

- Return on investment is another major determinant of FDI flows. In general, FDI will go to countries that pay a higher return on capital. For developing countries, testing the rate of return on capital is difficult because most developing countries do not have a well- functioning capital market (Asiedu, 2002).

- Macroeconomic and other policies also play a role. Macroeconomic policy errors resulting in exchange rate misalignment and the lack of convertible currencies constrain FDI flows. In cases where policies are not sustainable, FDI flows are hindered. A look at Africa reveals compelling evidence that FDI may have been attracted by one or more of the following four categories of considerations (Ajayi, 2006)

- Investment that is intensive in natural resources: Given the abundance of natural resources in Africa, a large share – almost 40% – has been in the primary sector. For a number of countries, including Angola, Botswana, Namibia and Nigeria, the oil and mineral sectors have been targeted.

- Investment driven by "specific" locational advantages: During the apartheid era, a number of investors wishing to capture the large market in South Africa located in Lesotho and Swaziland. These countries therefore at that time benefited from inflows of FDI (Eiteman, et al., 2010).

- Investment driven by host country policies that actively target foreign investment: A few countries have tailored their policies to target foreign direct investment by ensuring political and economic stability. Such policies provided specific tax incentives and created export-processing zones. These countries include

Mauritius and Seychelles.

- Investment in response to recent economic and structural reforms: A few countries that were shunned by investors in the past are now the darlings of investors in response to the far-reaching economic and structural reforms. Uganda and Mozambique, whose economic reforms have been fairly successful, have attracted FDI inflows.

Eiteman, et al., (2010) argue that while market size is relatively unimportant in explaining FDI flows to Africa, economic growth is an important determinant. They find that a depreciation of the real effective exchange rate, an increase in a country's openness to trade and the expansionary effects of fiscal balance have positive impacts on FDI. It is also shown that an improvement in removing restrictions and providing good conditions for private initiative have important bearings on FDI inflows, while the number of political upheavals has a negative bearing. Terms of trade shocks and the level of schooling are found to have little impact on FDI into Africa. Incidents of war and African regional integration arrangements are found to have limited impacts on FDI flows.

Two recent studies also concentrate on Africa. The first, by Elbadawi and Mwega (1997), which is limited to South Africa, analyses how government policy (mainly deficit and taxes) affects FDI. The second is by Asiedu (2002) who by using cross-section data on 71 developing countries, attempts to answer the following set of questions: What factors drive FDI to developing countries? Are these factors equally relevant for FDI to SSA? Why has SSA attracted so little FDI? Why has SSA been relatively unsuccessful in attracting FDI despite policy reform? Is Africa different? The analysis is focused on only three main variables – the return on investment, availability of infrastructure and openness to trade – and does not take into account natural resource availability, which is an important determinant of FDI to Africa. Asiedu concludes that:

- Countries in SSA have on average received less FDI than countries in other regions by virtue of their geographical location.
- Both higher return on investment and better infrastructure have positive impact on FDI to non-SSA countries, but no impact on FDI to SSA.
- Openness to trade promotes FDI to SSA and non-SSA countries. The marginal benefit from increased openness is less for SSA, suggesting that trade liberalization will generate more FDI to non-SSA countries than SSA countries.

Her results imply that Africa is different and that factors attracting FDI to other regions may not be equally applicable in Africa. This implies that the success stories in other places cannot in some cases be replicated in Africa. Three policy implications arise from the results of the empirical work.

- African countries need to liberalize their trade regime in order to enhance FDI flows. The full benefit of trade liberalization is only achievable if investors perceive the reform is not only credible but irreversible.

- Policies that have worked in other countries cannot be blindly replicated in Africa, since these policies may have different impacts on Africa.
- Africa is overly perceived as risky. Consequently, countries in the region receive less FDI by virtue of their geographical location. To dispel the myth, there is need to disseminate information about the continent.

In another study, Asiedu (2003) used panel data on 22 African countries for the period 1984–2000 to examine empirically the impact of several variables including natural resource endowment, macroeconomic instability, FDI regulatory framework, corruption, effectiveness of the legal system and political instability on FDI flows. The paper debunks the notion that FDI in Africa is solely driven by natural resource availability and concludes that natural resource endowment, large markets, good infrastructure and an efficient legal framework promote FDI, while macroeconomic instability, corruption, political instability and investment restrictions deter investment flows. These results imply that African governments can play major roles in promoting FDI to the region through appropriate policy framework. In the short and medium term, government can increase their FDI by streamlining their investment regulation framework, implementing policies that promote macroeconomic stability and improving infrastructure. In the long run, more FDI can be achieved by curbing corruption, developing a more efficient legal framework and reducing political instability (Asiedu, 2003).

Morisset (2000) focuses exclusively on Africa and controls for natural resource availability. He identified which African countries have been able to attract FDI by improving their business climate. Evidences from these countries shows that proactive policies and reoriented governments can generate FDI interest. He makes the point that by implementing policy reforms, African countries can also be successful in attracting FDI that is not based on natural resources or aimed at the local market, but rather on regional and global markets. Over the period 1990–1997, using panel data for 29 countries, he finds that GDP growth rate and trade openness have been positively and significantly correlated with the investment climate in Africa. On the other hand, the illiteracy rate, the number of telephone lines per capita and the share of the urban population (a measure of agglomeration) are major determinants in the business climate for FDI in the region. Political and financial risk as measured by the International Country Risk Guide (ICRG) and the International Investors ratings did not appear significant in his regression.

6. CONCLUSIONS AND RECOMENDATIONS

This study has shown that the Nigerian multinational corporation is taking its pride of place in different markets around the world and in SSA in particular. Nigeria's expansion in the region has seen it assume a more dominant economic role. The recent rebasing of the economy which saw Nigeria emerge as the biggest market in Africa lends credence to this. As Nigerian MNEs continue to expand and invest in other markets, several factors will positively influence their FDI decisions:

- Political and economic stability - the governments of SSA countries must take up the responsibility of implementing policies that ensure political and economic stability. An improvement in this area will certainly attract more investors from Nigeria.

- African countries can successfully attract FDI that is not based on natural resources or market size by improving their business climate, using GDP growth rate and trade openness.
- In the area of Information and Technology it is recommended that governments invest in infrastructure and hardware to attract more Nigerian investors. Strategies must be employed to fully utilize the transfer of technologies, together with the transfer of production, processing and management technology. The best way to achieve these is through selected and quality FDI. The sale of licenses to new players will form the base for investment in the ICT sector.
- The governments should create the enabling institutional environment – this includes giving incentives like tax holidays, reducing the bureaucracy associated with starting a new business, a functioning judiciary and addressing the issues of bribery and corruption.
- Appropriate legislation must be put in place for proper adjudication.
- The government monetary policy should focus on containing or reducing inflation and interest rates.
- The fiscal policy framework should be strengthened. There is the realization that the privatization of state owned enterprises should be carried out so as to be able to attract MNEs and hence enhance capacity and credibility to the regional investment and business services strategy of the government. This would no doubt attract foreign investors to participate in the process of privatization.

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