DIRECT FOREIGN INVESTMENT FOR ECONOMIC STABILITY*

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INTRODUCTION

Foreign investment (FI) is when a state procures capital, technology and/or managerial expertise from outside it's shores. It is direct FI when the foreign business enterprise is directly involved in the business as opposed to involvement through indirect means such as stock and shares. However, the investing percentage must be more than 10% or it will be classified as an indirect investment.[1]

> "direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy".[2]

DFI could be a tool for economic stability of a state by encouraging employment, production, increase in capacity and markets and ultimately wealth. This perhaps is the reason why it is seen as a potent force for development of the less developed economies of the world, including Nigeria.

To import FI, the presumption is that the state lacks requisite capacity in terms of the imported capacity. That is that the lacuna in terms of development can be filled by the incoming investor. These days this may not be the case as investors also are attracted to states, due to factors such as economies of scale, closeness to market and ease of procuring labour, which they may naturally want to benefit from in the recipient state.

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1 IMF Worldwide Survey of Foreign Direct Investment Positions (2010).

2 (IMF) Balance of Payments and International Investment Position Manual (BPM6)

> The importance of FDI as a source of external financing for development was recognized in the 2002 Monterrey Consensus on Financing for Development and its successor, the 2015 Addis Ababa Action Agenda on Financing for Development. It takes prominent place as means of implementation in the 2030 Agenda for Sustainable Development which includes the Sustainable Development Goals (SDGs), replacing the Millennium Development Goals (MDGs). Indeed, the importance of FDI is recognized in many other international platforms and action plans, including those for least developed countries (LDCs) and countries with economies in transition.[3]

Clearly then, FI generally and DFI in particular are very competitive in nature...They are attractive, loved, useful and scarce! So contrary to expectations it is not very easy to attract DFI. To make this point clearer, globally FDI decreased by 16 percent from $1.8 tr in 2016 to $1.52tr in 2017, with the drop affecting the developed states. In addition, in 2017, developing countries received 37 percent of total global FDI.[4] Asia has been the largest recipient destination for DFI worldwide, having an increase of 2 % in 2017.[5] In addition, it is clear that the dynamics of FI and DFI in particular are changing...in this new template of DFI, we see both developing and developed states competing for scarce DFI! The determinants as will be shown later seem to be mainly in favour of the middle states, not the developed states, or the less developed States.

For these reasons DFI is drawn only to those regions that have done their homework in terms of the factors that the FI requires and indeed wants.

[3] ESCAP Handbook on Policies, Promotion and Facilitation of Foreign Direct Investment for Sustainable Development in Asia and the Pacific. UN, 2017.

[4] IMF (2010).

[5] UNCTAD Global Investment Trends Monitor.

TYPES OF FDI

FDI can be distinguished into various types. It could be as a totally new venture or maybe a purchase of existing venture or in some cases, a joint investment venture. The definition/description will generally tell its nature/composition.

• The creation of a new subsidiary and/or manufacturing base or services centre in the host country is a “greenfield venture;

• The brownfield is the merger and/or aquisition of an already existing business in the host country;

• The amalgamation of joint interests whether direct capital investment or in the form of some form of equity results in Joint ventures (JVs);

• In addition, there could be times when what the investor does is to re-invest his profits into an existing or new subsidiary project in the host country.

ATTRACTING DFI

Competition for investment capital is by all states. As we all know, money aka capital s very scarce. All states of the world require capital for development. Due to the competing needs for capital by states and the withdrawal of States from provision of public services and production of goods, private enterprises has taken over these aspects of development all over the world. These ventures are very capital intensive with Financial bodies both local and global being few and overburdened with responsibility to finance investments. The major implication of this pressure is that they also need to prioritize their involvement in ventures.

Dunning[6] notes that multinationals wanting to invest in foreign states look for advantages in relation to:

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[6] Dunning, J. H. (1977) Trade, location of economic activity and the MNE: a search for an eclectic approach in B. Ohlin and P.O. Hesselborn (eds.). *The International Allocation of Economic Activity, London, Macmillan,* 26: 395-418. Also Dunning, J.H. (1993) *Multinational Enterprises and the Global Economy,* Addison-Wesley.

- ownership (advantages of property rights/patents, expertise, goodwill and other intangible assets that allow a firm to compete with others in the markets it serves irrespective of the disadvantages of being foreign),
- location (advantages that make the destination foreign country a more attractive location in the light of natural resources, labour advantages, trade barriers that restrict imports, gains in trade costs and strategic advantages through intangible assets for foreign direct investment than the others), and
- internalization (advantages arise from exploiting imperfections in external markets, including reduction of transaction costs and uncertainty in order to generate knowledge more efficiently as well as the reduction of state-generated imperfections such as foreign exchange controls, tariffs and subsidies) advantages.

He also acknowledges four categories of motives for FDI:

- Access to Resources: such as raw materials, infrastructural capacity and an adequate labour force.
- Access to Market: ie if the host-state domestic market is big. [7]
- Access to Production Advantages: like low labour and raw material costs as well as other production advantages that would increase production efficiency. [8]
- Access to Strategic-assets: like, research and development, innovation, as well as advanced technology.

It is well to note that these factors above are very important to secure DFI in any state.

Keeping the above in mind, any State that wishes to attract investors requires to carryout several assignments, which are aimed at addressing the local environment for receipt of DFI in terms of instituting a Laisez Faire Business environment through;

... policies

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[7] Ojide Makuachukwu Gabriel, Agu Osmond Chigozie, Eke Felix Awara: Foreign Direct Investment in Nigeria: Reassessing the Role of Market Size. ***International Journal of Academic Research in Business and Social Sciences*** *Feb 2016, Vol. 6, No. 2 ISSN: 2222-6990* 95

[8] Kimberly Amadeo https://www.thebalance.com/foreign-direct-investment-fdi-pros-cons-and-importance-3306283 Updated May 23, 2018

...security and political stability

...legal environment

... restructuring of the economy

... investment guarantee provisions

BUT WHAT ARE THE BENEFITS OF DFI FOR ECONOMIC STABILITY?

The valuable role of FDI as an external source of financing for development is well established and recognised by the various international organisations. [9] In terms of its usefulness to enhance development, it has been recognized by the Addis Ababa Action Agenda as a major means of implementing the '2030 Agenda for Sustainable Development'. In addition, globalization is a key driver of the trend for foreign investment due to the search for better sources of production facilities to take advantage of economic benefits inherent in different locations. Then too, the gospel of globalization preaches that improved productivity is equal to better development and wealth for all states that participate in the global production process.

In Brief Benefits for the State are:

1. The state utilises a short cut to assess capital, technology and skills it lacks

2. The time frame for the establishment of the business is shorter than if state had gone through the usual process of developing the business itself.

3. The market most times is already established as the products are mainly import substitution items.

[9] Kimberly Amadeo https://www.thebalance.com/foreign-direct-investment-fdi-pros-cons-and-importance-3306283 Updated May 23, 2018

4. There is an expansion of the States market base as the goods are an additional product in the market thus encouraging the consumer to have a wider range of product choice. ie furthering the growth of the economy.

5. The state has access better products, and is considered a better developed place.

6. There is consequently ...it is assumed, better GDP, GNP and other development indices.

7. There is access to employment of nationals of the state

8. The capital, technology and expertise of the DFI are available to the host state and it is assumed that the transfer of these development factors will enhance national development. (The concept is termed technology /skill transfer).

All these are factors that may likely guarantee economic stability to a state as they facilitate the growth of the economy and development of the State.

CONCLUSION

Indeed the majority of capital flows into developing states is by way of Direct Investment. Most of the investments are in the nature of going business concerns with the foreign investor having a direct stake in the enterprise, so as to facilitate better business practices. It is believed that capital is both colour blind and very fearful in the sense that it favours efficiency over cronyism and takes flight at the least provocation.

The problem of DFI however is that it has become ubiquitous, and the thus it is difficult to find those in authority, whether local or global that do not subscribe to it...in spite of the cautions that are attached. Why would a paper to advocate DFI as a source of development for the state sound this note of caution?

Mainly due to the fact that the concept is a band wagon one and there needs to be brakes in case of excessive speed. One caution is that any state operating DFI requires to open up the economy... This liberalisation of the economic structures and financial aspect of the state requires much reorganization of the existing system and in the case of Nigeria, has been done haphazardly for now.

In addition the liberalization and the economic pacts entered into to protect the investments, could result in the government becoming a mere onlooker...if care is not taken, in its own internal economic interests... as its hands are tied just like that of Pontius Pilate, since it must comply with international agreements and treaties as entered into with respect to the protection of FI within its borders.

Another caution is the fact that the purveyors of DFI are the Transnational corporations who have gained such notoriety due to their potential to hijack the economy as well as ensure that their economic interests tend to supersede that of the host state.

In addition, the economy when open through DFI is becomes more subject to the vagrancies of the global economy and may suffer for activities not originating from it…however this is an inescapable consequence of the globalization of economies.

Although this globalization of economies is a plus to the power of the global market, as it creates capacity for exponential growth and development, it may augur ill for the local community...especially due to the push to provide competitive environments for the Foreign investor, that may restrict the ability of the state to take measures for economic protection, especially those of the work force.

Finally, as seen above the major beneficiaries of FI in the present global economy are the middle states…not too developed and certainly not underdeveloped. This is due to the fact that the sophistication of their work force and access to technology and infrastructural advantages make them better favoured in the race for DFI.

To utilize the benefits that can accrue through DFI for the stability of the nation's economy, Nigeria requires to push for better technologically educated citizenry and functional infrastructure to position herself as a destination of choice for DFI, if this is the choice that government has made to utilize in developing the economy. As we can see the days of relying on market or resource rich investment destination are fading. We share these attributes with many other states in the world that are fully ready to struggle to have access to the financial benefit for development that is portended by DFI.

Thank You