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IMPACT OF FDI ON THE NIGERIAN ECONOMY: NEGATIVE, POSITIVE OR MIXED EFFECTS?

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STRESZCZENIE

WPŁYW BEZPOŚREDNICH INWESTYCJI ZAGRANICZNYCH NA GOSPODARKĘ NIGERII: EFEKTY POZYTYWNE, NEGATYWNE CZY MIESZANE?

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Niniejsza dysertacja dotyczy wpływu bezpośrednich inwestycji zagranicznych (BIZ) na gospodarkę Nigerii. W pracy wykorzystano równoległą mieszaną (ilościowo-jakościową) technikę badawczą. Ekonometryczna analiza ilościowa została przeprowadzona dla określenia wpływu BIZ na wybrane aspekty gospodarki Nigerii. Następnie użyto techniki jakościowej celem zrozumienia mechanizmu wpływu BIZ poprzez analizę powiązań kapitału zagranicznego z lokalnymi firmami.

Powszechnie zakłada się, że BIZ przyczyniają się do rozwoju gospodarczego kraju goszczącego poprzez kreowanie miejsc pracy, transfer wiedzy i technologii, dostęp do rynlku oraz zwiększoną produktywność. Wyniki przeprowadzonych w niniejszej pracy badań wskazują, że wpływ BIZ na PKB Nigerii jest mało znaczący, natomiast wpływ na wielkość eksportu jest znaczący. Nie jest to zaskakujące, zważywszy na fakt, że większość inwestycji lokowana jest w sektorze naftowym, a ropa i gaz stanowią 90% eksportu Nigerii.

Mimo niejednoznacznych wyników analizy ilościowej, badanie jakościowe dowodzi, iż BIZ mogą zwiększać produktywność poprzez powiązania z lokalnymi firmami. Wynika to z analizy tematycznej treści wywiadów przeprowadzonych przez autora z 15 lokalnymi firmami w sektorze rolno-spożywczym. Jak się okazuje, w efekcie współpracy z korporacjami międzynarodowymi, firmy lokalne odczuły poprawę w zakresie jakości swoich produktów, wyników sprzedaży i produktywności. Dalsza analiza wskazuje na możliwość przeniesienia pozytywnych efektów na kolejne firmy, poprzez powiązania biznesowe. Korzyści wynikają z faktu przenoszenia doświadczeń z relacji z korporacjami międzynarodowymi na lokalny grunt (zjawisko określone w pracy jako „spillover effects”).

Z niniejszej dysertacji wynika zalecenie, aby lokalne władze starały się prowadzić politykę ułatwiającą powiązania i przenikanie doświadczeń wynikających z BIZ, tak aby pozytywny wpływ rozszerzał się na jak najwięcej firm w ramach poszczególnych sektorów gospodarki.

Słowa kluczowe: (BIZ, efekt przenoszenia doświadczeń, powiązania biznesowe, PKB, eksport)

ABSTRACT

IMPACT OF FDI ON THE NIGERIAN ECONOMY: NEGATIVE, POSITIVE OR MIXED EFFECTS?

[Bamituni Etomi Abamu]

This research concerns the impact of foreign direct investment (FDI) on the Nigerian economy in a mixed methods study. Using a convergent parallel mixed research methods design, the quantitative study applied econometric analysis to measure the effects of FDI on selected aspects of the economy, and then multiple qualitative analysis techniques were used to understand how FDI creates these effects through its linkages with local firms in the country. FDI is recognized as a contributor to the economic development of countries though job creation, knowledge and technology transfer, market access, and increased productivity. On the effects of FDI on the economy, findings reveal that the impact of FDI on GDP is not significant, however its effects on the export performance of the country is significant. With Nigeria as an attractive destination for oil and gas investments, and its mono-product economic status due to oil accounting for 90% of its exports, this is not surprising.

Despite the mixed results from the quantitative study, the qualitative research does reveal that FDI can improve productivity through its linkages with local firms. Using thematic, domain and network analysis on the data collected from an interview with 15 local firms in the agricultural sector, the study found that firms experienced an improvement in their product quality, sales income as well as productivity. Further analysis revealed a possible effect on other local firms in a business relationship with the firms under study. These improvements in local firms performance are due to the spillovers transfered from the multinationals in order for them to meet their inputs supply conditions.

Implications from the study is that policies that strengthen linkages and facilitate spillovers from FDI within the local economy should be implemented in order for the impact of FDI to be significant on the broader macroeconomy.

Keywords: (FDI, spillovers, backward linkages, productivity, GDP, exports)

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LIST OF PUBLICATIONS

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ABBREVIATIONS

APEC	Asia-Pacific Economic Cooperation
BOP	Balance of payment
BRICS	Brazil, Russia, India, China, and South Africa
CBN	Central bank of Nigeria
CNOOC	China National Offshore Oil Corporation
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign direct investment
FOCAC	Forum on China–Africa Cooperation
FPI	Foreign Portfolio Investment
GDP	Gross domestic product
HFDI	Horizontal foreign direct investment
ICT	Information and communication technology
IMF	International Monetary Fund
IPA	Investment promotion agency
M&A	Mergers and Acquisitions
MNC	Multinational company
MSME	Micro, small and medium enterprise
NAFTA	North American Free Trade Area
NBS	Nigerian bureau of statistics
OECD	Organisation for Economic Co-operation and Development
OLI	Ownership, Location and Internalization
PFDI	Platform foreign direct investment
PhD	Doctor of philosophy

PLC	Production life cycle
PWC	PricewaterhouseCoopers
QUAL	Qualitative
QUAN	Quantitative
R&D	Research and Development
SAP	Structural adjustment program
SAR	Special Administrative Region
SME	Small and medium enterprises
SNA	Social Network Analysis
UNCTAD	United Nations Conference on Trade and Development
UAC	United Africa Company
UK	United Kingdom
USA	United States of America
VFDI	Vertical foreign direct investment

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INTRODUCTION

Foreign Direct Investment (FDI) and the international flow of capital between countries has been an important issue of discussion in the field of international economics. Also, as an important factor in the process of globalization, there is an increased interest in the determinants of FDI and its impact on the economy. This is because FDI has overtaken and outpaced trade as the main force that is driving international economic relations (Tharakan and Bulcke, 2016). The fact that FDI is now a key element in globalization and the benefits that it brings has now prompted countries to adjust their foreign policy in line with this new order and to adopt and implement appropriate policies that will attract the needed FDI. The contribution of Foreign Direct Investment (FDI) to the development and growth of developing countries cannot be overemphasized. As an important factor in globalization, FDI is identified to be a positive contributor to providing jobs, managerial skills, knowledge transfer, technology, market access and capital (Pack and Saggi, 1997; Balasubramanyam et al., 1999; Blomstrom and Kokko, 1998; Borensztein et al., 1998). This is in addition to the needed foreign exchange and tax revenue it will bring to its host countries (Smith, 1997; Quazi, 2007).

The sustained growth of FDI over the past three decades has attracted a great deal of attention (e.g., Buckley and Casson, 1976; Dunning, 1980; Caves, 1996). While there has been much research on FDI, most of it has been from the perspective of investing firms. It examines issues such as why FDI enters (Dunning, 1988; Buckley & Clegg, 1991), when FDI enters (Buckley & Casson, 1981), where FDI enters (Dunning, 1998), and how FDI enters (Gatignon & Anderson, 1988; Pan & Tse, 1996) the host economy. Relatively few studies have attempted to look at the other side of the coin — namely, how the host economy, in particular the local firms, is affected by FDI. While it is important to understand the issues that concern the foreign investors, it is equally important, if not more important, to investigate the concerns of host governments. This is because if FDI has a negative impact on the host economy, the host government will be motivated to implement policies that constrain future FDI.

Research aims and objectives

Motivated by the extensive critical review of literature, the study aims to verify the impact of FDI on a host country's economy using Nigeria as a case study, and to understand the condition of the Nigerian economy in the context of the impact of FDI on GDP growth, export performance and local firms. In specific terms, the research objectives are:

1) To understand the impact of FDI on Nigeria's GDP
2) To examine the effect of FDI and its relationship with Nigeria's export performance
3) To develop an understanding on the linkage process between FDI and local firms in Nigeria
4) To identify the spillover effects from FDI on local firms in Nigeria

Research questions

1) What is the relationship between FDI and Nigerian GDP?
2) What is the impact of FDI on Nigerian export?
3) How does FDI affect the performance of local forms?
4) What type of spillovers occur between MNCs and local firms?
5) In what ways do local firms benefit from FDI spillovers?

Research methodology

The author decided to adopt a mixed methods approach in this study, as advocated by Johnson and Onwuegbuzie (2004) in their article "*Mixed Methods Research: A Research Paradigm Whose Time Has Come*". As a result, quantitative and qualitative research approaches were used in order to find in-depth answers to the research questions. Using a mixed methods research strategy, the study analyzes the effects of FDI on GDP and exports through a quantitative econometric approach, and uses a qualitative thematic approach to investigate how FDI affects the performance of local firms through the linkages they form. The main argument for using the mixed methods approach is due to the increasingly complexity and dynamic of today's economic phenomena and relationships, which has prompted researchers to complement one method with the other. Since both methods have their strengths and weaknesses, the mixed methods approach is likely to provide an opportunity to deliver some alternative explanations and solutions to

the analyzed problems. Another justification for using mixed research methods approach is that economics is basically a social science even though it is dominated by econometrics and mathematical modelling. Therefore, relying only on some probabilistic evidence obtained by quantitative research results may not be sufficient, since the future must not necessarily resemble the past. The social nature of economic relations makes it necessary for the author to adopt a more inclusive and pluralistic approach in creating the best opportunities for answering the study's research questions.

Data collected for both studies were obtained from primary and secondary sources. Quantitative data were of a time-series nature and collected from government institutions. Qualitative data were collected through an interview of participants with managerial responsibilities working in the agribusiness or agricultural sector. The research adopts a pragmatist position which is appropriate for a mixed methods study that seeks to achieve the research objectives with the best tools available without been restricted by philosophical constraints. Therefore, the author empirically seeks to understand the impact of FDI on the Nigerian economy through investigation of its effect and the process creating these effects. In the research design both methods are important to the study and analyzed through a convergent approach. Each phase of the study is analyzed individually but integrated during the interpretation or discussion of the findings.

Justification of the study

Quantitative studies on the impact of FDI has been extensively researched but little to no insights into the process of how FDI creates these impacts on a host country's economy is found in academic studies. The literature on the process of how FDI contributes to the economy and the factors influencing this process, is not extensive. According to Görg, and Strobl (2001), economic literature mostly focuses on if FDI affects productivity due to the inability of quantitative methods to explain how productivity takes place. Therefore, quantitative and qualitative studies were conducted in a mixed method research to present a holistic view on the state of FDI and its impact on the Nigerian economy. The research measured the effect of FDI on selected aspects of the economy to determine the significance of the impact. Through its qualitative study, the research conducted an indepth exploration into how FDI creates these impacts and to identify the various spillovers it transfers to the local economy through its linkages with local firms in the country.

From a policy perspective, this study is necessary to help policy makers understand how FDI contributes to economic development through its spillovers. The research assists in identifying the factors and conditions that facilitates the transfer of spillover effects to the economy. Through the findings, policy makers can ensure that the conditions for FDI-led economic development are met, and better policies are implemented.

Research scope

The scope of this study is focused on Nigeria and its experience with FDI. The research seeks to develop an understanding of FDI activities in selected aspects of the Nigerian economy. While the quantitative aspect of the study measures its overall impact on the economy with specific variables, the qualitative aspect of the study narrowed its scope to the agricultural sector to investigate more in-depth on the impact of FDI and the role it plays in the economy. The agricultural sector was selected based on its contribution to the economy as the single largest contributor to GDP. Secondly, from a policy perspective, it has received priority from the government which identifies it as a potential source for a diversification strategy away from oil which accounts for majority of export revenues.

Research motivation

The interest of the author in this research is borne out of his working experience and knowledge in the agricultural sector. From experience, many local firms which comprise mainly of micro, small and medium enterprises (MSMEs) face several challenges which limit their growth. This include but not limited to lack of access to finance, less advanced operations technique, and lack of updated knowledge in their line of businesses. The author through this study aims to provide solution to the challenges faced by local firms, by investigating the conditions necessary for FDI-led growth and demonstrating how these firms can benefit from FDI.

FDI as a topic, and international business and economics as a field which covers FDI has been of utmost interest to the author right from his pre-master's degree study leading to his enrolment in an MSc in International business program. This is because of the author's interest in understanding multinational companies and how they operate. These experiences served as a motivation to conduct extensive research on FDI and with the guidance of his supervisor, narrowed the study to understanding how FDI can positively contribute to the economy and specifically helping local firms grow through the spillovers FDI brings.

Research originality

This research contributes to the growing debate on the contribution of FDI to the economy, especially in emerging and developing countries. The approach undertaken in this research differs from previous FDI research as it explores beyond the statistical and numerical performance of FDI. The research aims to find out not just the effects of FDI, but also the process of how FDI creates these effects.

Dissertation structure

Introduction: This study was conducted in order to investigate and determine the impact of FDI in Nigeria. This section presents the background of the study, its significance and problem. It states the aims, objectives and the questions that the studies seeks to answer. The introduction section also describes the methodology that is adopted for the research as well as justifying why the author chose to conduct the studies. The section then closes by stating the scope and motivation of the study, and presenting the originality or value of the research undertaken.

Chapter 1:

Theoretical background: This chapter will present the theoretical foundations behind both foreign trade and foreign direct investments. Since foreign trade is a precusor to FDI, the first part will discuss the foreign trade theories from the non-scientific era of economics to the current and modern perspectives. Second part will focus on the theoretical foundations of foreign direct investments from its early foreign trade roots to its current state. Finally, the chapter will briefly discuss globalization, which has a strong relationship with both foreign trade and FDI, and its current issues.

Chapter 2

Literature review: This chapter will present and discuss the literature on FDI and also those that are relevant to the research objectives and research questions presented. Firstly the definition of the key terms central to this research will be presented and discussed. This will be followed by the history and patterns of FDI including the current trends. Next

is the various motives behind FDI and why firms invest abroad, and this will be followed by the different types of FDI. The research also discusses the various economic policies of FDI. Finally the research will discuss the effects of FDI on the economy.

Chapter 3

FDI environment in Nigeria: This chapter discusses the economy of Nigeria and the country's FDI environment. An overview of the economy is presented through a historical timeline and sectoral analysis. Next is the analyzing of Nigeria as an investment destination and how the country attracts FDI through its economic and regulatory policies, including the role of the Nigerian Investment Promotion Commission (NIPC). The chapter will also discuss the challenges facing the Nigerian investment environment and identify the sources of FDI inflow into Nigeria based on their country of origin.

Chapter 4

Methodology: This chapter discusses the methodology used in the research, in terms of answering the study's research questions achieving the objectives. It covers the data collection methods, methodological approach and data analytical tools for the research.

Chapter 5

Results and Findings: This chapter presents the findings of the research based on the quantitative and qualitative analysis of data collected from the statistical documents and interviews conducted with managers or decision makers of local firms in Nigeria. While the data for econometric analysis purposes where collected based on the major aspects of an economy to be affected by FDI as were identified in literatures, the interview questions were designed based on the critical review of literature on the trade interaction and link between local and foreign firms.

Chapter 6

Discussion of findings: This chapter will discuss the findings from the research. It will look at the emprical findings and evidence obtained from the study in relation to the research questions and objectives. The findings obtained will be presented and synthesized with reviewed literature from previous chapters.

Conclusion: This section contains the conclusions from the research, as well as recommendations. It summarises the objectives of the research, the literature used and the research findings. It integrates the findings of both methods to give meaning to the whole study. It will also make recommendations if any and where necessary. The chapter will then discuss the implications of this study for government and policy makers, and also its contribution to knowledge and practice.

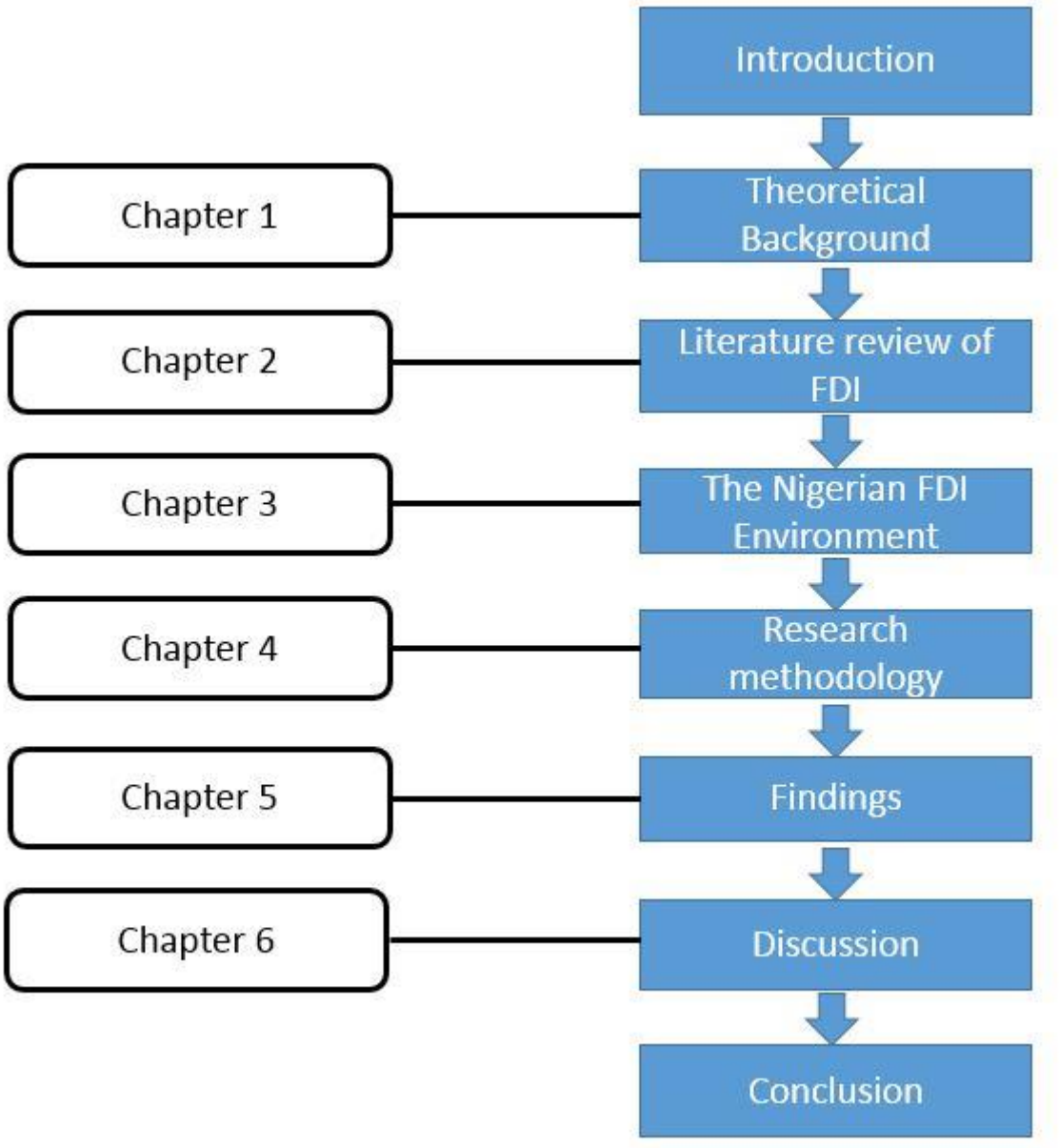

Figure 1: Structure of dissertation

CHAPTER 1
THEORETICAL BACKGROUND

This chapter will present the theoretical foundations behind both foreign trade and foreign direct investments. The first part will discuss the foreign trade theories from the non-scientific era of economics to the current and modern perspectives. Second part will focus on the theoretical foundations of foreign direct investments from its early foreign trade roots to its current state. Finally, the chapter will briefly discuss globalization, which has a strong relationship with both foreign trade and FDI, and its current issues.

1.1. International Trade Theories

Global financial and economic crises have increasingly interrupted the long-term expansion of international trade. As shown by recent events, there is a new critical period that has begun in the long history of international trade and exchange. The movement from state-run economies to market-driven economies by many countries has made international trade to be an even more important topic to be discussed. Understanding the underlying basis for trade has never been more relevant and also vital to comprehend the policies proposed by government to influence it as well as how today's ideas have evolved and developed through many centuries. Because the foundation for modern-day analysis was actually formed by several early views of international trade and from time to time trade policy is influenced by other less viable views, it is therefore of utmost importance to trace their origins in order to evaluate their appropriateness in today's world. Both trade and investments are important channels through which countries have engaged in economic activities. While trade has been the main economic route for nations to integrate, international investments have also been gaining significance since the 1950s. In addition, it is important to mention that the foundations of FDI can be traced to international trade so therefore, understanding international trade is crucial to the study of FDI.

1.1.1. Mercantilism

Prior to the emergence of an organized scientific form for the subject of economics as seen through Adam Smith`s publication of the Wealth of Nations in 1776, pamphlets and essays were written on an economic philosophy which favored a practice of stockpiling

of precious metals by nations to reflect national wealth. This philosophy was known as *Mercantilism* and the theorists behind this idea were known as “Mercantilists”, and was the system used by most trading nations in the 16th, 17th and 18th century. Also known as “specie” these precious metals such as gold and silver use to serve as a currency between trading nations. According to Mercantilists, the more gold and silver a nation has, the more powerful and richer that nation becomes. So therefore it was the goal of nations to export more and import less in order to accumulate more gold and silver in the process.

The theory of mercantilism favored a regulated system where foreign trade and all other economic activities are centralized. Control was exercised by the state over economic life and everything possible was done to maximize exports and minimize imports. The use and exchange of precious metals was controlled by government. This is referred to as *"Bullionism"*. According to mercantilists, the economic system is composed of three components: the manufacturing sector, the rural sector and the foreign colonies. The merchant class were viewed by mercantilists as the group most crucial to the economic system functioning successfully, while labor is seen as the most important factor of production (Appleyard and Field, 2013).

Mercantilists believed that trade was a “*zero sum game”*. This means that one nation can only benefit at the expense of other nations. They base their argument on the fact that gold and silver which represent wealth is limited at any point in time and so for a nation to have a balance of payment with a higher surplus then that nation has to take some wealth from another. In other words, collecting more gold and silver by exporting more and importing less to achieve a positive balance of trade is the objective of foreign trade according to mercantilists and the idea behind the theory of mercantilism.

1.1.2. Classical Theories

The classical theories of international trade states that there is a relationship between the imports and exports of a country with its pattern of trade with other countries. That is, countries are able to make gains if they allocate resources to those products of which they have an advantage economically (Ricardo, 1817; Smith, 1776). When a country has an economic disadvantage on certain resources, it is reasonable for that country to import those goods and services for which they have disadvantage to produce economically. Factors that can cause these advantages or disadvantages could include a disparity in labour, technology, capital or entrepreneurship among countries. As a theory, it promotes

free trade which can be a positive sum game. Under free trade there is specialization and countries are not required to either artificially promote exports or artificially limit imports.

1.1.2.1 Absolute Advantage Theory

The absolute advantage concept is credited to Adam Smith who is regarded as the founder of modern economics (Schumacher, 2012) and a foremost critic of mercantilism as an idea. Smith in 1776 published his book "*An Inquiry into the Nature and Causes of the Wealth of Nations"* which promotes and talks about the gains of free trade while heavily criticizing the mercantilist thinking that advocates for the creation of wealth and growth through state regulation. In fact, his writings are less of a positive theory and more of predominantly normative statements against the thought of mercantilism. Smith in his argument demonstrated that by following the idea of mercantilism it was not possible for all nations to simultaneously become rich. This is because one nation`s export is equally another nation`s import. However, he argued that there would be gains for all nations if they engage in free trade and specialize with respect to their absolute advantage. The aim of Smith was to show superiority of free trade and capitalism over the feudalistic legacy of the then mercantile system which was predominant.

Due to a more improved division of labor, the output produced can be increased with same amount of labor[1]. Smith illustrates this in his famous pin factory example. While a pin can be produced by one worker per day, 48,000 pins can be produced a day by 10 workers if each of them specialized in two or three operations. Due to specialization there was an increase in output per worker to 4,800 pins per worker from one pin per worker. Smith argues that the output and national wealth will increase by exploiting the economies of scale in the division of labor which he defines as "the annual produce of the land and labor of the society". This also leads to technical development and the dexterity of the workforce.

Division of labor is enhanced by international trade which then increases a country`s wealth in the process. Division of labor will increase if a country engages in international trade because the international market is larger than the domestic one and therefore it is

[1] Smith`s theory is based on the assumption that there are two countries, two goods and labour is the only factor of production. For Smith the only factor of production is labour and that in a closed economy the amount of labour embodied in a good impacts on its exchange with another. This is asserted from the labour theory of value that Smith used to determine prices. A good`s value is universally measured only by labour. According to him a commodity`s value is defined as the labour quantity "which it enables him to purchase or command".

more beneficial for countries who participate in international trade as there will be an increase in their national wealth as well as the "exchangeable value of the country`s annual labor and land produce". More goods can be produced by all countries trading together with the same quantity of labor due to economies of scale.

1.1.2.2 Comparative Advantage Theory

Comparative advantage theory is a classical theory developed by English economist David Ricardo that he first formulated in his published book *Principles of Political Economy and Taxation* in 1817. Just like Smith, Ricardo believes that free trade is desirable and that there are benefits to nations. However, according to Ricardo, what determines the trade relations between two countries are not the absolute but rather the comparative differences. Ricardo developed this theory to explain the reasons why countries will participate in foreign trade despite the ability of one country`s workers to produce every single goods more efficiently at an absolute advantage than the workers in the other countries.

In his famous example, Ricardo illustrates his theory using England and Portugal in which both countries initially produce cloth and wine, and no trade occurs between them. According to Ricardo England would need 100 laborers and Portugal 90 laborers to produce the same amount of cloth. While to produce the same amount of wine, England and Portugal would both need 120 and 80 laborers respectively. Even though in terms of the number of laborers needed to produce cloth and wine, Portugal seems to be more efficient than England and has an absolute cost advantage in producing both but Ricardo argues that it would be beneficial for Portugal to import cloth. Ricardo believes that if Portugal invests all its resources to produce wine while England concentrated on cloth production, then both countries would end up producing more cloth and wine. England would then trade its excess cloth with the excess wine produced by Portugal. These different requirements in labor according to Ricardo are as a result of dissimilar circumstances in a country`s situation, climatic condition and other advantages either natural or artificial and are given exogenously hence they are decisive.

This model by Ricardo concentrates on the productivity and costs of labor as the determinants of comparative advantage. Ricardo demonstrated that if two countries that have capability to produce two products participate in the free market, both countries will increase their overall consumption by exporting the product in which they possess a

comparative advantage as they import the other product keeping in mind that a difference in labor productivity must exist between those countries.

In summary the theory of comparative advantage shows that international trade is advantageous to two trading nations and that there is no need to fear even if one country`s productivity in all goods is lower and the other country produces all goods more efficiently. The only costs that matter internationally is the comparative production costs while absolute production costs are insignificant. As long as the cost ratios are different, then both countries will benefit from trade and specialization. While the Ricardian model is based on a 2-Country, 2-Commodity scenario, and the model also has the following assumptions:

1) Resource endowments are fixed and identical,
2) There is mobility of the factors of production within a country, but mobility is not possible between countries,
3) There is perfect competition,
4) Labor is the only factor of production and it determines the commodity`s relative value,
5) Production unit costs are constant,
6) There is full employment of the factors of production,
7) Obstacles imposed by government do not exist,
8) Production unit costs are constant
9) The technology level in both countries are fixed.

The Ricardo comparative advantage theory have the same conclusions as that of the Smith's theory of absolute advantage theory. Furthermore, it is demonstrated in the theory of comparative advantage that free trade is beneficial for both countries even if one of the countries possesses an absolute advantage in the production of both goods. Both theories demonstrate how specialization and trade can create economic growth. There is an increase in efficiency and consumption. As with the absolute advantage theory, the question of the distribution of gains between both countries is not answered by the comparative advantage theory and neither does it provide answers to the distribution of gains and losses between the producers of cloths and wines within each country.

1.1.3. Modern Theories

1.1.3.1 Heckscher – Ohlin Theory

The Heckscher-Ohlin theory explains that international trade occurs on the basis of factor endowments. This theory was developed by Swedish economists Eli Hecksher and Bertil Ohlin in the 1920s and of which they built on the foundations of David Ricardo`s theory of Comparative advantage. Whereas the majority of trade around the globe shows that comparative advantage is the motivating factor, making Ricardo`s theory one of the most successful, the Heckscher-Ohlin theory explains where the comparative advantage comes from. Unlike Ricardo`s theory which emphasizes on comparative advantages arising from the differences in labor productivity, the Heckscher-Ohlin theory argues that comparative advantage will arise from a difference in factor endowments that country possesses. The theory asserts that a nation's comparative advantage is based on the production of goods that intensively uses factors that are relatively abundant (Gerber, 2014). According to Carbaugh (2004), it is the national supply conditions, especially resource endowments that is responsible the country's comparative advantage. These resource endowments are resources such as land, labor, and capital. It can be said that the Heckscher-Ohlin theory differs from the Ricardo theory in two dimensions. The first as has been earlier discussed is the difference in factor endowments that is considered to be the determinant of comparative advantage rather than technological differences. Secondly is that the Heckscher-Ohlin model allows for a second factor of production which is capital thereby making it a more realistic framework in comparisons to the Ricardian model. The theory predicts that countries will export those goods that are produced using locally abundant factors, while they import those goods that are produced using locally scarce factors. Alternatively called Factor Proportions Theory, the Heckscher-Ohlin theory was put forward to answer questions the Ricardo`s comparative advantage theory could not. The Ricardo theory was unable to explain or provide answers to the question which products would give advantage to a country or investments that are to be made by the country to determine the right product that will give them a comparative advantage.

The Heckscher-Ohlin (H-O) model includes a couple of feasible characteristics of production that are omitted or not considered in the simpler model by David Ricardo. A look back at the Ricardian model reveals that to produce goods and services, labor is the only factor of production that is needed. There is an assumed variation in the productivity

of labor across countries implying a difference in technology between nations. It is the difference in technology according to the Ricardian model that motivated an advantageous international trade. In the model by Heckscher-Ohlin, the number of factors of production is increased from one to two. In its two-by-two-by-two variant, which implies two goods, two factors and two countries, the model makes possible for an interaction across factor markets, goods markets and national markets make it one of the simplest general equilibrium models ever illustrated. Labor and capital are the two factors of production assumed by the model to be used in the production of two final goods. Capital here is referred to the physical equipment and machines used in production.

An important concept in this model is factor intensity. The H-O model examines the differences in labor, physical capital, land, labor skills, or other factors of production between countries. The term factor intensity is used by economists to describe how the goods differ. Oil refineries for example will use a lot more capital per worker than in clothing factories at any given wage rate and rental rate of capital. In terms of factor intensity, it can be deduced from the example that refining oil is capital intensive, because a higher ratio of capital to labor is used, while the manufacturing of clothing is more labor intensive as a higher ratio of labor to capital is used. This explains that factors of production used by producers in the production of different goods are in different ratios.

1.1.4. New Trade Theories

Until the first half of the 20th century, the David Ricardo`s theory of comparative advantage and Heckscher-Ohlin model are seen as the theories to have provided good explanation on the theory of trade. But in due course, it was discovered by researchers that in the modern world, comparative advantage was not so relevant. These theories failed to present a full description of the structure of global trade. The old theories studied the movement of goods between nations in comparative advantage terms. They posit that differences in productivity (Ricardian) or the differences in factor intensity across industries and the differences in factor abundance across countries (Heckscher-Ohlin) gave rise to comparative advantage. Today that is not the case as countries who possess similar factor proportions and technologies still trade with each other and also they import similar exported goods. Intra-industry trade came to dominate the discussion compared

to inter-industry trade as the traditional position on international trade could not explain why a country will export and import the same good (Helpman and Krugman, 1985)
In summary the shortcomings of the standard theories of international trade was addressed by these new theories by taking into consideration the realities of trade through the inclusion of more range of factors. Also, because of the increasing role of multinationals, modern trade theories began to focus on the role of firms.

1.1.4.1 Krugman`s New Trade Theory

Krugman's theory represents a collection of newer trade theories that has emerged since Heckscher-Ohlin. The new trade theory (NTT) is an economic theory and an approach to international trade that was created during the 1970s to determine the patterns of international trade. As a theory, it aims to explain why there was trading in similar goods and services between countries (Intra-industry).
There are some relevant questions that are raised by the new trade theory; why does trade occur in a monopolistic competitive environment? Why does the increase return to scale influence the behavior of firms? Why does international trade exist? Nobel Prize economist Paul Krugman proposed that countries engage in trade and specialization for two reasons; firstly, the resources and technology differ between countries and so they engage in specialization in that area of they have an advantage. The second reason according to Paul Krugman is that trade occurs due to economies of scale. It can be observed that the first reason is based on the traditional theories and the second explanation is based on the new theory of trade. Various researchers (Krugman, 1979a; Krugman, 1980; Dixit and Norman, 1980 and Lancaster, 1980) developed the idea that international trade could exist without the presence of comparative advantage but from imperfect competition and economies of scale.
The features of economies of scale and monopolistic competition on which the model rests, are what differentiates it from the traditional models. Under this model, it is assumed that the only factor of production is labour. To determine the amount of labour required to produce certain levels of output, the scale economies are incorporated into the equation, as can be seen below;

$$L=a+bQ$$

Where L represents the amount of labour needed by the firm, a is a constant (determined technologically) number, Q is the firm's output level, and b specifies the relation at the margin between the output level and the amount of needed labour.

To show how the equation works lets take for example if a=20 and b=4, this means that when the firm's output level(Q) is 40 units, then the amount of labour(L) that would be required to produce that level of output is L=20+4(40), or 180 units of labour. However, assuming the output level doubles to 80 units. The labour that would be required to produce 80 units is L=20+4(80), or 340 units. As seen from this equation, this means that a doubling of output requires less than a doubling of input. This implies that there exist an economies of scale in production. This type of labour requirement equation is assumed to be possessed by all firms in the economy.

The second important feature of the model proposed by Krugman is the presence of the market structure of monopolistic competition[2]. The firms or producers under monopolistic competition are many in the industry and there is easy market entry and exit. Furthermore, the firm achieves a normal profit[3] in the longrun and there is an incomplete factor mobility. However, unlike other market structures, the output/products from firms in a monopolistic competition are differentiated rather than homogenous. The products from these firms are different from each other and there is a certain amount of consumer brand loyalty that is possessed by these products. As firms attempt to differentiate their products in the mind of consumers, they engage in advertising and sales promotion.

As was mentioned earlier, the rise of intra-industry trade was a phenomenon the traditional theories could not explain. Economies of scale is identified by researchers as a reason for the rise in intra-industry trade (Krugman, 1979; Krugman 1980 and Kierzkowski, 1984). They believe that this is the reason why countries do not produce a full range of goods within the same industry. Rather than produce all the category of products, the firm may instead produce just certain categories and then import the rest of the categories from another country. Economies of scale are as a result of the firm size, plants size and the production run length (Gruble and Lloyd 1975). This occurs when there is large enough production capacity to result in unit costs reduction.

[2] Monopolistic competition is one of the several market structures, the others being Perfect competition, Oligopoly and Monopoly.

[3] Normal profit is the minimum profit that is required to keep the factors of production operating in the long run. It is when total revenue exactly covers the opportunity cost of all the factors. At this point, total revenue and total cost is equal to zero.

Economies of scale in the New Trade theory can either be an internal economies of scale or an external economies of scale. Internal economies occurs when there is a fall in average costs over a relatively large number of output. Practically, the firms become larger as a result, and a lower average cost is a form of competitive advantage. The presence of an internal economies of scale is one of the distinguishing characteristics of intra-industry trade.

Product differentiation has been identified as another reason for the existence of intra-industry trade (Krugman 1979; Krugman 1980 and Lancaster 1980). When firms within the same industry produce the same products with different varieties, this is a scenario of product differentiation. Intra-industry trade between countries occurs when one country demands a certain variety of the product it doesn`t produce from another country. Such demand can be caused by consumer preference and diversity. Differentiation forms for products could be from the product attributes (horizontal differentiation), the product quality (vertical differentiation) or the advancement in technology on the improved range of products (technological differentiation).

1.1.4.2 Porter`s theory of National Competitive Advantages

The National Competitive Advantage of Nation's theory is another theory developed by economist Michael Porter. This theory is in contrast to some of the classical theories like Heckscher-Ohlin theory and the Ricardo`s competitive advantage theory. Porter`s work is seen as a better explanation to the trade and investment patterns in the modern world economy than the established international trade and investment theories (Grant, 1991). In his book "The Competitive Advantage of Nations" published in 1990 Michael Porter believed that it was important to go beyond the comparative advantage so as to investigate a nation`s competitive advantage. The theory concentrated on explaining the reasons behind the ability of a nation to be more competitive in a particular industry than the other. According to Porter`s theory, the competitiveness of a nation in an industry is subject to that industry`s ability to innovate. The theory identified four factors that determines a nation`s competitiveness; demand conditions, factor conditions, related and supporting industries, and firm strategy, structure and rivalry. In addition to the four factors, He also identified government policy and chance (exogenous shocks) as another

two factors he believed that supported a nation`s competitiveness[4]. These factors together serve as a complement to each other, work as a system of reinforcement and combine to create an appropriate condition for competitive advantage.

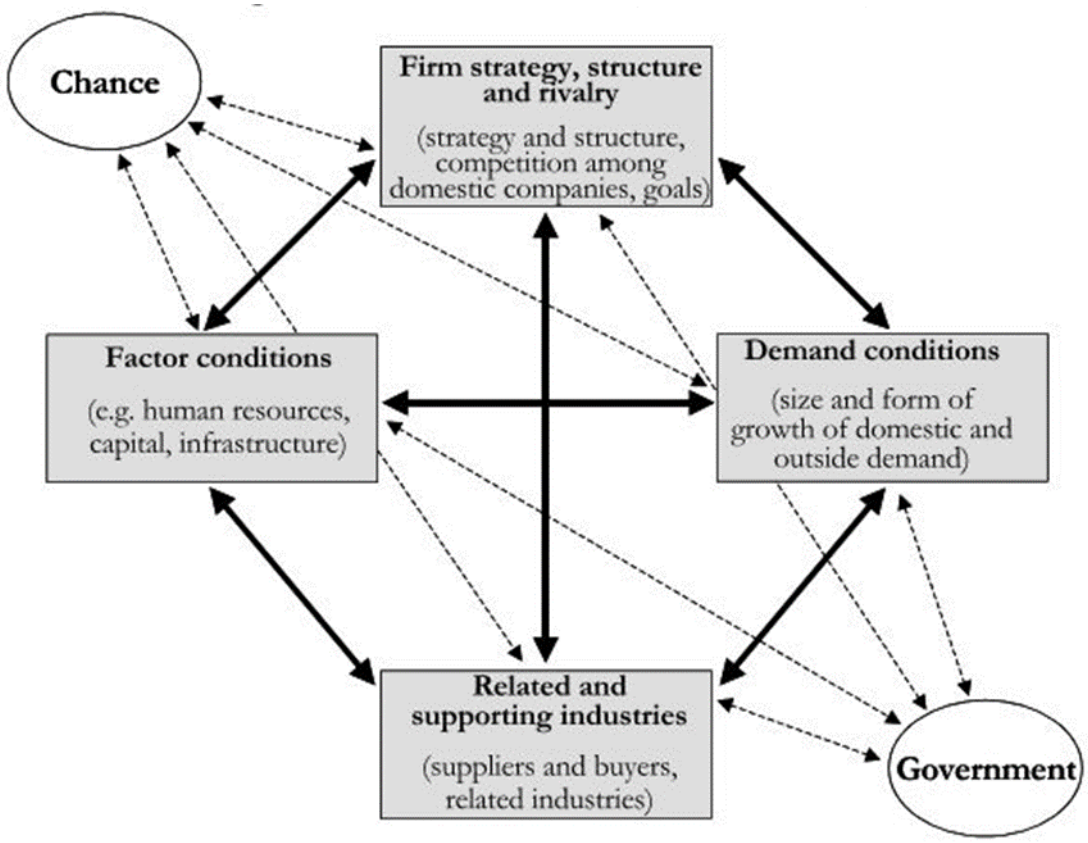

Figure 2: Porter's Diamond model for the Competitive advantage of Nations

Source: Porter (1990, p.127)

Factor conditions according to theory are the factors of production that create a comparative advantage for the industry in the international market. Whereas land, labor and capital are identified by the traditional trade theories as the factor conditions, Michael Porter categorically differentiates them into physical, human, capital, knowledge and infrastructure resources. There is a further division of these factors of conditions into either basic or advanced factors. The basic factors are those factors that are usually inherited and rarely depend on any form of investment before they are utilized in the production process. They include; natural resources, climatic condition, unskilled labor and location. Advanced factors on the other hand are those specialized factors that are

[4] Porter believes government policy and chance are a complement to the nation`s competitiveness but are not responsible for a lasting advantage.

created due to innovation and reinvestment. The advanced factors are believed to form the basis of a country`s sustainable advantage and they include the modern infrastructure and the education quality of the workforce.

Demand conditions is the second factor in the diamond model and this relates to the home demand of the country for the industry`s product. In order to encourage the innovation and development of products and services, there must be a strong consumption in the domestic market. Also, the needs of the buyers determines the type of goods produced and influences the direction of production. This simply implies that an industry`s competitiveness will unlikely be achieved only if there is a positive demand condition for the successful realization of a firm`s product. This is constant regardless of the other factors in the diamond. Michael Porter argues that the home demand is not only determined by the size but also the sophistication of the buyers.

Related and supporting industries factor is seen as one of the most relevant contribution of the Diamond theory by Michael Porter (Teece, 1996). This third factor in the model is the presence or absence of related and supplier industries that are competitive internationally. They are referred to as the complementary goods of the industries are the external economies for example the network providers involved in specialized inputs, institutions and the local rivalry spill-over effects. The process of innovation is affected by the presence or absence of suppliers, while the ability of a firm to share information or identify new opportunities is influenced by the presence or absence of related industries.

Firm Strategy, Structure, and Rivalry is the last factor of the diamond that contributes to a country`s competitive advantage. This is the factor in the country that influences how creation, organization and management of a firm takes place. Firms that are engaged in an intense domestic rivalry will be in a favorable position to compete in the global arena against other firms. This also aids in the constraint and the establishment of a business climate that is conducive for domestic and international investment.

In addition to the four determinants of the diamond model, chance and government are the other two secondary variables Michael Porter believes can affect a nation`s competitiveness and can have an impact on any on the main four. For example, government`s role could have an impact through regulations and its policies on relating to tax and trade. Chance conditions on the other hand relates to circumstances whose impact is beyond the control of local governments and firms. Such conditions include the political environment, crime, effect of exchange rate and HIV and AIDS.

1.1.4.3 Global Strategic Rivalry Theory

In the 1980s the work of economists Kevin Lancaster and Paul Krugman gave rise to the theory of global strategic rivalry. The basis of the theory was on the ways multinational firms try to develop a competitive advantage against their competitors in the industry. According to the theory, firms must develop competitive advantages in order to prosper as they face global competition in their industry. To obtain a competitive advantage, there are critical ways which are known as barriers to entry which firms can use to obtain such. The theory mentions the phrase "barriers to entry" which refers to the obstacles faced by a new firm when it tries to enter a new market or industry. Such barriers that may be sought after by firms include: economies of scale or scope, research and development, favorable access to raw materials or the control of resources, ownership patent rights and intellectual property rights, and unique business methods or processes as well an extensive experience in the industry. Research and development (R&D) for example, can be a major of a product's total cost, and this is especially common with high-technological products. Maintaining competitive advantage could require large spending on R&D and such high costs will prevent other firms from competing. Economies of scale or scope is another way a firm can possess a competitive advantage in global markets. Economies of scale is achieved when the average cost of a firm decreases as there is an increase in output. In summary the new theories of international trade have their foundation from the economies of scale, technological differences among nations, and imperfect competition.

1.2. Foreign Direct Investment Theories

Traditions of international trade gave rise to the mainstream theory of foreign direct investments (FDI) and the FDI phenomenon were first studied by international trade economists. The models from Ricardo and Heckscher-Ohlin were the two international trade theories that explored the determinants of global production. The future FDI model was built on the theoretical fundament of these theories. According to the traditional theories of international trade, location endowments are emphasized as the determinants of FDI. They indicate that international trade occurs as a result of an international difference in location endowments but these theories are insufficient due to their inability to explain the reasons why foreign investments takes place in addition to international

trade. Ricardo`s theory of comparative advantage was the first to be used in an attempt to explain FDI but the theory is based on two countries, two product and a perfect mobility of factors at the local level. The Ricardo model argued that it is the difference in labor productivity[5] that determines the location of production.

On the other hand, the Heckscher - Ohlin model also tried to explain FDI by arguing that the location of production is based on the production factor endowments rather the differences in technique. According to the model, production is concentrated on those regions where its resources are abundant. International trade fills the gap production and market demand. The model assumes that all countries can freely access technology but in reality most of the business could not freely acquire information on technology. Furthermore, the model argues that since international trade will equalize factor price, a fact price gap will not result from factor endowment. This means that different countries will produce the same product with the same cost. However the cost of transportation and economies are not considered and since FDI pursues a high investment return, factor endowment is not enough to attract a multinational firm.

1.2.1. Industrial Organization Approach

One of the pioneers to establish a systematic approach towards the study of FDI was Stephen Hymer in his doctoral dissertation written in 1960 and published in 1976. Hymer (1976) developed the industrial organization theory of FDI showing why firms engaged in international production in an imperfect market framework. This theory has been supported by other studies (Kindleberger, 1969; Knickerbocker, 1973; Caves, 1974; Dunning, 1974; Cohen, 1975). According to Hymer (1976), Kindleberger (1969) and Caves (1971), the existence of MNEs are as a result of market imperfections which are structural in nature and caused a divergence from perfect competition in the market of the final product. The theory of Hymer is based on the fact that multinational firms have to compete with their domestic competitors whom already possess some kind of advantage in the form of language, culture, consumer preference, legal system, etc.

Under Hymer's theory, there are two primary underlying factors that leads to FDI. The first factor is that which is related to the main rationale for an oligopolistic firm to

[5] According to Ricardo, the gap in production technique between countries causes a difference in labor productivity

overcome competition that arises as a result of the activities of a few individual firms from different countries and operating in the same industry with a high entry barrier. As the profits of the individual firms erode due to competition, they may decide to operate under a common control or more unified ownership. FDI occurs in this process when existing firm colludes with another independent firm of another country, with activities in the same industry.

The second factor is related to the investing firm possessing a monopolistic advantage that will be used to overcome the disadvantages that will be encountered doing business abroad. According to Hymer (1976) such disadvantages the multinational faces can arise from the language, politics and law, a lack of knowledge of the local economy which will lead to additional costs. Other disadvantages include exchange rate risks, and a discrimination by the foreign government, suppliers and consumers (Kindleberger, 1969).

1.2.2. The Internalization Theory

The Internalization theory was developed by Buckley and Casson in 1976 in order to try and explain the growth of multinational companies and the motivation behind their foreign direct investment activities. Although Coase in in 1937 is credited with initially launching the theory but in a national context[6]. Ronald Coase who developed the theory of the firm argued that market operation is not costless. In order to avoid the regular market, domestic firms use internal prices in overcoming the costs of an outside market which is excessive. Examples of such costs includes the costs of seeking buyers and sellers, and those involved in contracts negotiation, coordination, enforcement and monitoring. These firms will internalize these costs to avoid the market when it is less costly to internally carry out these transactions rather than through the market mechanism. Caves (1971), Kindleberger (1969) and Hymer (1976) also made invaluable contributions to this theory but it is Buckley and Casson that are credited with the transformation of internalization into a full paradigm of international production. Stephen Hymer in his published dissertation for example was one of the earliest persons to demonstrate why international production will be engaged by firms[7]. The theory demonstrates the idea that transnational companies are building specific advantages which they aim to exploit by

[6] Casson (1983) refers to the analysis of Coase on internalisation as a landmark in the development of the institutional theory of the firm.

[7] In his doctoral dissertation, Hymer identified the removal of competition and the advantages a firm possesses in a particular activity as two major determinants of FDI.

organizing and managing their internal activities. Criticisms of the Caves (1971), Kindleberger (1969) and Hymer (1976) work comes from the fact that viewing the multinational firm as a monopolistic rent seeker rather than an efficiency seeker was a one-dimensional approach. According to Buckley and Casson (1976), market imperfections like tariff and non-tariff barriers could be overcome by the firm through the internalization of economic activities. The focus of the foreign investment theory was shifted from country-specific determinants of FDI to those determinants that are industry and firm-level specific. Internalization is indulged into by firms when the external market is imperfect or when producing through external sources is costly. The acknowledgement of a market imperfection that prevents the international market in trade and investment from operating efficiently is the whole essence of the internalization theory (Buckley and Casson, 1976; Hennart, 1982 and Casson, 1983). Simply put that the opportunity for a firm to internalize its transactions was created by the imperfections in the market. Exogenous variables or externalities in the goods market may give rise to these imperfections. Externalities can represent induced controls and regulations from government in the form of tariffs for example, or other type of failure in the market such as a lack of knowledge for example. These externalities are what motivates multinational firms to internalize their operations to overcome them. The theory of internalization was also extended by Alan Rugman in 1981 who illustrates that when the benefits of FDI exceed the cost incurred, then FDI will take place. Dunning also considered the internalization theory very important as he uses it in developing his eclectic theory but argues that it cannot fully explain the flow of FDI.

1.2.3. The Eclectic Paradigm

The eclectic paradigm or OLI paradigm was developed by John H. Dunning in the 1970s and is regarded as one of the comprehensive FDI theories. Since previous FDI theories focused on specific directions in their analysis, there was a need for the unification of these theories. In 1976, Dunning developed the OLI eclectic FDI theory by blending a set of theories. His approach merges the ownership specific advantage theory, the location specific advantage theory and internalization theory to form a theory that is more comprehensive and robust. The reason for this is because these theories were limited in scope in explaining multinationals FDI behavior. The OLI (ownership, location and

internalization) paradigm therefore integrates elements from these theories in developing the OLI framework. There is an acknowledgement of the importance in the microeconomic characteristics of a firm and a country's macroeconomic characteristics that attracts FDI by research focusing on the trade-offs between investing abroad against exportation from a home base. The microeconomic factors focus on the internal constraints and opportunities of the individual firms, whereas the macroeconomic factors lay emphasis on the countries condition that make them an investment-suitable location for foreign firms (Gerber, 2014). Dunning's OLI theory of FDI is analytical framework that combines both sets of characteristics.

According to Dunning, a firm would engage in FDI if it fulfilled three conditions as will be discussed:

I. The firm has ownership advantages
II. The firm has location advantages
III. The firm has internalization advantages

Ownership advantages

A firm`s ownership advantages could be in different forms. They are those unique advantages possessed by a firm in relative to its competitors in the international market. They may refer to the superiority of the firm over its competitors in terms of technology or practices in marketing. Firms could also have monopoly advantages. Ownership advantages could also be depicted in the form of entry barriers created. Also, a manager`s ability to identify and utilize resources and potentials internationally could be an ownership advantage. According to the theory of Dunning, the benefits of implementing the advantages must be higher than its opportunity costs for FDI to occur.

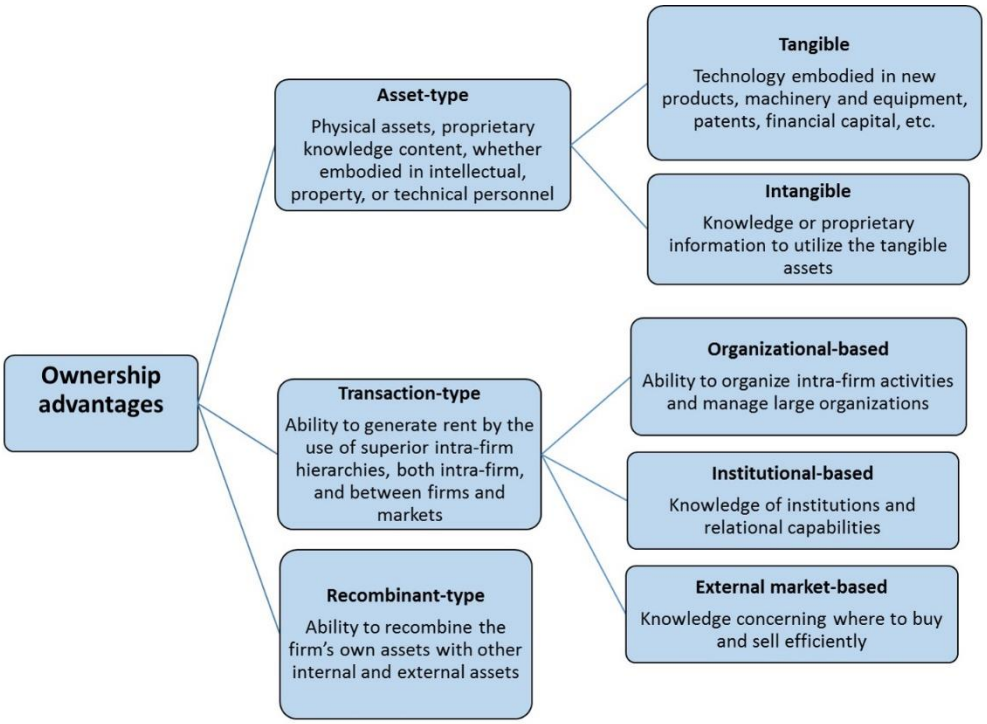

Figure 3: Classification of ownership advantages

Source: Rugman et al (2017)

Location advantages

Location advantages are the country-specific advantages that the firm would gain investing abroad. Such location advantages may include lower tax rates, low labor costs, tax benefits, infrastructure quality, etc., and Table 1 presents a detailed classification on the types of location advantages which a host country may possess.

These advanatges are not percular to any investor but available to all investors in a specific location. In principle, location advantages are available to all firms to access equally when they are legally and physically established in that specific location. However this might not be the case as indicated by Rugman et al (2017) for three reasons. Firstly, a full and detailed information on the location advantages linked with a specific may not be readily available. Secondly, The advantages may be available but the actions of government may deny or give access to restrict or encourage specific investors. These actions that restrict investors come in the form of barriers, and could be due to commercial reasons like to favour a local fim over a multinational, or for strategic reasons like national security. The restriction by government may also come from iinfluence by special interest groups with the ability to influence government policies. The third and final reason is that

even when the knowledge of the location advantages are made available to both local and foreign investors, it could be costly to access.

Table 1: Classification of Location advantages

Type of Location advantages	**Sources of Location advantages**	**Example of Location advantages**
Exogenous L advantages	natural assets (independent of development stage)	Sociological/anthropological Culture, norms, religion, Political stability, Availability of land, rainfall, climate, Extractive resources, Basic population, International market access and proximity
Fundamental L advantages	Basic infrastructure	Primary schools Health care Transport (roads, railways) Utilities (electricity, water) Telecoms Ports Efficient bureaucracy Public transport
	Legal infrastructure	Legal system Property rights Tax and excise Tariff system Security and police
	Regulation and policy	Incentives Subsidies Tax holidays Industrial policy Regulatory agencies Capacity to enforce regulation Competition policy
	Financial infrastructure	Banking, insurance, stock exchange
Structural L advantages	Market and demand structure	Income level and distribution Potential market size Consumer sophistication Skilled worker availability

		Wage rates Distribution channels Competitors
Knowledge-related L-advantages	Knowledge infrastructure	Tertiary education, universities, colleges, polytechnics, Public research institutes
Co-location L advantages	Location advantages derived from the presence of other actors in the same location	Agglomeration economies Presence of support industries Networks of suppliers Networks of customers

Source: Adapted from Narula and Santangelo (2012)

Internalization advantages

Internalization advantages are those advantages relating to production specific activities carried out by the firm instead of licensing them to another party. The internalization advantage is adapted from the internalization theory of FDI developed in 1976 by Buckley and Casson. Internalization arises when the solutions for the market imperfections becomes very costly. Therefore, a firm will internalize its transactions or carry them out by themselves whenever it is cheaper to do so than through the market. The gains accrued from internalization makes it more attractive for firms to carry out their transactions from within rather than to rely on external markets.

Dunning suggests that there are four main types of FDI motivations. He believes that FDI could be resource-seeking, efficiency-seeking, market-seeking or strategic asset-seeking. These are the four types of motivations upon which the OLI paradigm is built upon and are regarded as the building blocks upon which FDI decisions are made.

The paradigm suggests that the expansion of MNCs and FDI can be explained by the nature of the firm`s ownership specific advantages, the nature and extent of the firms location bound endowments, and finally the extent to which the firm internalizes the markets for these advantages. According to this theory, FDI only occurs when it has fulfilled these three conditions.

One argument against the eclectic framework is that internalization theory already contains the ownership and location concepts (Rugman, 1981). Critics suggests that ownership advantage proposed as part of the FDI criteria only leads to double counting

and that the advantage of ownership have already been covered by internalization advantages (Buckley, 1988). They believe that ownership advantage is exploited when a firm internalizes the market therefore resulting in the firm`s growth. How this argument is not supported by Dunning who in a counter-argument suggested that the variables in the ownership advantages are not exogenous as adopted by the internalization theory but a rather endogenous which the firm already possess (Dunning (1995). This means that whereas internalization advantages are derived when the firm exploits the imperfection in the market which is then internalized into advantages for the firm, on the other hand the firm already possesses ownership advantages.

The eclectic paradigm does not give reasons for why international mergers and acquisitions are the most common FDI entry mode instead of the popular Greenfield investment. Theoretically, multinational firms benefit from internalization despite the location of the investment. It was also noted that OLI model excludes financial factors (Itaki, 1991) despite such factors been considered along with the strategic factors in the decisions of international investment. The OLI theory is not a trade theory obviously, as it is a description of the circumstances that influences the decision of firms to go abroad and invest instead of engaging in trade, but it neither contradicts theory of trade. It rather simply postulates that firms are mobile internationally and will utilize the comparative advantages they find in different locations. In this regard, it shows how individual firms are motivated by those advantages to adapt their own behavior.

1.2.4. Production Cycle Theory

Raymond Vernon developed the production cycle theory in 1966 which can be considered a theory that best explains how trade pattern changes over time but most especially the historical development of FDI. There was a significant technological change in the 1960s and this coincided with the rise of multinational corporations. Current international trade theories failed to explain the changing pattern of trade. Therefore, an alternative explanation for the flow of trade was needed (Leontief,1966) and so one framework found to be useful in the explanation of the expansion of multinational companies and the prediction of international trade patterns at that time was the product life cycle theory. Vernon (1966) explained a microeconomic phenomenon namely, the foreign activities of American MNEs in the post-war period by using a microeconomic concept- the product

cycle. Apart from the immobile human resources and natural endowments, Vernon (1966) argued that a country's inclination to participate in trade was also dependent on the firm's capability to upgrade these assets or create new ones, especially technological capacity. This theory was used to explain some certain forms of foreign direct investments made in the manufacturing industry of Western Europe by companies from the United States of America (USA) after the Second World War. Using United States multinational data, Vernon described the cycle of their expansion during the period and concluded that the threat and scenario of losing a market as products matured led to FDI. This is also in addition to the need for factors that are less cheap especially in the face of competition. According to Vernon`s theory, as products mature, the location of both optimal production and sales will change affecting the direction and flow of trade in the process. Using the FDI activities of American companies in Western Europe, Vernon explained that transnational companies from the U.S. created new products for the local market while the surplus was exported to serve foreign markets. There was an increase in the European demand for American manufactured products and so these American firms having an advantage in technology over its international competitors began to export. However firms in Europe began imitating the products imported from the U.S. and this forced the American companies to locate their production facilities in these local markets in order to maintain their market share. It can be deducted from the Vernon case study that when a new product is created, a firm will decide to keep its production at home close to its customers. But when the product becomes matured or standardized and there is an international demand for it, there is a consideration to establish production in these other countries especially where the cost is low, as shown in the figure below.

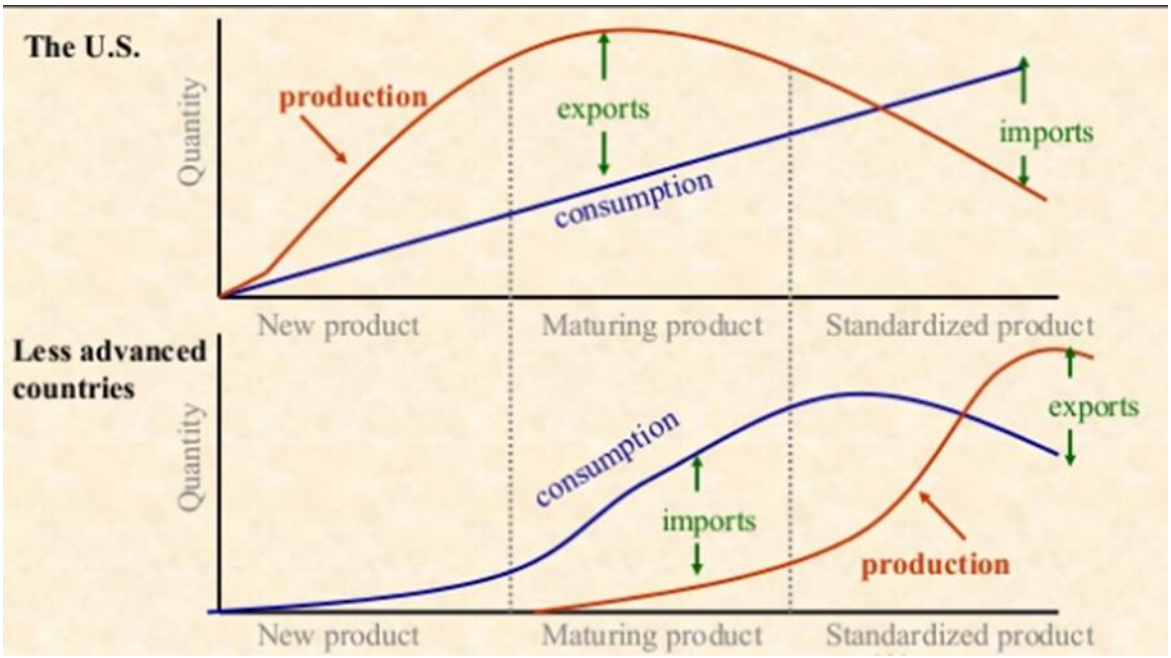

Figure 4: Product Life cycle

Source: Adapted from Vernon (1966)

The firm's competitive advantages will change from those that depend on product uniqueness, to the firm's ability to minimize the cost of value-added activities. As imitators start penetrating the market, the pressure to minimize costs will increase. Also, as labor becomes a more crucial factor in cost efficiency, as consumer demand becomes price elastic, and as there is an expansion of the foreign markets, the option of locating value-added activities internationally rather than domestically becomes more attractive. According to Vernon (1966), if the host country's condition is right, the affiliates might replace the exports from the parent company and better serve the domestic market or even export back to their original country.

Vernon opined that the life cycle consists of four stages: introduction, growth, maturity and decline. The product life cycle begins at the introduction stage as the product is brought into the market. At this stage there is heavy investment through marketing and distribution of the product. This is done to create awareness to consumer and a pathway for future growth and eventual profits. In the growth stage of the life cycle, the market begins to accept the product and the costs are beginning to be recouped by the firm. After a period of time the product becomes widely accepted and there is a slow growth. At this stage, the product has reached maturity. At the maturity stage, the product's characteristics

as well as the production process are well known by consumers and producers respectively. The profit margin decreases as other competitors enter the market at this stage causing a fall in sales. To support sales and maintain market share, prices are reduced. Eventually, the product enters a decline stage where revenues drop and investment in the product is no longer economically viable. At this stage the product becomes redundant as the firm is unable to fend off competition from rivals or there is a change in taste and lifestyle of consumers. At this point, the firm can decide to discontinue the product or sell off to another firm.

The theory considers technological innovations and market expansion as issues that are critical in the explanation of international trade patterns. That is, technology is a key variable in the creation and development of new products, and while the structure and size of the market is a key factor in the determination of the extent and type of foreign trade. However, the international production system is becoming too complex in recent times and the life-cycle theory will not be able to explain it correctly. For instance, there is a simultaneous introduction of new products across numerous countries at the same time as well the location of production facilities in many countries.

In the 1960s, the Vernon's product cycle was introduced to explain market-seeking production by firms of a certain ownership or nationality. As acknowledged by Vernon (1979), the general applicability of the model was reduced due to the ability of multinational firms to extend their geographical reach, and also as a result of the increasing convergence of advanced market. Additionally, the model failed to explain FDIs made for the purpose of seeking resources, strategic assets or efficiency. The Vernon theory of FDI only addressed partially some of the issues surrounding the activities of MNEs. Vernon (1979) also suggested a need for the modification of the theory. The area of concern borders on the production location of the goods when it is first introduced. Today's multinational firms have branches and subsidiaries globally, and there is a better knowledge of production outside the United States than it was during the time of Vernon's original work in 1966. Therefore the new product may have been produced first outside the country and not in the United States. In addition, differences in per capita income between the US and other developed nations unlike in 1966 are not as great now, so the US is no longer the only high-income market that is catered for.

In summary this theory is based on the main assumption that the production location will shift internationally depending on the stage of the cycle. It is suggested that all the labor parts in the early life-cycle of a product originates from the region in which it was created.

Once the product has been adopted in international markets, there is a graduation movement of production away from its area of origin. The products sometimes even become an imported product by the original country it was created. Manufacturers who possess new technologies have an advantage but as the product develops, the technology will also become known. Products will be standardized by the manufacturers and other companies will likely copy it. This theory is regarded as the first dynamic explanation of the determinants of, and relationship between international production and foreign trade (Dunning, 2008). Furthermore, this theory has led to the introduction of some novel hypotheses regarding the demand causation, leads and lags in technology, and the cost in communication and information, all of which in general have proved useful tools in studies focused on international production and exchange.

1.2.5. Oligopolistic Theory

The oligopolistic theory of FDI formulated by Knickerboker is also based on market imperfections. According to the theory, firms exhibit an imitative behaviour by following the internationalization move of rival to avoid losing their strategic advantage. Head et al (2002) refers to this as an "oligopolistic reaction" where the decision of one firm to invest in a country becomes an incentive for the firm's competitors to invest in the same country. Altomonte and Pennings (2003) argue that by imitating the FDI decision making of a rival, firms can avoid being underpriced. This is because they run the risk of being undercut by a competitor who switches from exporting to establishing manufacturing subsidiary while as exporters to the same country, they face uncertainty in their production costs. Data from a large number of American multinationals were used to calcuate an entry concentration index that revealed the extent to which the market entry dates of subsidiaries were clustered over time. Findings suggests that the oligopolistic reaction of firms increased with the level of concentration but showed a decrease in the product diversity.

Ietto-Gillies (2005) argue that the Knickerbocker's theory is useful in explaining FDI because it describes FDI as a reflection of strategic rivalry between firms in the global marketplace. This theory examines the relationship between FDI and rivalry in oiligopolistic industries. Hill (2011) agrees that there is sufficient evidence that shows such imitative characteristics leads to FDI. In summary, the theory holds true when there

is uncertainty about the cost in a host country entered by rival firm. As a result, a risk-averse firm will likely follow its rival by setting up its own subsidiary in the same country. However, when there is certainty about the cost, there is less incentive to follow a rival's move into the host country through FDI. Furthermore, while this theory explains the motive behind a firm's to follow a rival in undertaking FDI, it does not explain the motivation behind the decision of the first firm to invest abroad.

1.2.6. Strength of Currency Theory

The discussion about the effects of exchange rate on FDI was the main idea of Robert Aliber who made one of the earlier attempts to explain FDI on the basis of the strength in a country's currency (Aliber, 1970). His theory postulated that FDI flows from countries with a strong exchange rate into countries with weaker exchange rates (Aliber, 1971). He argued that there is a higher possibility for weaker currencies in comparison to the strong currency of the investing country to attract investments. This he explained was to take advantage of the differences in the market capitalization rate. His hypothesis was tested and found to be consistent in the US, UK and Canada. According to Takagi and Shi (2011), firms from countries with a strong currency can facilitate funding for their activities in countries with a weak currency. From the perspective of these firms, a weak currency in those countries implies inexpensive assets that can be acquired (Cushman, 1985, Goldberg and Kolstad, 1994). Furthermore, these firms can benefit from lower wages gain a competitive advantage over other rival firms that operate in countries with strong currnecies (Klein and Rosengren, 1994, Goldberg, 2009).

Despite the wide support of this theory explaining FDI, it does not explain the investment between two countries with currencies of equal strength. In addition, it does not also explain why a multinational from developing country with a weak currency invests in a developed country with a strong currency as in the case of investments by Indian and Chinese firms in the United States and United Kingdom (Nayak & Choudhury, 2014). While Aliber (1970) claims that this theory explains investment in developed countries, Lall (1976) argues it is not relevant to less developed countries with capital markets that are non-existent or highly imperfect at least, and highly regulated foreign exchanges.

1.3. Globalisation

Discussing the increased trade between countries and the rising foreign capital ownership cannot be complete without recognizing the role of globalization. It is a historical, and a result of technological progress and human innovation. Globalization today is seen to be the fundamental process of changes in the world economy. The basis for the process of globalization is the integration of countries through the linking up of their economic processes, including international investments, trade and production.

Defining globalization can be problematic because of scope. According to Al-Rodhan (2006), globalization is "not a single concept that can be defined and encompassed within a set time frame". Al-Rodhan (2006) further adds that it is not a process that can be clearly defined with a beginning and an end. The dimensions of globalization are broad and could be political, cultural and environmental. It embraces theories and concepts from various academic fields; sociology, political science, philosophy, anthropology and economics as well. Hence in the globalization process, there is a free flow of people, goods, services, technology, capital and culture across national borders. This leads to an increased level interdependence and interaction among different countries. However globalization will be defined and explained from an economic perspective. The International Monetary Fund (IMF) defines globalisation as

"the growing economic interdependence of countries worldwide through increasing volume and variety of cross-border transactions in goods and services and of international capital flows and also through the more rapid and widespread diffusion of technology".

Economic globalization is a historical process that is the outcome of the progress made in technological and human innovation. It refers to the continuous integration of the global economies especially through the movement across borders of goods, services and as well as capital. It can also involve the movement of people (labor) and knowledge as long such movements are economic motivated.

1.3.1. Phases of Globalization

According to most researchers, globalization is said to have begun way back in the 19th century. It is therefore possible to identify four phases of globalization. The first phase of globalisation is regarded to have peaked in about 1880 and this was attributed to

improvements in automation and transportation which facilitated long-distance trade. The transfer of information in the late 1800s was facilitated by telephone and telegraph communication which was found to be useful by many firms especially in their supply chain management.

The second phase of globalization reached its peak in the first decades of the twentieth century, when European controlled colonial territories where viewed as sites for the establishment of multinational subsidiaries. During this period, the profitable European markets began to experience some overseas expansions and attract American corporations. The economic crash in 1929 is blamed for the end of this phase, leading to global depression and many governments making inward-looking policies.

The third phase of globalization began right after the Second World War and was based on the reduction on trade barriers such as tariff, which led to the increase in international trade. The demand for consumer goods increased massively as years of war-caused austerities began to fade away and as individuals, mostly in the richer economies became wealthier. The United States of America would become the most dominant power in terms of globalization. This did not come as a surprise as they were the largest and the least war-damaged after 1945.

The final phase of globalization has been largely dependent on changes in two factors: changes in technology and in political attitudes and economic policies. The changes in technology include the increasing use of mobile communications, the availability and widespread use of the personal computer (PC) connected to the world wide web/internet and the development of robotics for the automation of production and the purpose of tracking both components and finished goods. It should also be noted that these technological changes did not only affect the manufacturing industry but the service industry like in the areas of tourism and banking also benefited from the change. The second change i.e. the political attitude and economic policies, simply paved the way for companies as well as consumers to take advantage of the many advances in technology. Globalisation as a process would not have been able to take place without the collective global economic thinking of many countries as they began to accept the ideas of liberalism and free market. Also, consumers began to pay less attention to the national origin of the products leading to a change in social trends too.

1.3.2. The Role of Multinational Corporations

Multinational corporations (MNCs) have become the main carriers of economic globalization. According to Salvatore (2013), they are the most prominent form of international economic organizations and the competitive advantage they have in global network production and distribution is the basic reason for their existence. They are globally organizing production and allocating resources according to the principle of profit maximization. And their global expansions are reshaping macroeconomic mechanisms of the operation of the world economies. Foreign direct investments are the main instruments with which MNCs operate, a long-term investment relation between a non-resident entity and a resident that involves a marginal influence of the investors in the enterprise in which that have invested in.

1.3.3. The Role of the World Trade Organization

Apart from Multinationals who spur globalization by exploring and taking advantage of the business opportunities around the globe, the World Trade Organization (WTO) is an organization that plays an important role in promoting globalization. Founded on January 1, 1995, the WTO replaced the GATT[8] and absorbed its mission. Headquartered in Geneva, Switzerland with a membership of 149 countries in addition to 32 observer nations, the organization requires its members to open their markets to international trade and follow its rule. There are three basic goals of the WTO:

1. Promoting trade flows by encouraging countries to adopt trade policies that are predictable and non-discriminatory.
2. Reducing the barriers to trade through multilateral negotiations
3. Establishing procedures that are impartial and can be used to resolve disputes between trading members.

Today, the WTO has continued to play a major role in the global integration of national economies. This has not come without its own challenges. At the same time there have

[8] The General Agreement on Tariffs and Trade-GATT was a trade agreement that intended to promote trade through the reduction of the barriers to international trade and to make it easier for all nations to compete in international market. It was negotiated following the second world war in other to prevent trade wars that would benefit rich countries while negatively affecting the poorer ones. GATT served as a major stimulus to international trade after its ratification by 23 countries in 1948.

been push backs against the organization's rules from member countries. Some members in the name of national security have imposed tariffs on certain goods and to protect certain industries. The issue of dumping is not unconnected either as countries like China for example have been accused of flooding cheap goods that are sometimes below price into the market. Such acts could force local producers out of business.
Also the organization has been criticized by activists and protesters who have argued its focus is limited as the issues of human rights and the environment are neglected.

Chapter summary

Economists are generally confronted with three questions when it comes to issues of foreign trade. The first issue is based on the explanation of the flow of trade between two countries at least. Secondly is the issue of the nature of trade and the gains or losses to the economy. The third and final issue is related to the trade policies and the effects on an economy. This chapter introduced the study`s theoretical background in foreign trade and investment. The earliest form trade theory emerged from the mercantilists who see trade as a zero-sum game and the main objective for nations was to import less but export more in other to accumulate as much gold and silver in the process. Adam Smith however in criticism of mercantilism argued that both trading nations must gain as they voluntarily trade with each other and believes that such beneficial trade in hinged on absolute advantage. Adam Smith`s theory was built upon by David Ricardo with his theory of comparative advantage where he argues that countries will specialize in producing those goods they have highest comparative advantage or lowest comparative disadvantage. Eli Heckscher and Bertil Ohlin built on Ricardo`s theory by introducing Heckscher-Ohlin model which says that factor endowments are the basis for foreign trade. The older theories of foreign trade being unable to explain why countries with similar resources trade with each other gave rise to the New trade theories like that of Paul Krugman who argue that such trade patterns are as a result of product differentiation and economies of scale. Other newer theories include the Porter`s theory of competitive advantage and the Global strategic rivalry theory.
FDI theories were borne out of the international trade traditions. In 1976 Buckley and Casson developed the Internalization theory to explain to describe the growth of MNCs and this was also the focus of other economists such as Hymer, Caves, and Kindleberger. This was further developed by Dunning with his Eclectic paradigm arguing that FDI

activities is based ownership, location and internalization advantages. However, the International production cycle which is one the earliest theories by Raymond Vernon argued that the threat of losing a market which a firm usually export to led the FDI and also the need for less cheaper factors in those countries where they face competition.

Globalization is now an important concept and the most discussed issue in the world economy. and it borders not only economic relationships but also on social issues which also has an economic impact. Globalization has played a major role in international trade and investments. Multinational companies (MNCs) and the World Trade Organization are some of the main institutions that have facilitated the globalization process.

CHAPTER 2
LITERATURE REVIEW

This chapter will present and discuss the literature on FDI and also those that are relevant to the research objectives and research questions presented. Firstly the definition of the key terms central to this research will be presented and discussed. This will be followed by the history and patterns of FDI including the current trends. Next is the various motives behind FDI and why firms invest abroad, and this will be followed by the different types of FDI. Finally the research will discuss the effects of FDI on the economy.

2.1. Definitions

It is important to have a clear definition and understanding of the various terms in the FDI literature as they will be used frequently.

2.1.1 Foreign Direct Investment (FDI)

Pugel (2009) describes FDI as

''The flow of funding provided by an investor or a lender (usually a firm) to establish or acquire a foreign company or to expand or finance an existing foreign company that the investor owns and controls''.

The Pugel definition is relevant as it clarifies there two ways in which FDI can be carried out and this is through either establishing a foreign company or to acquire an existing one.

One definition regularly referenced is that provided by the United Nations Conference on Trade and Development (UNCTAD).

''Foreign direct investment (FDI) 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)''

Since the main feature of FDI is considered to be the direct investor's lasting interest in a firm, UNCTAD suggests that the only capital that should be classified as FDI is that which the direct investor provides either directly or through other firms related to the investor. FDI components are divided into three parts; equity capital, the reinvestment earnings and intra-company loans.

Equity capital is referred to the shares of a firm purchased by the direct investor in a country different from its own. Reinvested earnings on the other hand is the direct investor's share of earnings undistributed or not remitted back to the investor but is rather reinvested. Finally, intra-company loans (also known as intra-company debt transactions) refer to the borrowing and lending of funds between direct investors (parent company) and affiliates (subsidiaries, branches, and associates)

Foreign Direct Investment (FDI) should be differentiated from Foreign Portfolio Investment (FPI), even both involves the international movement of capital. Both are equity funds invested in other countries but in FDI there is some form of control over foreign affiliates by the multinational firm. FPI comprises of investments in equity and debt securities of a firm in one country by a resident entity from another country. To be considered FDI there must be at least 10% control of ownership in ordinary shares or voting power by the foreign investor in the firm. Where there is a less than 10% ownership, it will be considered a direct investment if the investor has an effective voice in management. However, every form of investment[9] not included under FDI or does not fall under the 10% rule and does not involve affiliates can be categorised under FPI. FPI does not reflect a significant and lasting interest in the firm, instead its purpose is primarily for capital gains. Whereas FDI is seen as a more relatively stable source of finance and is driven by long-term fundamentals such as degree of openness, financial market development, country size, etc., FPIs are considered more volatile, and influenced by cyclical factors such as business cycle conditions, market sentiments, differentials in interest rates and herd behaviour.

2.1.2 FDI Flows and FDI Stocks

To measure FDI, there are two types of data series available: FDI flows and FDI stocks.

FDI flows measure new investments in equity, and loans within the multinational firm during a given period of time usually a quarter or a year. It records the value of all crossborder transactions relating to direct investments in a period of time.

FDI stocks on the other hand, reflects the accumulation or sum of past FDI flows. FDI stock measures the total amount of direct investments existing at a given point in time. For a large number of economies, the measurement of FDI stock is summarized by UNCTAD as "either cumulating FDI flows over a period of time or adding flow to an FDI stock that has been

[9] FPI includes investments in bonds, notes, money market instruments and financial derivatives

obtained for a particular year from national official sources or the IMF data series on assets and liabilities of direct investment".

2.1.3 Cross border Mergers and Acquisitions (M&As) and Greenfield investments

FDI has been considered as an entry mode into foreign markets. As a mode of entry, a study of the literature reveals that FDI always occurs via two modes, either through greenfield investments and cross border mergers and acquisitions (M&As). Greenfield investments are investments where the subsidiary of foreign firm is built from the ground up in a foreign country. It involves the construction of new production facilities and the local purchase or building of real estate office buildings, distribution hubs and living quarters. In such FDI, employees are also recruited and trained using the management, know-how and technology of the investor. According to Harzing (1998), the subsidiary will be highly integrated with the global operations of the parent company.

On the other hand, Mergers and Acquisitions (M&As) also called brownfield investments are investments where a foreign firm purchases or leases already existing production facilities. They involve a transfer of ownership of existing assets. Kogut and Singh (1988) refer to Acquisition to as the 'purchase of stock in an already existing company in an amount sufficient to confer control'. In this type of FDI, the new affiliate or subsidiary begins as a going concern that is already in possession of production facilities, sales force and market share (Estrin, 1999). According to Jemison and Sitkin (1986), the control of local assets is transferred to the foreign firm even though such assets may not be structured to strategically match the needs of the firm and a considerable effort may be required to integrate the acquired firm.

The primary difference between both modes is the origin of the resources that the new operation or subsidiary/affiliate employs. Greenfield uses the investor's resources and combines the locally acquired assets while a Mergers and Acquisition primarily uses the assets of the local firm and combines them with the resources of the investor like the managerial capabilities for example. Making an example from Pugel's definition and the globally accepted 10 percent rule, when a firm builds a new facility abroad or purchases more than 10 percent of a foreign firm, the latter is called or cross-border mergers and acquisitions(brownfield FDI), while the former is referred to as a greenfield FDI .

2.2. History and Patterns of FDI

Throughout the 20th and into the 21st century, there have been mostly a rise in foreign direct investment. During the period dating from the end of the Korean war in 1953 to the first oil shock between 1973-1974, it had its fastest growth and largest share of all international investment (Pugel, 2009). Investment outflows from firms originated in the United States dominated direct investments during that period. Historically, American firms in comparison to other investing countries have a greater preference for direct control and FDI. This is because a greater proportion of foreign investments by countries such as France and Britain have been geared towards portfolio lending.

In the second half of the 1980s, global FDI was driven by the increasing FDI from Japanese firms and also firms from Europe, U.S, and South and East Asia. In the second half of the 1990s, there was a rapid rise in the global flows of FDI as the value of cross-border mergers and acquisitions increased but this occurred mostly between firms in industrialized countries. According to Alfaro et al (2005) the majority of foreign investments takes place between the highly developed economies. Although this is a "Lucas Paradox" as this fact disagrees with the classical economic theory that capital should usually flow from highly developed to less developed countries, and where there is a higher rate of return on capital[10]. Both inflows and outflows of FDI have long been dominated by industrial countries. In 2001 they accounted for 70 percent of inflows and 94 percent of outflows (IMF, 2004). The flow of FDI fell during the recession of the early 2000s after the value of FDI reached $1.4 trillion in 2000. In 2007 FDI flows once again rose to $2.2 trillion. The increase was again driven by the rise of international mergers and acquisitions. However during the global economic and financial crisis leading to a sharp contraction in economic activity, the value of FDI flows dropped to $1.2 trillion in 2009 after which there was a recovery in subsequent years.

There have also been a change in direction of FDI flows. First, it moved away from developing nations in the 1970s and 1980s where it faced resistance and actions of expropriation. However around 1990 or there about, there was a reverse in this trend and developing countries began to see a dramatic increase in the inflow of FDI. FDI flows into developing countries grew at average of 23 percent annually from 1990-2000 (IMF, 2004). Economic policy reforms, low cost of production and a growing domestic market attracted FDI into these countries, especially

[10] Alfaro et al. (2005) explains that differences in the quality of institutions between rich and poor countries such as political stability, technological differences, government policies, property rights protection, nationalization risks, etc.

in Latin America and South and East Asia. Inflows however declined by 13 percent in 2001 to $215 billion, largely reflecting the decreased flows to Brazil, Argentina and the Hong Kong Special Administrative Region (SAR). Asia accounted for $407 billion out of the $900 billion of FDI inflows into developing countries during the period from 1998-2011, followed by the Western Hemisphere accounting for $307 billion. The main contributor to this inflow were cross-border M&As reflecting the purchase of distressed corporate and bank assets in many Asian economies during the financial crisis of 1997, and the privatization of state-owned assets, especially in South America. China and Hong Kong SAR were two of the largest receivers of these FDI flows with $165 billion and $124 billion respectively in this four-year period. It should be noted that China have been attracting FDI following its opening to international trade and investments in the late 1970s. Brazil and Mexico dominated the inflow of FDI in the Western Hemisphere with both $116 billion and Mexico $63 billion.

The United States of America (USA) attracted the most inflows of FDI in the 1980s than any other country. Although there was a decline in FDI flows, it still received about one-seventh of new inflows between 2010. FDI also increased into and within the European Union (EU) encouraged by the deepening of integration. FDI also flowed into the North American Free Trade Area (NAFTA) of which Mexico is a member and FDI was encouraged into the country also because of its own policy reforms.

On the industrial level, the occurrence of FDI in certain industries have changed over time. For example, in 1970 the primary sector comprising mainly of mining and extraction activities accounted for about one-quarter of all global direct investments. The manufacturing sector accounted for about half of all FDI, while the services sector accounted for a quarter. In the 1970s, the share of investments credited to mining and extraction activities began to decline and this is due to the nationalization drive in developing countries where governments began to exert a greater control over the extraction of their natural resources. The extractive industry which is basically the primary sector have played an important role in the economies of developing countries, as it accounts for between 20 to 30 percent of FDI stock. Over the last few years, FDI inflows into the primary sector have been significantly affected by low commodity prices. This has impacted on the share of FDI stock in the primary sector, especially in Latin America, West Asia and Africa. However a surge in oil and gas in 2016 has increased the cross-border M&As in the extractive industry.

There is also a decline of investments in manufacturing as it goes less than 30 percent while that of services has seen a rise to over 60 percent (Pugel, 2009). In 2004, the primary sector accounted for 4% of the total FDI outward stock in the global economy, while the

manufacturing and services sectors accounted for 27 and 68% respectively (Dunning, 2008). In 2009, all three sectors experienced a slump in both inflows and outflows of FDI. The flow of FDI was dampened by the global economic and financial crisis, and this not only affect business cycle sensitive industries like the automobile and chemical industries, but also pharmaceuticals and food and beverage which were resilient in 2008.

Firms which are involved in the production of pharmaceuticals and other chemicals, food automobiles, electrical and electronic equipment and machinery are usually more active in FDI. On the other hand, clothing, textile and firms in paper products usually engage in little FDI activities. For the services sector, banking and other financial services receive a substantial amount of FDI. This is also the case of wholesaling and retailing, as well as business services such as accounting, advertising and consulting.

The services sector have continued to receive the largest stock of FDI. By 2015, the services sector accounted for about two-third of the global FDI stock , in accordance with its share in the global economy, while the primary and manufacturing sector accounted for 6 percent and 26 percent respectively (UNCTAD, 2017). Since the start of the global financial crisis, there has been a long-term shift towards services. Business activities hold a significant proportion of the global FDI in services and this includes the functions carried out by both the regional headquarters and the holding companies that are allocated to services by default, despite the likelihood that the parent companies might be operating in the primary or manufacturing sector. The growth of global FDI flows lost momentum in 2016 after a strong rise in 2015, revealing there is still a bumpy road ahead to recovery. Amid a weak economic growth and significant policy as perceived by multinational companies (MNCs), the inflows from FDI decreased by 2 percent (UNCTAD, 2017). The most hard hit were the developing economies where inflows declined by 14 percent to $646 billion. Compared with other forms of capital flows (portfolio investments, remittances and official development assistance), FDI still remained the largest and most reliable source of external finance for developing economies despite a decline in all regions.

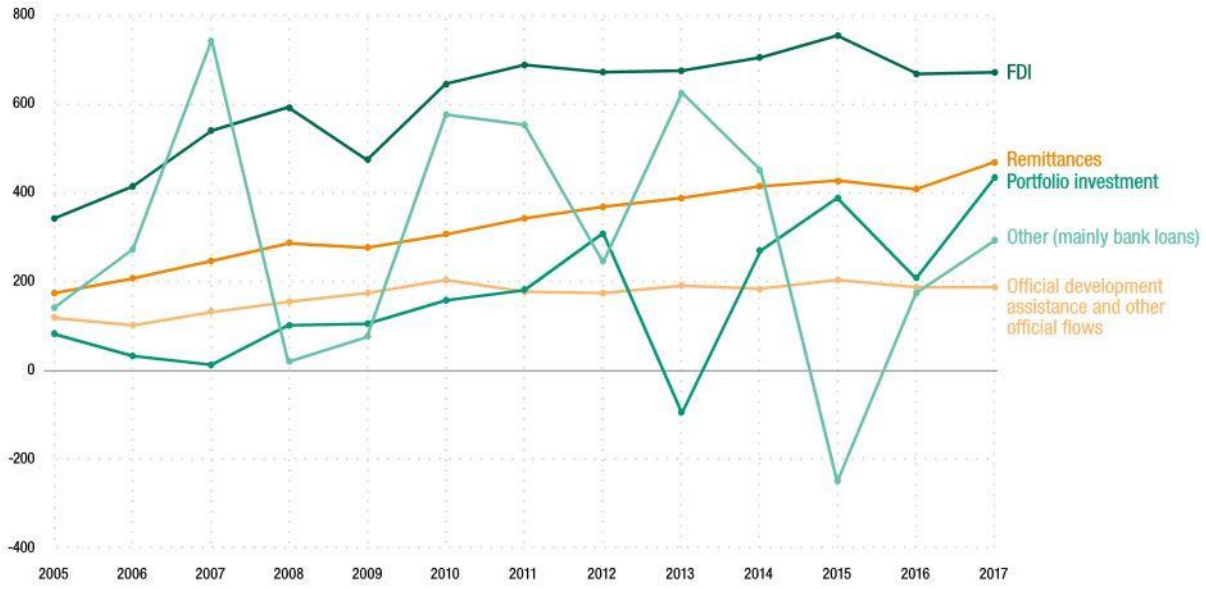

Figure 5: Sources of External finance in developing economies (2005-2017)

Source: UNCTAD (2018)

The chart above reveals that FDI is less volatile than most other sources and the most resilient to financial and economic shocks. Between 2013 and 2017, FDI accounted for 39 percent on average, of external financing flowing into developing economies.

For the African region, FDI continued to decline, decreasing by 3 percent to $59 billion. This was mostly linked to the low prices of commodities. Subsequent to the financial crisis of 2008, Africa was increasingly becoming attractive to investors with FDI flows to the region increasing by 22% between 2010 and 2014. This was due to its rising population, growth rate, growing middle class, vast tracts of arable land, a perceived improvement in political and macroeconomic stability, and an attractive geology. However, from 2015 the inflow of FDI plunged by 31% and its resources seeking FDI was heavily impacted by the end of the commodities ''super-cycle''. The Latin American and Caribbean region experienced an acceleration in the downward turn as FDI inflows fell by 14 percent to $142 billion, citing weak prices of commodities, pressure on exports and an economic recession. In developing Asia, there was a contraction of FDI flows by 15 percent to $443 billion. This was the first decline since 2011 with double-digit drops experienced in most sub regions except South Asia. For structurally weak and vulnerable economies, FDI remained fragile and flows to the least developed economies fell by 13 percent to $38 billion. Small island developing nations also

saw a decline in flows by 6 percent to $3.5 billion. Flows to landlocked developing countries remained stable at $24 billion.

There was a significant growth of FDI flows to developed economies from the previous year to 2016 as their share in global FDI inflows grew to 59 percent, the highest since 2007. There was an increase in flows by 5 percent to $1 trillion. A modest growth in North America and other developed economies more than compensated for the decline of FDI flows in Europe. There was a decline in the value of impending Greenfield investments by 9 percent to $247 billion. This is as a result of some potential weakness in the current and future capital expenditures of MNC affiliates in these markets (UNCTAD, 2016). The rise in the flow of FDI to developed economies were driven mainly by equity investment flows. The equity component of FDI accounted for 74 percent of total flows to developed economies. This represents the largest share of such component since 2008. The main drivers of the equity flows were cross-border mergers and acquisitions (M&As) which targeted developed countries. The value of these M&As increased to $794 billion, a 24 percent rise in value.

For transition economies, the inflow of FDI almost doubled reaching $68 billion represent an 81 percent rise, after two years of downward trend. This increase can be credited to the large privatization deals involving state-owned assets in the Russian Federation and the increased investments in activities of mining exploration in Kazakhstan. The inflow of FDI into Russia more than tripled to $38 billion from the previous year as the Russian economy began to recover after a GDP contraction in 2015 and as the country's oil and non-oil export performance began to improve, reflecting in part to the stabilization in the price of oil. Other transition such as Ukraine also saw an increased inflow of FDI by 9 percent to $3.3 billion. This was mainly credited to the recapitalization of foreign-owned banks. However, due to the regulatory and tax problems as well as slow reforms, greenfield investment has been limited. Azerbaijan and Georgia saw an increase in FDI inflows. Azerbaijan whose oil and gas sector mostly received the FDI saw an increase in inflow by 11 percent to $4.5 billion while Georgia whose FDI sectoral profile is more diversified (transportation, finance, tourism, infrastructure) experienced a rise in FDI inflows by 5 percent to $1.7 billion, after a 2015 slump. However there was a decrease in FDI inflows in countries such as Kyrgyzstan, Belarus, Tajikistan and the Republic of Moldova.

The global FDI trends have also been influenced by major economic groupings such as the G20, NAFTA, and APEC. Among all prospective and existing economic groups, the G20 is the largest source and recipient of FDI worldwide. The group has consistently been an FDI net

exporter and its outward FDI stock also continued to rise in 2016. One of the factors that contributed to the strength of outflows from the group is the rapid expansion of investments between the G20 and the BRICS member nations (UNCTAD, 2017). It also possesses 57 percent of global FDI stock. The inflow of FDI to the G20 increased by 29 percent to reach a record of $1.1 trillion, which is its highest level ever since the group's inception in 1999. The increase is attributed to the significant rise of flow into the United States, United Kingdom, Russia and Australia in the area of Greenfield activities, cross-border M&As, etc. The inflow of global FDI into the G20 did not match its relative economic weight in 2016 despite the record level.

In summary, looking at how FDI inflows are distributed across various groups of countries, it can be observed that the developed countries historically have been the major receivers of inward FDI. It can also be observed however that these inflows (primarily a concentration of mergers and acquisitions) have been much more volatile than those flows of FDI going into both developing and transitioning economies. FDI received a massive boost in the mid to late 1990s as there was an increase in multinational activities. The global flow of FDI increased four folds and then in the early 2000s. The financial crisis from 2007-2009 and the earlier financial collapse of 2000(Dot-com bubble bust) led to a crash in global FDI flows and most of the flows were cross-border M&As whereas there was relative stability in the greenfield investments. The FDI growth rate have been uneven and there have been significant peak and troughs, reflecting the fluctuations of the global stock markets. There has also been a steady growth in the flow of FDI to the developing and transition economies. After the contraction of flows to developed countries in 2009, FDI flows worldwide could be accounted for in developing and transition countries.

2.3. Motives behind FDI

2.3.1 Investors Perspective: Why Firms Invest Abroad

Dunning (1993) suggests that there are four main types of FDI motivations. He believes that FDI could be resource-seeking, efficiency-seeking, market-seeking or strategic asset-seeking. As earlier mentioned in the previous chapter, these are the four types of motivations upon which the OLI paradigm is built upon and are regarded as the building blocks upon which FDI decisions are made. Whereas it is important to differentiate these motives in order to

understand them, but it should be noted that there can be a combination of these motives to determine FDI (Chorell and Nilsson, 2005; Ziegler and Linden, 2010). According to Anwar et al (2008), it can be difficult in identifying the exact motive behind a firm' operation as the motives are interconnected with each other. For example, a foreign firm's expansion may be asset-seeking reasons but they can also access the market of the host country while utilizing its natural resources and labor facilities at the same time.

2.3.1.1 Natural resource seeking FDI

Firms are motivated to invest abroad to acquire or utilize specific resources and the availability of natural resources, cheap (unskilled and semi-skilled) labor, creative assets and physical infrastructures are what promotes resource-seeking activities. The availability of natural resources has historically been the most important host country determinant of FDI. There is always the assumption that suggests that those countries that have abundant natural resources are likely to attract more FDI than less natural resource rich countries (Asiedu, 2006; Sawkut et al., 2007). In fact, up to the Second World War, natural resources made up 60% of the FDI world stock (Baniak et al., 2005). The FDI flows in the 1800s and 1990s from the most industrialized countries to the less developed was justified by the need to ensure that there was a cheap and reliable supply of natural resources. The unavailability of natural resources or the high cost thereof in the home country were the reason for this FDI. Therefore this type of FDI was justified as raw materials, minerals, agricultural product or whatever resource been sought after was always location specific. According to Tekin-Koru (2007), the motives for seeking natural resources are not to serve the host country but may rather a third-country market and the home country.

Dunning (1993) identifies three types of resource seekers; the physical resource seekers, the labor resource seekers and those seeking technological capacity, marketing or management expertise, and organizational skills. Labor resource seeking investment are usually carried out by those multinational companies involved in manufacturing and services, and originating from countries where real labor costs are high. Since they are involved in the supply labor intensive intermediate or final products, they acquire or set up subsidiaries in countries where the real labor costs are low. And according to Dunning (1993), the host countries have set up free trade and export processing zones to attract such production. Dunning (1993) however argues that the presence of natural resources by itself, was not sufficient for FDI to take place as trade rather than FDI was as a result of a comparative advantage in natural resources. Investment only

occurred when there was a lack of enough capital that was usually required for resource-extraction in these resource-abundant countries. Another reason for this kind of investment was if the resource-abundant country lacked the required technical skills for the extraction and sale of this raw material to the rest of the world (Dunning, 1993).

2.3.1.2 Market seeking FDI

Market-seeking FDI are those form of FDI carried out by firms for the purpose of entering into the domestic market of the host countries or even supply markets in adjacent territories. Based on hypothesis, market size is considered to be a determinant of FDI and an important factor that is necessary for the efficient use of resources and to gain the benefits from economies of scale (Scaperlanda and Mauer, 1969, Agarwal, 1980, Dunning, 1980). According to Javorcik et al (2011), this implies that high inflows of FDI is influenced by a bigger market size. Besides the size market size, such FDI is also motivated by the market growth and per capita income, regional and global market access, domestic market structure and the preference of consumers. Following the success of exports to these markets, or the expansion of the firm to a wholly new market, such FDI may represent a deeper involvement and commitment of the firm. Government regulations and cost of transportation are reasons behind market-seeking FDI, but according to Dunning (1993) such type of FDI may also be for strategic reasons. Reasons include the need to adapt the product to the local market in terms of conditions and tastes, the reduction of transaction costs, or the need to follow the clients of the firm in their foreign expansion. According to Brouthers et al (2008) the objective of market seeking FDI is a market entry strategy adopted to penetrate a foreign market and eliminate the cost of exporting. An example is the Japanese automobile FDI into the USA in the 1980s (Sauvant, 2008; Kinoshita and Campos, 2002; Kudina and Jakubiak, 2008). The idea behind the investment was to avoid tariffs, export regulations, save operational costs and overcome other barriers. Another reason for market-seeking FDI is identification of an opportunity in the foreign market. According to Franco et al (2010), this is when a firm identifies market segments which have not been originally exploited by other firms operating in the same market. On the other hand, these markets are able to accommodate new entrants as the growth rate is very high (Franco et al, 2010).

2.3.1.3 Efficiency seeking FDI

Efficiency seeking FDI are carried out by firms that seek to benefit from the factors that would enable them compete in the international markets. Factors that enable efficiency typically include low material cost and low cost of labor. Given that the movement of FDI is cost-sensitive in nature, multinational firms move towards countries with lower wage costs and reduce the cost of production (Cushman, 1987, Bevan and Estrin, 2004). The motive behind this type of FDI is to take advantage firstly, of the cost of traditional factor endowments and its availability in different countries and secondly, to take advantage of the country`s economies of scale and scope, and also the differences that may exists in the taste of consumers and the supply capabilities (Dunning, 1993). Firms will seek to increase their cost efficiency through the transfer of their production to locations with low labor costs either in part or in full. This is likely to happen in industries where labor (both unskilled and semi-skilled) plays a significant role in the cost of production. Examples of such investments can be observed in American investments in Mexico's maquiladoras[11]. According to Pfeffermann and Madrassy (1992), globalization has created a new kind of relationship between the characteristics of labor and FDI where there has been a relative shift towards advanced-skilled labor. Moreover, macroeconomic and political situation should be stable in order for efficiency seeking foreign production to take place, and this is in addition to cross-border markets been both open and well developed. The intention of firms seeking efficiency is usually to take advantage of the factor endowments, institutional arrangements, economic systems and policies, cultures, and the market structure to supply many markets by concentrating production in a limited number of locations. A positive relationship was found between cheap labor and inward FDI in transition economies (Kinoshita and Campos, 2003; Bevan and Estrin, 2004). Resmini (2000) in a study of countries from Central and Eastern Europe (CEE) receiving EU FDI during a period 1990-1995 found out that investments into the region were mainly driven by low labor wages. In summary, it is a general consensus that the relationship between and FDI and low cost labor is a positive one. In addition, recent research has observed that the tendency for multinational

[11] Maquiladoras are production plants located close to United States border with Mexico where goods are manufactured at lower costs.
The maquiladora industry is a good example of a free trade zone and the plants are given special tax breaks by the government of Mexico. These plants are usually foreign owned or sub-contracted, and foreign firms who use these plants are mostly from the USA, Japan, South Korea and major industrial countries in Europe.
As at 1965, only 12 maquiladoras existed. Today there are more than 3,000 maquiladoras employing about 1.2 million people who work for lower wages.

firms to reduce labor costs is more prevalent in the manufacturing sector and less likely in the service sector (Brandl et al, 2013).

2.3.1.4 Strategic asset-seeking FDI

Strategic asset-seeking FDI are carried out by firms that seek to acquire a new technological base instead of making use of an existing asset. The exploitation of these specific assets could generate economic rents. As earlier mentioned, they are technological assets arising from an investment in R&D that a multinational firm transfers to its subsidiaries. This form of FDI motive involves the acquisition of strategic assets (tangible or intangible) that may not be available at home but is important to the long-term strategy of the firm. According to Dunning (1994) this is the fastest growing motive of all FDIs. Unlike other FDI motives, Investments which are strategic assets seeking does not imply the exploitation of a firm's existing ownership advantage. Rather, such investments serves as a means through which the firm builds an ownership advantage that will support its expansion at home and abroad in the long term. Dunning (1993) however suggested that the aim of the strategic seeking FDI may not necessarily be for the purpose of strengthening the position of the firm, but rather to weaken the competitive position of its rivals.

Table 2: Economic determinants influencing investor motives

Investor motives	**General economic determinants**
Resource seeking	• Availability of raw materials • Availability of labour
Market seeking	• Market growth • Market size • Regional and global market access • Market structure • Consumer preference
Efficiency seeking	• Labour cost • Resource cost
Strategic-asset seeking	• Technological and innovative assets

	• Other creative assets • Skilled labour/unique talents • Physical infrastructure

Source: the author's own elaboration based on literature review

2.3.2 Host country perspective

The earlier classification of FDI motives can be seen from the perspective of the investor and explains why a firm will decide to invest in a specific country. However, there are motives that can be identified from the host country perspective. Mossa (2002) identifies these motives are import-substituting motives, government-initiated motives and export-increasing motives.

2.3.2.1 Import-substituting FDI

The term import-substitution refers to the substitution of imports for domestic production. Therefore, the motives behind import-substituting FDI is for the host country to replace its importation of certain goods with the domestic production of those same goods. The host country's reasons for encouraging such FDI besides reducing its dependency on imports to preserve foreign exchange, also include the need to create employment, access managerial and technical skills, and also new technology. Musgrave (1964) also argues that import-substituting FDI will bring tax revenue. To attract these kind of FDI, government creates high entry barriers for the importation of goods into the country. Tariffs and quotas imposed by the government plays an important role in attracting this FDI. On the hand, the government can offer tax incentives or subsidies to encourage import-substituting FDI. This is to present a signal to investors of a positive investment environment, especially to those foreign firms who are uncertain about making a deeper commitment to the market through FDI because of incomplete information (Raff and Srinivasan, 1998). The justification for an import-substitution policy is that the country already has the market and demand for the goods it imports, and this serves as an incentive for firms seeking new market opportunities to invest directly in the country by setting up production facilities. It can be said that import-substitution encourages market-seeking FDI.

2.3.2.2 Government-initiated FDI

Government-initiated FDI is an FDI the government initiates or attempts to attract for the

purpose of reducing its balance of payments (BOP) deficits. The balance of payment is a statement containing the details of transactions that residents of a specific country makes with the rest of the world over a specific period. The balance of payment is important to a range of stakeholders which include government, businessmen, policy makers, central bank, etc., for making decisions.

The role of FDI can be identified in several parts of the balance of payment. The BOP account is divided into four main elements namely; current account balances, capital and financial account balances, balancing items (Errors and Omissions) and reserves balances. Net FDI comprises part of the capital and financial account balances along with portfolio investment, capital transfers and net loans. Nag and Mukherjee (2012) argues that FDI as a capital inflow is a good source of improving a country's balance of payment position. FDI has also been found to have an indirect impact on the current account balances through its effects on export or import Dakhil et al (2019). In addition to diversifiying and seeking foreign exchange through exports, governments may seek to attract export-oriented FDI to reduce their trade deficits. Export promotion is a non-monetary measure that can be used to correct the diseqilibrium in the balance of payment. Substituting imports with FDI is not only meant to replace imports with local production, FDI will also save the foreign exchange meant for the import of goods. To attract such FDI, the government offers incentives to foreign investors.

2.3.2.3 Export-increasing FDI

The third motive for FDI by a host country is the export-increasing motive. The reason behind this is basically to increase the host country's exports. Also referred to as export-promoting, investors are motivated to invest in the country as they seek to access raw materials. Therefore there is a link between resource-seeking FDI and export-increasing FDI. It is also an export-increasing FDI when the host country exports both raw materials and intermediate goods to the investor home country, and those countries where the subsidiaries of the foreign firms are located.

2.4. Types of FDI

A review of literature on FDI and activities of multinational corporations reveals that there are three major types of FDI: Horizontal FDI, Vertical FDI and Platform FDI (Beugelsdijk et al., 2008; Driffield and Love, 2007; Lipsey, 2001; Ekholm et al., 2007; Ito, 2013).

2.4.1 Horizontal FDI (HFDI)

Firms which undertake horizontal FDI engage in the production of similar or the same goods or services in multiple plants across different countries. Simply put it that the manufacturing processes are identical. Hence, a critical element of market structure for horizontal FDI is product differentiation. Such FDI is dominated by flows between developed countries (Krugman et al., 2012), that is the headquartered company and its affiliates are both located in developed countries. The headquarters under HFDIs, are usually located in the home country where both the home and host countries are provided with its services. Each country has its own plants and those plants serve the local market with the products locally manufactured from the plant.

These type of FDIs specifically take care of the costs of establishing new production plants overseas in comparison to the variable costs saved in the avoidance of transport costs and tariff barriers. The presence of firm-level scale economies and a positive trade costs are two important factors for the appearance of horizontal FDI. According to Markusen and Venables (2000) the avoidance of import tariffs, transportation costs, and other trade barriers makes horizontal FDI a substitute for exports. Hence, when FDI decisions are made, transportation and trade costs play a bigger role than the differences in production costs. Besides avoiding transportation costs and tariff barriers the main motive behind HFDIs is to access and serve new local markets. Hence HFDIs are also referred to as market-seeking FDIs. HFDIs are also undertaken to exploit specific oligopolistic and monopolistic advantages, such as differentiated products or patents, especially when such expansions would lead to a violation of anti-trust laws at home.

2.4.2 Vertical FDI (VFDI)

This type of FDI is driven mainly by the differences in the cost of production between countries. Its purpose is to reduce production cost, hence the reason for investing abroad. According to Krugman et al (2012), what drives these differences in cost can be explained by Ricardo's theory of comparative advantage earlier discussed. Intermediate products are produced in one country and then these products are shipped to affiliates located in other countries for further processing. A basic framework for vertical fragmentation has been developed by Helpman (1984), and Helpman and Krugman (1985). This framework was extended by Bowen et al. (2012). According to them, it is assumed that the headquarter is located in the home country while the plant in the host country. The production process was

divided into three stages. The first stage is the production of headquarter services through the means of capital and labour, which is assumed as the most capital intensive. The second stage of the process involves the manufacturing of components or intermediate production which is less capital intensive than the first stage. The last stage of the process involves the assembly of components and is the least capital intensive.

Vertical FDI divides the process of production into segments that are relatively intensive in different factors of production. Helpman (1984) states that each of the segments are located in countries which possesses an abundance in that factor. Multinationals who undertake vertical FDI do so in order to replace their production stages which are labor intensive such as assembling and intermediate, to countries with cheap labor to reduce their costs. Hence VFDIs can also be regarded as efficiency-seeking FDIs. According to Salvatore (2013), these type of FDI has a natural resource seeking motive as the multinational firm aims to obtain control over an important raw material and in the process, ensure an uninterrupted supply of these resource at the lowest possible cost. This is common with FDI in developing countries and also developed countries that are mineral rich.

2.4.3 Platform FDI (PFDI)

Platform FDI or export-platform FDI are investments undertaken by multinationals in a host country for the purpose of exports. Under this type of FDI, multinational firms set up production in one country but the aim is to export these production outputs to another country. Simply put, the host country is used by multinationals as an export platform. According to Ekholm et al. (2007) and Ito (2013), the export destination is either the multinational home country (home-country export platform), to another country (third-country export platform), or both (global export platform). The figure below illustrates the concept of export-platform FDI.

Figure 6: Conceptual model of export-platform FDI

Source: the author's own elaboration based on literature review

One main reason for multinationals to engage in export-platform FDI is that while production is essentially a single stage, establishing multiple plants across different countries will incur additional costs either marginal or fixed (Ito, 2013). Therefore multinationals set up a production plant in one country and export same output to different countries. The condition for export-platform is that the host country has a lower cost of operations for FDI. The factors influencing the export-platform FDI include the existence of free trade zones (Tomohara and Yokota, 2009; Ito, 2012) and lower barriers to trade (Geishecker et al, 2008). There are also non-cost factors influencing export-platform FDI. Omelańczuk (2013) identified globalization as an important factor for export-platforms. This type of FDI is different from horizontal FDI as the purpose of investment is not to serve the host country market with the products from the plants. According to Geishecker et al (2008), the conditions of the host's market is not an important factor in the investment location decision making process.

In summary HFDI, VFDI and EFDI are regarded as the type of FDI multinationals engage in, and do so depending on their motives. The types of FDI as a whole can be seen as part of the classification of FDI which has been conceptualized below. According to the figure, FDI can be classified by type (Horizontal, vertical and platform), by motivation (Natural resource, market, efficiency and strategic asset) or by mode of entry (Greenfield and brownfield).

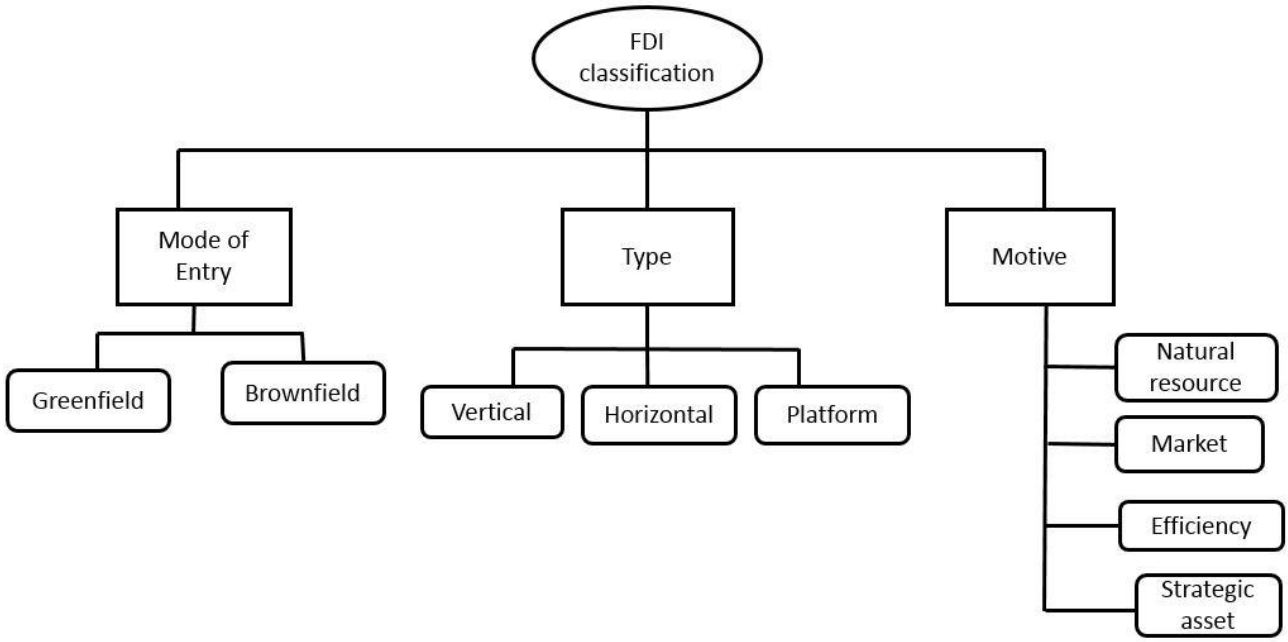

Figure 7: Classification of FDI

Source: the author's own elaboration based on literature review

2.5. Economic policy for FDI

The attitude from host countries towards FDI has significantly changed, leading to policy liberalization to attract investment. Host countries consider these incentives as a measure that is necessary for competing with other countries, and which indicates their intention to having a friendly investment environment (Moran, 1998). In addition, the expectation of potential benefits from FDI has led several countries to offer several forms of investment incentives. These incentives represents the tools of FDI policy. According to Antalóczy et al (2011) in Hansen and Rugraff (2011), FDI incentives are the elements in an economy policy focused on improving the returns from FDI, or/reducing the costs or/and risks. An official OECD (2013) definition of FDI incentives describe it as

"Measures designed to influence the size, location or industry of a FDI investment project by affecting its relative cost or by altering the risks attached to it through inducements that are not available to comparable domestic investors"

FDI incentives don not include policy elements that are non-discriminatory, that provide investors with a usual or normal business environment. The OECD (2003) classifies FDI

incentives into three cateegories; financial, fiscal and regulatory incentives. These incentives are offered by the hosting authorities or in the case of financial and fiscal incentives which are financed.

2.5.1 Financial FDI incentives

FDI policies which involves the offer of financial incentives are mainly motivated by the consideration of three issues.

The first issue considered is that a host area or location may be at a perceived disadvantage in comparison to other locations. Arguements in favour of such incentives describes it as creating a level playing field, or "site equalisation outlays". Such efforts are often times available to all potential investors in the area, and many not be considered as incentives. However, authorities may negotiate special investment packages with large foreign investors. These may include:

Infrastructure subsidies

To meet the specific needs of the investors, the government may provide physical infrastructure such as road, railway, port, etc., to increase the attractiveness of the location.

Job training subsidies

These subsidies are offered to investors who are faced with difficulty finding qualified human capital. In many cases, this occurs when foreign investors enter into underdeveloped sectors of the economy or carry out activities that are new to the economy. Government in an attempt to alleviate this lack of human capital offer publicly-supported education programmes.

The second issue considered is the cost inccured by investors during relocation or the establishment of new subsidiaries which may be at a far distance from previous sites. Such costs may prevent the investor from choosing the most suitable location or the location which FDI is needed to bring benefits to the country. As a result, financial incentives would be appropriate in meeting the investor's relocation costs. These include:

Temporary wage subsidies

Temporary wage subsidies can assist investors in the start-up phase to cover part of the new corporate unit's wage bill.

Relocation and expatriation support

To assist investors in meeting additional capital spending and relocation costs, location authorities may offer grants and in some cases contribute to expenses related to the relocation of expatriate family members.

Administrative assistance

In the case of administrative assistance, authorities may implicitly subsidise certain responsibilities required by investors in starting or establishing their businesses. For example, the host country through their investment promotion agency (IPA) may offer to assist foreign investors in obtaining permits easily as part of the country's competitive client service.

The third consideration that justifies financial incentives is the need to overcome transaction costs and correct market imperfections.Targeted incentives may be given to foreign investors in attempt to benefit from the externalities. However, in order not to be perceived as giving out gifts to investors due to political constraints, these group of incentives are sometimes tied to certain investor activities that are encouraged by the host country. These include:

Credit to investors

Soft loans or interest subsidies may be granted by the host country for specific investment projects. On the other hand, the authorities may issue loan guarantees to ease the financing costs of the investors.

Real estate

This involves the sale of land or buildings to foreign investors below the market price. This is regarded as a cost-free way of promoting FDI as long as the real estate involved was not previously used.

2.5.2 Fiscal FDI incentives

Fiscal FDI incentives are the most commonly used type of incentives by host countries. This applies especially in developing countries where the funds available for financial incentives are limited. In advanced economies, taxation requires legislative action since fiscal measures used to attract FDI are rule-based approaches (OECD, 2003). Fiscal incentives include:

Reduced direct corporate taxation

There are several ways countries reduce the corporate tax burden to attract FDI. These measures include:

- **Tax holidays:** This form of taxation incentive involves foreign investors not having to pay corporate income tax for specific period of time mostly in years, under the

qualifying status as a new established company. Another form of this tax holiday is when an investor is not required to pay corporate tax until they recover their initial capital cost. Tax holidays are regarded as a simple incentive that does not require the calculation of income tax, thereby making it an attractive incentive.

- **Special tax-priviledged zones:** In a bid to attract investment, create jobs and increase exports, countries create "ring-fenced" areas with a low to no tax rate. These zones are usually generally refered to as special economic zones. Depending on the context and reasons for creating them, they are known by several names; export processing zones, free trade zones, industrial parks, etc., but the overall aim of these zones is to offer foreign investors who matches the economic development needs of the host country with special tax concessions. These special zones are mostly sought by multinationals seeking efficiency and involved in vertical FDI, and those seeking a platform to manufacture and export same products to a third country. Rolfe et al. (1993) found that fiscal incentives are more important to investors who are export-oriented than to market-oriented investors seeking local market opportunities. Countries seeking export-oriented or export-increasing FDI see special tax-priviledged zones as the adequate investment policy.

Capital formation incentives

Seaveral countries use policies that tie low taxation rates with corporate investment. This in a way provide investors an incentive to invest. Incentives for capital formation include:

- **Investment tax credits**: Investors earn these tax credits are as a percentage of qualifying expenditures and offset against payable taxes.
- **Withholding tax**: Foreign investors are offered reduced rates of withholding tax by the host country on remittances to their home country.
- **Special allowances on investment**: Host countries provide investors with attractive write-offs for qualifying capitalc costs. This can be in the form of enhanced deductions or an accelerated depreciation.
- **International trade taxation**: In order to attract FDI, host countries might offer a reduction in custom duties and import taxes as an incentive.
- **Reinvested profits**: Host countries can offer investors a deduction or tax credit on profits that are reinvested back into the economy.

- **Taxation of employees**: Host countries can also offer expatriate executives and employees a reduction in personal income tax or social security as an incentive.

2.5.3 Regulatory FDI incentives

Regulatory FDI iincentives refer to policies used to attract investors through the offer of derogations from certain rules and regulations at a national and subnational level. Even though a host country might decide to derogate from any regulatory practice in principle, the policy direction in most cases is towards easing or reducing the labour-market, social and environmental requirements imposed on foreign investors. Regulatory FDI incentives include:

Environmental regulation

Countries sometimes are pressured to ease regulation standards to attract important investments. For example it is expected that there would be a downward pressure on environmental regulation especially if it affects the cost of investment or restricts FDI entirely. This is usually the case in the natural resource and mining industry. It is also experienced in the manufacturing industry that involves chemicals and other polluting substances. Incentives of such nature are mostly granted in relation to targeted strategies, or they are negotiated specially as part of a strategy by improvision to attract large and critical investment projects.

Labour standards

The application of labour standards as an incentive to attract investors differ among countries. In OECD countries for instance, the competition for FDI usind labour standards are characterised by non-wage labour costs and the flexibility of employment contracts (OECD, 2001). In developing country, the probability of lower labour standards are high, especially those with low-skill employment. Cases of such are found in free trade zones where there is strong evidence of regulatory competition (ILO, 1998). Foreign investors do not only benefit from tax incentives in these zones, but from less stringent labour regulations that can allow for a flexibility in employment contracts.

2.6. Effects of Foreign Direct Investments on the Economy

FDI is considered an important source for development in many developing and transition countries. As these countries attract FDI, they do so cause of the expected effects FDI will have on the economy. It is said that the effects of FDI on the economy is mostly positive but there are also negative effects.

Dunning (1997) adds that as domestic firms experience the presence of their foreign counterparts, additional spillovers may be triggered as a result of demonstration effects, opening of international markets for domestic suppliers, backward linkages with the foreign firms, and the existence of better infrastructure as a result of agglomeration, in this case the clustering of foreign firms in specific location.

When host economies seek to attract FDI, the spillover effect is a very crucial element. The term ''spillovers'' is used to explain the benefits a host country economy aims to take advantage of and develop the economy as it experiences an inflow of FDI. The aim of a host nation when attracting FDI is not just to gain access to external finance, but also to develop moribund and underdeveloped industries, and acquire ''know-how'' in management and technology. According to Moran et al (2005), productivity, salary, technology, competition, competence, etc. are some of the know-how and knowledge spillovers on the economy that the host country desires. As an MNE enters into the host country, the spillovers from FDI will occur and increase the productivity of domestic firms in the host economy. Such spillovers will take place when domestic firms absorbs technology and marketing strategies from the foreign firms and in the process will improve their efficiency. This is possible through observation or when employees who have previously worked for the MNEs are hired. An increased competition is another form of spillover that can occur due to the presence of MNEs in the host country. With the foreign firms as competitors, local firms will be forced to use their existing resources more efficiently or be in the search for new and better technologies.

2.6.1 Effects on Productivity

It is well known in FDI literature that besides the capital for productive development that FDI brings to the host economy, domestic firms may likely benefit from a managerial and technical perspective through the considerable transfer of knowledge and skills (Balasubramanyam et al 1996; Kumar and Podhan, 2002). The productivity of domestic firms can be potentially improved by FDI through the direct effects on the local affiliates of the foreign firm and through indirect or spillover effects on other domestic firms. However, there is still a possibility for

concern as domestic firms may be negatively impacted by FDI and foreign firms. Moosa (2002) gives reasons for such interests which include the generation of negative competition and monopoly effects, extortion from foreign firms through high rents, and the introduction of assets, practices and other resources that may be inappropriate in the context of the country.

The influence of FDI on the productivity level of the firm was assessed by Ayanwale and Bamire (2001) and results show there is positive spillover of foreign firms on the productivity of domestic firms. For Melnyk et al (2014) FDI can provide a source of valuable know-how and technology while creating linkages with domestic firms. Productivity spillovers will take place according to Blomström and Kokko (1998), when ''the entry or presence of MNE affiliates leads to productivity or efficiency benefits in the host country's local firms, and the MNEs are not able to internalize the full value of these benefits".

The increased productivity argument is supported by Caves (1974) and Globerman (1979) who discovered that domestic firms which operated in sectors witht significant foreign ownership showed more productivity. Blomstrom and Wolff (1989) researched the issue of productivity spillovers from foreign firms to local firms in Mexico. They analyzed the impact of foreign company's activities on the labor productivity growth in the Mexican industry during the period spanning between 1965 and 1984. Findings reveal that the productivity level of local firms in Mexico converged with that of the foreign companies operating in the country. The findings also show that both the productivity growth of domestic firms and the pace of catching up with the productivity level of foreign firms was positively related to the degree of foreign ownership in the industry.

An analysis of the spillovers of productivity from foreign investments to local firms was carried out by Haskel et al (2007). This study focused on the UK during the period of between 1973 and 1992 and was conducted at the level of industrial production. Results show that the correlation between the growth of aggregate factor productivity of local plants and the growth of activity in the share of foreign firms in the industry is a positive one. According to their computations, it is suggested that the growth of productivity of domestic plants in the industry increased by 0.5% due to the 10% increase in foreign presence in the industry (Haskel et al., 2007).

However in other studies the positive impact on domestic firm productivity disappeared. Studies carried out by Harrison (1993) using the Venezuelan case study, reveal that while productivity is increased due to foreign investment, the gains from productivity are internalized by other foreign firms leading to a decline in the domestic firm's productivity. A study by the OECD in the 1970s revealed the same results as Harrison (1993) showing little to no

productivity spillover effect on domestic firms. Studying 65 subsidiaries in twelve developing countries, the results were linked to little mobility of labor between foreign and domestic firms, limited domestic subcontracting, limited hiring of higher-level local employees and limited incentives available to foreign firms to diffuse knowledge to local rivals (Germidis, 1977).

2.6.2 Effects on Employment

There are both direct and indirect effects on employment related to FDI. A direct effect on job creation is when the MNC employs the citizens of the host country. An indirect effect of FDI on employment is when jobs are created by local suppliers due to investments and also as a result of local spending by the MNC's employees. As at 2006 foreign affiliates of MNCs were estimated to have employed 73 million workers, representing 3% of the global workforce, almost three times more than in 1990 (OECD, 2008). Hill (2000) in a data published, illustrated the employment effects of FDI in a host country. Using the example of Toyota's investment in France, findings showed that 2,000 jobs were created directly and another 2,000 jobs in the supporting industries. This backs the fact that an increase in FDI is also reflected by a rise in the number jobs in MNC's foreign affiliates. The creation of employment opportunities is one of the most visible effect of FDI especially in a country where there is a relative scarcity of capital and relative abundance of labor.

There are still divergent views among economists on the effect of FDI on employment. According to Baldwin (1995), there are three key issues encompassed in this debate; i) the extent to which the increase in the export of intermediate and capital goods is stimulated by FDI; ii) the extent to which domestic investment is substituted for FDI; and iii) whether the FDI involved is either a greenfield FDI or a brownfield FDI. The FDI effects on employment can be summarized with the following:

1. FDI can directly increase employment through the establishment of new facilities, or indirectly through the stimulation of employment in distribution.
2. Employment can be preserved by FDI through the acquisition and restructuring of failing firms
3. Employment may decrease by FDI through divestment and closure of production plants.

An empirical investigation on the employment impact of FDI in China was carried out by Li-Wei and He (2006). Findings from the study show that there is a positive impact of FDI on employment in the long run both in foreign firms and the whole country. The growth rate of employment rises by 1.73 percent in foreign firms and 0.04 percent in China when FDI

increases by 1 percent. Xiaoqing and Dwyer (2008) conducted a similar study on the FDI effects on employment in China, and found a positive effect as employment increased. Findings from a sectoral study conducted by Nunnenkamp and Bremont (2007) in Mexico show that FDI contributed to the increase in employment. Analyzing the manufacturing sector during the period from 1994 to 2006, results showed there was a significant positive impact but the impact was not very strong. The effect of FDI on employment in Ghana was investigated by Abor and Harvey (2008), and it was found that there is a high increase in employment when FDI flows increases. This is because there is an increase in labor demand when FDI brings in production in a large scale.

However, other studies conducted show that the impact of FDI on employment was minimal. Vaitsos (1976) studied the effects of FDI on employment with a focus on scale, concentration, trans-nationality and foreignness. His findings showed that activities of foreign firms had little effect on employment in the host country. Aktar and Ozturk (2009) had a similar result from their investigation on FDI performance in Turkey. Analysing results from the period of 2001 to 2007, they discovered that FDI did not contribute to the reduction of the unemployment rate. Graham and Krugman (1991) in their study found a zero impact of net FDI on employment in the US. It was argued by Feldstein (1994) that in a well-functioning labor market, there is no evidence that the volume of FDI in an economy will have no effect on total employment. Jenkins (2006) in study of Vietnam and the impact of FDI on direct employment in the country found out there was no signficant effects. This was due to the fact that there was little FDI presence in those sectors that comprises the majority of the labout force like agriculture and services sectors like retail and transport. Furthermore, it is also shown by the study that there was minimal effect of FDI on indirect employment and depends on the balance between the crowding-out effects of FDI that occurs when local firms are displaced by the foreign affiliates and the crowding-in effects of FDI where new markets are created for local firms.

2.6.3 Effects on Wages

On the impact on wage level, FDI leads to increased wages. Spillovers in the form of increased wages reveal that most of the foreign firms in both developing and developed countries pay a higher wage than domestic firms. This is according to Aitkin et al. (1996) who argues that firms which are foreign-owned tend to pay higher wages than locally-owned ones. In situations where there was an acquisition of local firms by foreign owned firms, salaries were shown to have increased. However, there was an opposite effect on wages when foreign owned firms are acquired or taken over by local firms. The rationale behind this correlation is that foreign firms

attract the best qualified workers by paying them more as they apply better technologies. Using a plant level data set covering both domestically and foreign-owned plants, and collected through surveys between 1997 and 1990, Aitken et al. (1996) explored the relationship between wages and FDI in the United States, Mexico and Venuzuela. They discover that a higher share of FDI raises the wage level for both skilled and unskilled workers. Their findings show that a 10 percent increase in the share of foreign investment in the total employment will lead to 2.2 percent rise in wages. The Study by lipsey and Sjoholm (2004) on the wage level between foreign-owned plants and the domestic ones in Indonesia revealed that the wages in domestic-owned plants is 50 percent less than the wages in the foreign-owned ones. In the short run, FDI raises wages such that there is an annual increase in average real wages by 1.2 percent when there is a 10-percentage point increase in the FDI stock to output ratio (Onaran and Stockhammer, 2009).

A survey of 30 academic papers between 1995 and 2015 by Hale et al (2016) on the effects of FDI on various aspects of labor markets. With a few exceptions, observations from the literature reveals that FDI leads to higher wages in both developed and developing countries. The literature reveals a significant positive effect on total employment in developing countries, while there were mixed results on the effects of FDI in developed countries. Still, the effect of FDI on wage spillover have not been entirely positive. Studies on Mexico and Venezuela show a negative effect of wages spillover from foreign firms. One reason for this finding is attributed to restrictive labor market conditions. According to Moran et al. (2005), Mexico and Venezuela are among the most restrictive nations in the areas of employment legislation and labor dismissal as shown in ”employment laws index” produced by the World Bank.

2.6.4 Effect on Gross Domestic Product (GDP)

As many countries see FDI as an engine for growth, several studies have been conducted on the impact of FDI on the economic growth in the country. It is believed to contribute to the Gross Domestic Product (GDP) and seen as a vital tool for economic prosperity. Through the role of FDI in the transmission of technology, capital construction, development of human resources and international trade, the function of FDI in the growth of economies have been proven. Oseghale and Amonkhienan (1987) notes that there is a positive relationship between FDI and GDP with the conclusion that a higher FDI inflow will lead to a better economic performance. According to Todaro (1994), the main factors that leads to economic growth are investment that improves the standard of existing human and physical productivity resources, that increases the

quantity of these same resources and that raises the productivity of specific or all resources through technology, invention and innovation process.

In a cross-country study, Borenszetein et al (1998) examined the effect of FDI on GDP in a regression framework and using a data for two decades on FDI flows from more than 70 countries. Findings from the study show that FDI is a major source for the transfer of technology and contributes more to growth than domestic investment. Although the argument for FDI as a vehicle for higher productivity is only true when the host country possesses a minimum threshold stock of human capital (Borenszetein et al, 1998). Therefore, it is only when the host economy is capable of sufficiently capable of absorbing the advanced technologies that FDI is able to contribute to economic growth. Findings by Durham (2004) also supports the conclusion that FDI flow depends on the capacity of the host country to absorb technology and so the impact of FDI on the economic growth of developing countries have been negative and insignificant.

Levine and Carkovic (2002) in their study on the effect of FDI on economic growth found no impact of FDI in the long-term for economic growth. After analyzing the relationship of both variables using a panel data set of 72 developed countries, they concluded that the lack of positive effect of FDI on economic growth is not determined by availability of human capital, openness of the economy or the host country's level of economic development. This is also the conclusion of Campos (2002) in a study of transition economies and shows that the threshold level of human capital does not determine the effects of FDI on growth. Mustapha et al (2008) also found no significant effect of FDI on growth in MENA countries with a conclusion that FDI and economic growth is dependent on the stability of the macroeconomic environment especially at the CPI level. On the other hand, studies carried out by Jyun-Yi, Wu and Hsu Chin-Chiang (2008) that examined if FDI promotes economic growth showed that FDI strongly contributes to economic growth but the initial GDP and human capital are major factors explaining FDI. Using a threshold regression analysis with a sample of 62 countries in the period 1975 to 2000, their findings show that when the initial GDP and human capital are on a better level, FDI will have a positive impact on economic growth.

On a sectoral-level study, Alfaro (2003) examined 47 countries for the period 1981-1999 and discovered that there is a negative effect of growth from FDI flows in the primary sector. However, it was found that there is a positive effect of FDI in the manufacturing sector. The findings from Aitken and Harrison (1999) were the same as that of Alfaro (2003). In their study of Venezuela, FDI impacted negatively on the productivity of domestic firms in the manufacturing industry. However results from the effects on the service sector where

ambiguous. This concludes that the effect of FDI on economic growth can be on a sectoral basis. Also there is a minimal possibility for spillover into the agriculture and mining sectors, therefore reducing the efficiency of FDI inflows.

2.6.5 FDI and International Trade relationship: Substitute vs Complement

The relationship between foreign direct investment and international trade has been studied extensively. Does an increase in FDI lead to an increase in exports? On the other hand, does an increase in FDI lead to a decrease in exports? A substitutive relationship between FDI and exports implies that an increase in FDI will lead to a decrease in exports to foreign countries and vice versa. While on the hand, the complementary relationship between FDI and export indicates that FDI and exports will move in the same direction. The question of FDI and trade being complements or substitutes remain open for debate and evidence from various studies have shown that there exist substitutional as well complementary links between FDI and trade. It has been generally accepted that FDI is a substitute for trade as it has been argued FDI is encouraged due to restrictions on trade (Caves, 1996). Pontes (2005) argue that where the trade cost is very high both trade and FDI behave as complements. For Sousa and Lochard (2009) the FDI and trade relationship depends on FDI motives. The exploitation of international factor-price differences (vertical motive) makes the relationship complementary, while a substitute relationship will occur when the stage of production is duplicated abroad (horizontal). Other findings reveal both substitution and complementary relationships between FDI and trade (Head and Ries, 2001; Blonigen, 2001; Swenson, 2004). In these cases, FDI and trade were found to have a complementary relationship in aggregate terms but behaved as either substitutes or compliments depending on the industry analyzed.

Studies that support an FDI-trade substitute relationship cite the relative factor endowments theory of international trade and firm-based theories of FDI as their theoretical rationale. While FDI-trade complementary relationship studies draw support from the comparative advantage theory of international trade, the theory of industrial networks, and various strands of the new trade theories. Although, the firm-based theories of FDI in general, indicates a substitute relationship between FDI and trade, there are suggestions for the possibility for an FDI-trade complementary relationship to exist as a growing evidence in recent works have shown. Overall, the studies on the relationship between the two variables have shown to support a complementary relationship over a substitute one.

FDI and International trade as Substitutes

Mundell (1957) first supported the substitution effect between FDI and trade as the Heckscher-Ohlin model was used to demonstrate that capital mobility was encouraged due to increase in trade barriers, pointing towards a substitutional relationship. Based on the H-O assumption, differences in factor endowment and factor prices for homogenous goods drives international trade. As International factors become mobile between countries and trade flow decreases, these differences become smaller. Therefore, it was concluded by Mundell (1957) that the mobility of capital driven by FDI substitutes export. Mundell's conclusion is supported by Blonigen (2001) who suggested goods exported are substitutes to the goods that would have been manufactured by the multinational's affiliates.

According to Markusen (1995), if FDI increases with a greater proportion than trade, as transportation costs and rates increase, then the horizontal multinational can be viewed as an alternative option to trade. Brainard (1993) on the hand suggests that when trade costs are higher than the fixed cost of setting up a new subsidiary, then FDI can be seen as alternative to export. This is called the proximity-concentration approach. For Blonigen (1997), the firm investing in the host country may require additional inputs from the source country and therefore the increase in the flow of FDI will result in the increase in exports due to intra-firm trade.

Horizontal FDI are seen as substitutes to trade as such FDI takes place with the intentions of supplying the market with goods and services. This type of FDI can also be viewed as one with market-seeking motives as explained by Dunning (1980). The firm decides to establish a production plant in the host country similar to that of the home country instead of the alternative of exporting to the foreign market. By replicating the same in every country the firm operates in order to directly serve the local market, FDI will substitute trade and avoid tariff barriers and transportation costs (Markusen and Venables, 2000). The policy of import-substitution which purpose is to replace specific imported goods with domestic production could cause substitution effects. According to Salvatore (2012), the market for these goods already exists and so, firms have the incentive to replace their exporting activities with the establishment of production facilities whose risks are low or minimized.

FDI and International trade as Complements

Kojima (1975) described the relationship between FDI and trade as complementary if the flow of FDI creates or expands the opportunity for exports. Schimitz and Helmberger (1970) attempted to make a case for a trade-FDI complementary relationship. In their examination of

the extractive industry, they assumed that one country with a large domestic demand for a specific natural resource is also a country with a capital surplus. On the other hand, the country with an abundance of this natural resource in demand usually lacks capital and adequate technology, so is unable to extract it. Based on these assumptions, the capital-surplus country makes FDI in the resource-abundance country, thereby creating a new trade in that resource extracted through exportation from the latter to the former. From this perspective, this is a complement case. But the model was however a partial-equilibrium analysis involving one particular industry.

Lipsey and Weiss (1981) first empirically attempted to define this relationship. Applying the gravity model on a data set comprising 14 different industries with 44 destination countries, it was discovered that total demand for goods increases from production in a foreign affiliate. These goods are either final products or intermediate products required for assembly in the host country. With efficient distribution sales services and brand advertisement, the firm producing one specific good in the foreign country can cause an increase for its other products in its product portfolio.

Brainard (1995a, 1998) explored the complementarity between multinational firm activities and international trade. She notes that these firms usually hold an advantage in the form of intellectual property (e.g. trademarks and technologies) that leads to larger market shares and in the process will increase both trade and investment in those markets they operate. She postulates that the share of trade in total sales by a firm to a specific market will be positively affected by firm-level scale economies and investment barriers, but on the other hand be affected negatively by trade barriers and transport costs.

Complementarity between trade and FDI is also studied by Urata (1998) who noted this relationship in his examination on the growth of the electronic industry in East Asia. Results revealed that trade and direct investment in electronic goods grew hand-in-hand in the region. Efficiency seeking FDI whom Dunning (1993) identified as a motive, can be seen as an export-oriented FDI as such FDI aims to benefit from factors that will enable it compete in global markets.

2.7. FDI spillovers and linkages with local firms

One of the main issues related the role of multinationals in economic development is the way in which they interact with the local firms and industries in their host country. As

Multinationals impact directly on the economy, there are those that still have an impact on the host country's local firms. In the multinational-local firm relationship literature, these impacts are known as "spillovers". Spillovers from FDI can be broadly defined as the impact of a multinational firms' presence on the economic performance of local firms (Laenarts and Merlevede, 2011). According to Blomström & Kokko (1998) FDI spillovers are the externalities arising from the existence of multinationals in the local economy. This existence is what forms the theoretical basis for the development of local firms influenced by FDI (Kugler, 2006; Hoekman and Javorcik, 2006).

Spillovers created by FDI occur when the activities of multinationals in the host economy increases the productivity of local firms and the value of these benefits are not fully internalized by the multinationals. Spillovers may occur when local firms imitate the technologies of multinationals and improving their efficiency in the process. Such imitation takes place either through observation, or recruitment of workers already trained by the multinationals. Spillovers may also occur through competition. According to Blomström and Kokko (1998), the presence of multinationals in direct competition with local firms in the host country will force these firms to be efficient in utilizing their resources or search for new technology to improve their performance.

The rationale for spillovers created by multinationals is in the fact they possess superior firm-specific assets (Dunning & Lundan, 2008), which Girma, Görg, & Piso, (2008) argues can be transferred cost free as a result of the public good nature of technology. Dunning (1988) argues that they occur because a firm that internationalizes possesses an intrinsic advantage over local firms in the host country. Multinationals who protect their knowledge, management and information assets in foreign countries do so because the competitive advantage they possess is directly linked to their capacity to limit its diffusion to local competitors. However, a foreign investor at the same time, is not able to, or necessarily interested in limiting the diffusion of its advantages totally to the local environment as spillovers. Higón and Vasilakos (2011) explain that multinationals may not fully internalize all their advantages once they establish a subsidiary in the host economy, and as a result will spill over to local firms. Therefore, it can be said that spillovers occur when multinationals are not interested in, or unable to derive the full value of the resulting productivity increase of their activity in the host economy. There is always a potential for the possibility of significant spillovers on local firms and the economy at large, since multinationals are significantly different from local firms in terms of organizational and managerial capabilities, capital, technology, and access to international markets. As has been established that spillovers are as a result of the presence of

multinationals and their relationship with local firms in the host economy, this relationship has been determined to occur mostly through linkages, of which will be the focus of this research.

The role of linkages in economic development can be traced back to the seminal work of Hirschman (1958) who argued that a lack of industrial development was caused by a lack of linkages in the developing economy. Although Hirschman's argument did not mention the involvement of foreign firms, however this has inspired future research on multinationals and how they promote linkages. From a development perspective, it is assumed that linkages are good for the host economy, and that linkages between a multinational and a local firm is better than no linkages at all (Altenburg, 2000; Scott-Kennel and Enderwick, 2005) Linkages are regarded as indirect effects that a multinational has on a host country's economy through FDI. However it is similar to a direct effect depending on the motives of the foreign firm, and as well as their relationship with the local firm (Dunning, 1993). According to Hansen et al (2009), they are inter-firm transactions extending beyond one-off transactions involving a certain level of collaboration between the transacting parties, in this case a multinational and local firm. Linkages that multinationals develop with their local counterparts have been classified as either vertical linkages, which covers the effects on local firms as suppliers and customers of multinationals, or horizontal linkages which covers the effects on local firms operating in the same industry with multinationals as competitors.

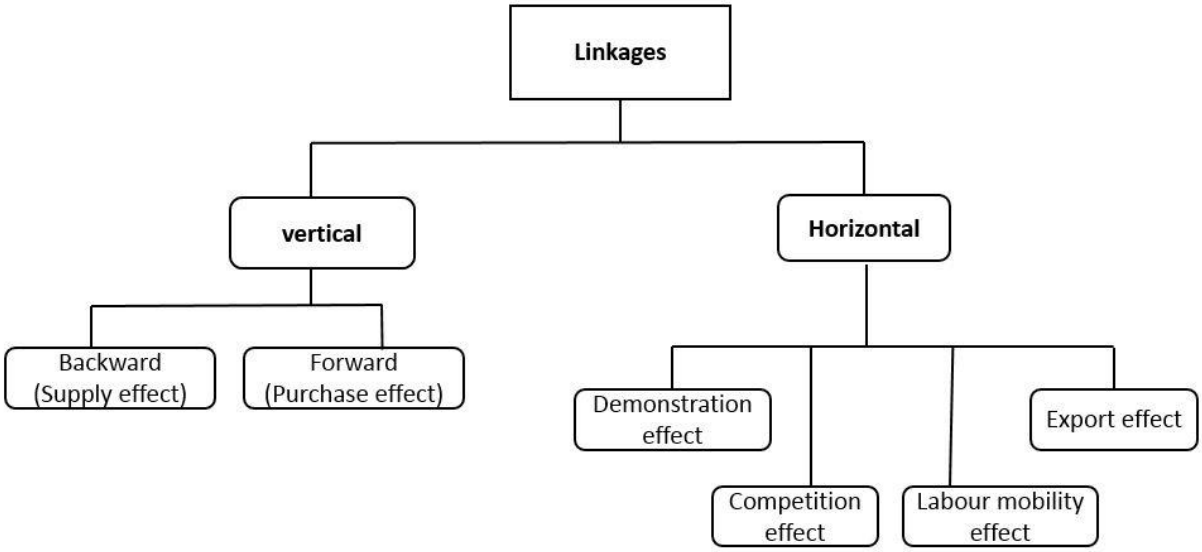

Figure 8: FDI linkage classification and effects

Source: the author's own elaboration based on literature review

2.7.1 Vertical Linkages

Vertical linkages involve market transactions (Alfaro and Rodriguez-Clare, 2003), and are formed by multinationals either through the purchase of goods from local suppliers or the sale of intermediate goods to local firms. According to Blomström et al (2000), they create direct spillovers due to the direct relationship between multinationals and local firms. According to Newman et al (2018) spillovers through vertical linkages are more likely to be positive, since there is less possibility for a conflict of interest to exist between multinationals and their suppliers/customers. Girma et al. (2004) and Günther (2005) claim they benefit local firms more by providing channels that stimulate inter-firm exchange of technology, knowledge and other resources. Dunning and Lundan (2008) refer to the spillovers occurring from vertical linkages as 'pecuniary' externalities. Either by design or not, such linkages occur when a multinational affects the conditions and/or amount of supply, or the demand for other goods and services by a local firm, or by consumers. The transfer of knowledge or incentive structures by a multinational to its suppliers would enable them meet its product quality specifications, and further improve the performance of the supplier firm (Dunning and Lundan, 2008). Even when there is no transfer of knowledge, there might be a production of intermediate products on a larger scale due to increasing demand, which would improve the supplier firms cost of competitiveness.

2.6.1.1 Backward linkages

Multinationals have three strategic options for acquiring inputs when investing in a country. Firstly, they can internalize by producing the inputs in-house. Secondly, they can import these inputs from independent suppliers. Thirdly, they can source these inputs from local suppliers in the country. When the third option is selected by multinationals, they form backward linkages with local suppliers. Backward linkages take place when multinationals source some production inputs from local suppliers in the host country. Arguments have been raised on why multinationals would decide on local sourcing of inputs. For example, Reganati and Sica (2007) points out the high cost of transportation between the host and home country. According to Rodriguez-Clare (1996), the high costs of communication between parent firm and subsidiary is a necessary condition for backward linkages to occur.

Smarzynska (2004) argues that backward linkages are the most likely way through which spillovers would occur. This is because multinationals may benefit from an improved performance of intermediate products from suppliers, as they are mostly engaged in the production of final consumer goods. Therefore, they have no incentive to prevent the diffusion of knowledge to local firms. Spillovers from backward linkages may occur through

i. direct transfer of knowledge to local suppliers from the multinationals;
ii. higher standards requirement demanded by multinationals in terms of product quality, which will incentivize local suppliers to upgrade their technology and improve management; and
iii. an increased demand of intermediate products from multinationals, thereby allowing local firms to achieve economies of scale.

Positive spillovers from backward linkages occur when there is improvement in productivity from local firms that supply inputs to multinationals. This improved productivity is made possible through several channels as identified by Newman et al (2018). The first case is the possibility for local firms to achieve economies of scale due to an increased demand for the intermediate products they supply to multinationals. The second possibility occurs when multinationals demand high product requirements, and local firms compete with each other for foreign customers. This serves as an incentive for local firms to increase their efficiency and improve on their product quality. A third channel for local firms to improve their productivity is through a direct intentional knowledge transfer from the multinationals. According to Kusek and Silva (2017), backward linkages between multinationals and local firms promotes technology and knowledge transfer, including practices and know-how that allows local firms to upgrade the efficiency and quality of their production. Westphal (2002) identified quality control, process improvements, and information on other markets as knowledge that can be obtained from multinationals. According to Pack and Saggi (2000), multinationals expects beneficial effects which explains their motivation in providing proprietary knowledge to local firms.

Reganati and Sica (2007) argue that when backward vertical spillovers take place, the main channels are through the expansion of producer service and linkage externalities. The occurrence of an expansion in producer service is due to the entry of foreign firms, which provides an incentive for local firms to extend their services to them. On the second effect involving linkage externalities, this occurs when foreign firms source their inputs from local

suppliers in the economy, especially when the cost of transportation between home and host country is high thereby making sourcing inputs from abroad unattractive. They further explain that under the event of linkage externalities, multinationals usually assist in management, and also provide training and technical assistance to their local partners. This improves the process in local production, and the quality of domestic products suppliers (Reganati and Sica, 2007).

According to Altenburg (2000), the impact of FDI through backward linkages on local firms is dependent on the type of inputs and the quantity supplied, the terms of the purchase, and the willingness of the multinational to allow knowledge transfer to local firms and develop a long-term relationship with them. In terms of transactional relationship, backward linkages can range from arms-length market transactions to a closer long-term relations, which they may be either direct or through intermediaries.

However there are instances when a positive spillover through backward linkages may be impossible. For positive spillovers to occur, Newman et al (2018) suggest that local firms acting as input suppliers must produce input varieties that are similar to those required by multinationals. A wide gap in technologies between multinationals and local firms tend to result in less backward linkages and lower technological content in the inputs that are locally sourced (Portelli and Narula, 2004). According to Görg and Greenway (2004), the bigger the gap, the less probability the host country will possess the physical infrastructure, distribution network and human capital to attract FDI. Perez and Soete (1988) and Findlay (1978) also noted that the use of innovation requires a certain level of technical and scientific knowledge. This implies that spillovers through backward linkages is dependent on the adaptability and absorptive capacity of the local firm.

2.6.1.2 *Forward linkages*

The relationship between multinationals and local firms in the form of forward linkages are traditionally established in the context of local firms acting as purchasers of the outputs from multinationals. Local firms may increase their productivity due to gaining access to intermediate products produced by multinationals that are in most cases improved or less costly. Multinationals may accompany the sale of these inputs by providing complementary services to local firms.

According to Altenburg (2000), there are three types of forward linkages that a multinational develops with local firms. The first type of linkage is with marketing outlets, which is regarded as the most important. In this case, multinationals which outsource the

distribution of their brand name products usually make a significant investment in the performance of their outlets, for example as in the case of restaurants and automobiles. The second type of forward linkage developed by multinationals are with industrial buyers. This occurs with multinationals producing machineries, equipment or other products and sometimes will go beyond the usual advice on usage and maintenance of the purchased goods, by offering after-sales services. The third and final type of forward linkage is that which is formed when multinationals produce goods for secondary processing. These goods are usually commodities such as agricultural raw materials, and natural resource minerals.

2.7.2 Horizontal linkages

Horizontal linkages formed the initial interest in FDI spillovers where local firms absorbed and copied technologies and knowledge from multinationals operating in the same sector or industry. Also known as intra-industry spillovers, they are spillovers that occur between multinationals and local firms operating in the same industry or sector. Spillovers from horizontal linkages have been referred to by Dunning and Lundan (2008) as "non-pecuniary" externalities. They occur as a result of unintended technology transfer from the multinational to a non-affiliated local firm, and can come in the form of demonstration effects, labor market exchanges, reverse engineering, or participation in local trade associations and consortia (Moran, 2001; Saggi, 2002; Dunning and Lundan, 2008), which in turn affects the performance of local firms (Castellani & Zanfei, 2006). For example, unrelated local firms may adopt managerial approaches, marketing practices and new production technologies that may have been applied by multinationals. In addition, former employees of multinational firms may bring dynamism and their experience into local firms who hire them. These scenarios are different from a situation where multinational firms formally transfers technology or licensing, or provides training. Hansen and Rugraff (2011) further adds that multinationals may use their organizational and financial influence in pushing for a further development of the host country's business regulations and infrastructure, which may also benefit the local firms.

2.6.2.1 *Demonstration effect*

The first channel through which spillovers from horizontal linkages occur is the demonstration effect. Also known as "imitation" effect, it occurs when the products and practices of multinationals are imitated and reverse engineered by local firms (Saggi, 2002). It is an important channel through which knowledge spillover takes place (Görg and Strobl, 2001; Görg and Greenaway, 2004). The presence of multinationals can cause a demonstration effect whereby local firms become exposed to and familiar with advanced marketing and management practices, as well superior technologies used by them. As a result, local firms are able to observe and imitate them, through reverse engineering for example.

2.6.2.2 *Competition effect*

Competition has been identified as major factor in horizontal linkages and the presence of multinationals (Wang and Blomström, 1992; Kathuria, 2000; Glass and Saggi, 2002). Multinationals will compete with local firms in the same industry unless they have a monopoly status. Their entry will disrupt the already existing equilibrium in the host country's market, thereby motivating local firms to protect their current profits and market share (Blomstrom and Sjoholm, 1999). Even if local firms are not able to imitate the technology or production processes of their multinational rivals, they are still motivated to use their current available technology and resources more effectively and efficiently to increase their productivity (Barrell and Pain, 1997; Blomstrom et al, 1999; Driffield, 2001; Bosco, 2001; Görg and Greenaway, 2004). Competition might also motivate local firms to adopt new technologies or accelerate their speed in imitation.

2.6.2.3 *Labour mobility effect*

Through the training of local employees hired by multinationals, FDI contributes to the development of human capital. According to Aitken et al (1996), this facilitates a diffusion of knowledge that affects different levels of employees in the host country from lower-level workers to top-level managers. Görg and Greenaway (2001) adds that the adoption of new technologies can also occur through the acquisition of human capital from multinationals. Even though multinationals are attracted by the low cost of a location, they still require skilled labour which leads them to invest in the training of local labour. This skilled labour can move on to existing local firms or even establish new firms, as it is impossible to completely lock-in

resources. According to Görg and Greenaway (2001), such movement will increase productivity either through a direct spillover to complementary workers, or workers that carry with them new managerial techniques and knowledge of new technologies.

2.6.2.4 *Export effect*

Multinationals causing an export effect comes from the fact that they are present in many markets, and can serve as a natural channel for information relating to foreign markets, consumers and technology (Aitken et al, 1997; Barrios et al, 2003; Altenburg, 2000 and Greenway et al, 2004). The cost of foreign market access can be reduced as a result of the multinational presence and their activities. Their local concentration will improve the prospects for exporting by local firms, as they benefit from the linkages that multinationals generally maintain with their parent or other firms. Local firms through imitation or collaboration can learn how to enter export markets.

Table 3: Effects from horizontal spillover

Channel	**Sources of Productivity gains**
Demonstration	• Exposure and adoption of new management and marketing practices • Exposure and adoption of new production methods
Competition	• Faster adoption of new technology • Faster imitation of technology • Increased efficiency in resource utilization
Labor mobility	• Movement of workers • Tacit knowledge • increased productivity of complementary labor
Export	• Exposure to new customer markets • Exposure to technology frontier • Scale economies

Source: the author's own elaboration based on literature review

Studies reveal positive horizontal spillovers from FDI are less likely to occur. When multinationals and local firms operate and compete in the same sector, this is an incentive for the former to prevent spillovers and leakage of technology from taking place. According to Getler and Blalock (2008), multinationals would attempt to limit technology leakages to local competitors. This can be achieved through intellectual property protection and trade secrecy (Javorcik, 2004). Other ways spillovers are minimized include payment of higher wages to employees to avoid labor turnover (Aitken et al., 1996; Girma et al., 2001), and locating investments in countries where local firms have a limited capacity to imitate. Blalock and Getler (2008) indicates that while local firms are domestically oriented, multinationals operating in the same industry might be export oriented. Aitken and Harrison (1999) argue that competition may also negatively affect the efficiency of local firms as the entry of a multinational into the market may lead to a significant loss in market share for these firms, thereby forcing them to operate on a lower efficient scale, with an increase in their average cost as a consequence. Iršová and Havránek (2013) concludes that horizontal linkage spillovers are economically not important.

Chapter summary

This chapter discusses the various literature of FDI. FDI flows have increased and still forms the largest part of international investments. It has also shown to be more resilient than other forms of external finance as observed during the recent financial crisis. There have been mixed performance of FDI over the years across regions and sectors. Most of the times the sectors and the regions are interrelated. For example, the African region which normally have a big primary sector experienced a drop in FDI flows as a result of the fall in commodity prices.

FDI is “the flow of funding provided by an investor or a lender (usually a firm) to establish or acquire a foreign company or to expand or finance an existing foreign company that the investor owns and controls” (Pugel, 2009). As the definition implies, FDI can either take place by building a production facility from the ground up (Greenfield) or acquiring an already existing production facility (M&A). Motives for investing abroad can be viewed from the foreign investors and the host country perspective. Investors motives for seeking natural resources, new markets, efficiency or strategic assets while the host country are either import-substituting, government-initiated or export-increasing. FDI are of three types which can either be in a horizontal form which engages in the establishment of production facilities to produce

goods specifically for the local markets in operates, in a vertical form where some parts of the products are manufactured in that country to take advantage of the economies of scale that is gained from cheap raw materials and labor, or an export platform arrangement where production facilities are set to produce goods for another market different from the local one.

FDI is considered an important tool for economic development and many developing countries try to attract FDI due to the perceived positive effects it will have on their economy. The effects that are expected to occur on the economy include the increase in employment, an increase in exports revenue from the utilization of the resources available in the country, a spillover of knowledge and technology and a linkage with domestic firms to increase their productivity. On employment effects, many researchers agree that FDI and employment have a positive relationship and an inflow of FDI in a host country's economy will create jobs for the populace (Hill, 2000). These effects are either direct or indirect. A direct effect occurs when the citizens of the country are directly employed by the multinationals. Indirect effects on the other hand, is when jobs are created by local suppliers due to investments and also as a result of local spending by the MNC's employees. According to the OECD (2008), 3% of the global workforce were employed by the foreign affiliates of multinational firms in 2006, almost three times more than in 1990. This is a confirmation that an increase in FDI leads to an increase in the number of jobs created by multinational foreign affiliates. There is also the tendency that multinational firms pay higher wages than the domestic firms for the same jobs. The rationale behind this correlation is that foreign firms attract the best qualified workers by paying them more as they apply better technologies. While it is well documented that FDI enhances productivity as well the upgrading of local firms technology, this however depends on the local firm's absorptive capacity. Improved productivity will also depend on the nature and conduciveness of the firm's external environment for innovation to allow an agglomeration of economies.

On the relationship between FDI and local firms, the literature reveals that multinational activities causes spillovers that mostly benefits local firms. These spillovers are created through linkages and are either horizontal or vertical in nature. Spillovers from horizontal linkages occur when local firms operating with multinationals in the same industry benefit from unintended knowledge and technological transfer through imitation of their rivals in their operation processes or labour mobility. Spillovers from vertical linkages on the hand, occur as a result of a deliberate assistance from the multinationals to the local firms in their transactional relationship where the local firms are either suppliers (backward) or buyers (forward) of intermediate products.

CHAPTER 3
FDI ENVIRONMENT IN NIGERIA

This chapter discusses the economy of Nigeria and the country's FDI environment. An overview of the economy is presented through a historical timeline and sectoral analysis. Next will is the analyzing of Nigeria as an investment destination and how the country attracts FDI through its economic and regulatory policies, including the role of the Nigerian Investment Promotion Commission (NIPC). The chapter will also discuss the challenges facing the Nigerian investment environment and identify the sources of FDI inflow into Nigeria based on their country of origin.

3.1. Overview of the Nigerian Economy

Nigeria is regarded as a mono-product economy as the country depends on oil to drive its revenue generation. The country relies heavily on crude oil sales for over 90% of its revenue leaving its economy exposed to external shock. However it should be noted that while oil is its major export, its contribution to GDP is low. In fact, according to the GDP report by the Nigerian Bureau of Statistics (2017), oil sector contributes only 8.68% to GDP while the non-oil sector contributes 91.32%.

Nigeria is Africa's biggest oil exporter and also possess the continent's largest natural gas reserves. It also has abundance of other natural resources like gold, coal, iron ore, lead, etc. The country also has an abundance of arable land and rich water resources, which is ripe for agricultural exploitation and an opportunity for foreign investments in the agricultural sector. With more than 84 million hectares of arable, only 40% is cultivated. There is also 230 billion cubic meters of water in addition to reliable rainfall across more than two-third of its territory.

Nigeria's GDP grew at an average rate of 5.7% annually between 2006 and 2016. However the economy entered into a recession in 2016 due to a drop in oil prices. The volatility in oil prices drove growth to a low of -1.5% in 2016 after hitting a high 8% in 2006. This is of no surprise as oil prices have continued to dominate the growth pattern of the economy and the boom-bust oil price cycle was experienced both in the 1970s and the mid-1980s. Before the discovery of oil in the country in 1956, agriculture was the mainstay of the economy but a focus on oil has led to the decline of its non-oil sectors.

With a population of over 190 million people, Nigeria has the largest population in Africa and one of the youngest population in the world and is projected to surpass the USA as the 3rd most populous country in the world with more than 400 million people.

3.1.1 Historical timeline

Pre-oil period until 1956

Prior to the discovery of oil in 1956 and emergence of the petroleum industry and before the independence from the British colonial rule, the economy of Nigeria was primarily agrarian and the non-oil sector dominated the investment activities and attracted the most FDI in the economy. Agriculture was the main dominant economic activity of the Nigerian people and accounted for more than 70 percent of the country's source of revenue before its independence. During this period, up until the 1950s, the country had an attractive record of food sufficiency with a surplus for export. According to Edeogu (2009), the imperial expansion through the establishment of subsidiaries of state trading companies overseas or colonialism formed the basis for foreign investment. Foreign companies such as Leventis, United Africa Company (UAC), etc. were hosted by Nigeria and involved in the purchase and exportation of cash crops. According to Daramola et al (2007), 60-70 percent of Nigeria's export were accrued to agriculture. The country was a net exporter of rubber from the south-south region, oil palm and palm kernel from the eastern region, cocoa, and coffee from the western region, groundnut, hide and skin from the northern region, and other cash crops with economic value. However this era did not last beyond the 1960s as the country began a slide into an abysmal import dependence.

Oil discovery 1956

Whereas the search for oil in Nigeria began at Araromi area in present day Ondo State in 1908 by then Bitumen Corporation, a German company (Afe, 2008), the company was forced to suspend its activities in Nigeria in 1941 as a result of the Second World War. However, oil was discovered in commercial quantity at Oloibiri in modern day Bayelsa State in January 1956 by Shell BP (Fregene 1998). A second discovery was made shortly afterwards, towards the end of the same year at Afam in Rivers State. With a production of 6,000 barrels per day, the first Cargo crude oil left the shores of the country in February 1958 contributing 0.08% of the country's revenue. Due to the success of Shell in the 1950s other companies joined in the oil exploration notably Mobil, Gulf (Chevron), Safrap, (later Elf), Philips Great Basins Texaco

Overseas and Union, Tenneco (later Texaco) and Agip (Fregene 1998). Overtime, the number of both local and international companies prospecting for oil increased.

However a lot of was to come politically, economically and socially as the country gained her independence in 1960 and also the discovery of oil few years back. Also, to ensure the survival of the young countries, various policies were adopted. The discovery of oil and boom thereafter meant that other non-oil sectors especially agriculture began to receive less and less attention. According to Ifeanyi et al (2008), there was a shift in focus towards the exploration and extraction of oil and the returns that came with it. Nevertheless, after independence, earnings from agriculture exports in variety of cash and food crops still sustained the country's economy for the first 12 years until the oil price boom in 1973.

Oil boom in the 1970s

In 1973 there was an oil boom and the accelerated rise in the global oil prices led to a sudden inflow of wealth. With the discovery of oil in commercial quantities in the late 1960s, the country experienced a high influx of foreign exchange earnings. It replaced cocoa, peanuts and palm products as the biggest earner of foreign exchange. Nigeria became the seventh largest oil producer in 1971 and also joined the Organization of the Petroleum Exporting Countries (OPEC). The country was able to recover quickly from the civil war thanks to the oil boom in the 1970s. Much of the revenue earned was intended for economic diversification but a significant part ended up in few pockets. During this period, the government increased public spending and embarked on unrewarding projects which did not translate into development or have any benefit to the people as there was no meaningful impact.

But however, it also encouraged inflation and underscored the inequities in distribution. After prices began to move downwards as there was a sudden fall in global demand, production fell sharply until OPEC intervened to raise oil prices with the full backing of Nigeria on OPEC polices. After the collapse of oil prices in 1982, the real interest rates began to rise as well as inflation. There was a strict rationing of foreign exchange as it began to dry up and the possibility of rescheduling debt.

As at this period, about 70 percent of commercial companies in the country were foreign-owned. The government issued an indigenization decree in 1972, representing some of the first number of Nigerian Enterprises Promotion decrees that restricted non-Nigerians from investing in specific companies and reserved some certain trades for the participation of only

Nigerians. Major foreign oil companies such as Agip, Shell-BP, Chevron, Texaco and Exxon-Mobil operated in the oil sector in partnership with the Nigerian government. The federal government purchased 60 percent of the equity in the marketing operations of the major oil companies in the country. However as a means to further its indigenization program, full nationalization was rejected (AFDB, 2005)

Subsequent military regimes benefitted from the skyrocket oil prices and inflow of oil revenue that increased 350 percent between 1973 and 1974. Oil revenue accounted for over 95 percent of the country's foreign exchange and 65% of its budget revenues (Pinto, 1987).

Structural Adjustment program (SAP) 1986-1992

In the mid-1980s, the Nigerian economy began to enter into a crisis as the world oil markets contracted. To address the dire situation and the problem of declining oil revenues, a Structural Adjustment Program (SAP) was introduced by the government. The program combined exchange rate with trade policy reforms and also stabilization policies as well. While the reforms on trade policy was aimed at rejuvenating the non-oil sectors of the economy, the stabilization policies were designed to bring back an equilibrium to the balance of payments. In general the aim of Nigeria's SAP was to assist in the promotion of economic efficiency and private sector development as a basis for improving the long-term growth prospects. Efforts were made by the program to reduce the size of the public sector and improve the management of government owned assets. Steps were taken towards deregulation of the banking system, the country moved forward with a privatization program and also removed price controls, eliminated import licenses and also marketing boards. The non-oil (agriculture, industrial, service) sectors began to revive amid the adoption of the SAP and there was an overall economic growth during the period of implementation from 1986-1992 with an average growth of almost 5% per annum.

However not all the policies from the SAP promoted economic growth. Some specific dynamic segments of agriculture were depressed due to extension of export bans as the manufacturing industries were also negatively affected by import restrictions. In addition, most of the policies were either implemented partially or abandoned half way. Minimal progress was made in restoring fiscal discipline, and there was an upward pressure on prices due to the resultant monetary expansion which also exerted a downward pressure on the country's naira currency.

Nigeria's GDP grew at an average rate of 5.7% annually between 2006-2016 as its growth reached as high as 8% in 2006 and as low as a negative growth of 1.5% in 2016 due to volatile oil prices within that period. While the country's economy has performed in recent years much better than the late 1970s or mid-1980s when it experienced a similar boom-bust oil price cycle, the growth pattern of the country is still determined and dominated by oil prices.

Economic recovery and growth plan (ERGP) 2016- Present

In the second quarter of 2016, the Nigerian economy went into a recession due to the sharp and continuous decline in the price of crude oil, along with the failure of the country to diversify its revenue and foreign exchange sources. Other challenges that contributed to or facilitated the recession included the sabotage of oil production and this impacted on the export earnings and revenue of government, as well as the capacity to prevent the contraction of the economy fiscally. There was a constraint on the country’s capacity to spend by a lack fiscal buffers that would serve as shock absorbers. Also, corruption and inefficient spending in the past led to leakages of public resources.

In an effort to reposition the Nigerian economy and take it out of recession, the government designed an Economic Recovery and Growth Plan (ERGP). There are three broad strategic objectives of the ERGP that will aid in achieving the vision of an all-inclusive growth. The first objective according to the plan is "Restoring growth" and to restore growth Nigeria aims to achieve macroeconomic stability and economic diversification. To achieve macroeconomic stability the external balance of trade will be improved, monetary stability will be ensured and fiscal stimulus will be undertaken. In similar fashion, economic diversification will be achieved by focusing on key sectors driving and enabling economic growth with special attention paid to agriculture, energy and Micro Small scale enterprise led growth in manufacturing, industry and major services. The second objective of the plan is "Investing in our People". This will be done through social inclusion which involves investing in social programs and amenities that will provide support for the society's poorest and most vulnerable members. Interventions to create jobs and reduce unemployment especially among the young people are a core part of the ERGP. This will be done through the adoption of jobs and skills program to make them employable and also to empower them. Partnerships for creation of jobs will lay emphasis on policies required to enable diversification and growth of the economy with a focus on Made-in-Nigeria, public procurement that considers local content and production

processes which are labor intensive. The third and final objective which is to ''Build a Globally Competitive Economy" aims to restore the country's economic growth and to lay the foundations for the development of a strong private sector that can innovate and respond to opportunities globally. The plan aims to remove the obstacles that hinder the Nigerian businesses competitiveness which include but not exclusive to a harsh business environment and a poor or non-availability of infrastructural facilities. The Nigerian business environment has been difficult and opaque, and contributed to cost of doing business which has been a disincentive to both local and foreign investors alike. The country will improve the business environment and invest in infrastructure with emphasis on road, rail, ports, power and broadband networks. Taking into account the huge financial commitment needed to address the large deficit in infrastructure, the private sector will be involved and expected to play and important role through a public private partnership (PPP) with the government. To improve the business climate, there must be a transparency in regulatory requirements, faster processing times and general business-friendly economy. The Doing Business Report of the World Bank will be used to track progress as the country aims to break into the top 100 countries in the Doing Business index by 2020.

3.1.2 Sectoral Analysis

Oil and Gas

The oil sector in Nigeria is undoubtedly the most important sector of the economy. Nigeria is regarded as a mono product economy that relies heavily on crude oil sales which is estimated to be 90% of the country's total exports. With a proven reserve of 38 billion barrels of oil and 187 trillion cubic feet of gas, Nigeria is the tenth largest oil producer in the world and the seventh largest owner of proven gas reserves. As earlier discussed, this was not usually the case before oil discovery in the country. While the oil sector remains a large contributor to government revenues and exchange earnings, it accounts for only 10% of the country's GDP. As previously discussed a focus on oil led to a decline of all non-oil sectors, which seems to be the case until today.

The country has faced numerous challenges from its overreliance on oil. Oil price volatility, especially a fall in global oil prices has affected its oil earnings which makes it difficult to access foreign exchange for the importation of other goods. After a decline in oil price to $27 per barrel from an all-time high of $147, the country entered into a recession in

2016 for the first time in 25 years. The decline in oil price is not the only threat facing this sector which is the main revenue source. New oil deposits discovered in former non-oil producing countries have put pressure on the country's oil supply. A shift to alternative sources of energy such as wind and solar has garnered momentum in many countries. On the internal threats, the disruption in oil production by militants located in the oil producing region has led to the inability of the country to meet its production and sales target.

Manufacturing Sector

The manufacturing sector in Nigeria cover a broad spectrum of activities ranging from light agro-based to heavy iron and steel industries. Prior to independence and the discovery of oil, agriculture was the mainstay of the Nigerian economy as has been previously discussed. The economy was mostly an agrarian one in production for both domestic consumption and export. The manufacturing activities then were limited to the semi-processing of primary agricultural goods as supplementary to the trading activities of foreign companies. Plants for vegetable oil extraction and refining, tobacco processing, starch making, saw milling, raffia crafts were some of the Agro-based manufacturing units that were established. Later on other units such as breweries, textiles, rubber processing, cement and plastic products followed.

Manufacturing accounted for 10% of economic output in the country before the 1970s prior to the oil boom. The relative share of GDP from the sector began to decline as increased revenue from oil began to flow in. The sector still grew but at a much slower rate. With a decline in oil prices in the 1980s followed by a recession after, the manufacturing sector once again received attention from policy makers and a prime focus was geared towards steel production.

Micro, small and medium enterprises have traditionally dominated manufacturing in Nigeria in terms of job creation, and employed 5.3 million Nigerians mostly in agro-processing and textiles/apparels.

The manufacturing sector in Nigeria accounted for 9.5% of the country's GDP in 2015. The sector grew at an average growth rate 13.3% between 2010 and 2015. This is almost three times the growth experienced by GDP at 4.8%. However, when compared to other emerging economies like Morocco (18%), South Africa (13%), Indonesia (21%) and Mexico (18%), the size of the manufacturing sector in Nigeria remains small. The largest sub-sectors in the manufacturing industry are agro-processing (45 per cent of total in 2015) comprising of food, beverages and tobacco, light manufacturing, comprising textile and wood products (31 per cent), and resource processing, which includes cement and basic metals (18 per cent).

While the sector enjoyed sustained growth from the period 2010-2015, in 2016, at the onset of the economic recession, the sector contracted significantly by 7 per cent in the first quarter and 3 per cent in the second. This volatility reflects Nigeria's reliance on access to foreign exchange for import of intermediate goods and raw materials, and highlights the need to diversify and support manufacturing to boost growth and employment, and limit the industry's exposure to external shocks.

The Economic Recovery and Growth Plan aims to improve the performance of the sector by doubling the sectors contribution to GDP. This will be done through the development of special economic zones to attract investments away from economies experiencing a decrease in labor cost advantage and also to revamp its local industries that have been affected as a result, for example the case of dumping of goods into the country.

Agriculture

Agriculture has been an important sector in the Nigerian economy either a major employer of people, or its contribution to GDP, or its potential as a major source of revenue. There are four sub-sectors under agriculture: crop production, livestock, fishing, and forestry. Crop production accounts for 90% of total out while the remaining 10% is derived from forestry, fishery and livestock activities.

The Nigeria agricultural sector is the country`s single largest economic sector. This sector accounted for 24.4% of total GDP in 2016, a rise from 23.1 percent in 2015 and employs almost 40 percent of the working population. Before the discovery of oil, agriculture was the main stay of the Nigerian economy. The sector accounted for 57% of the total GDP from 1960 to 1969, and generated more than half of the total country`s export earnings during that period averaging 64.5% (Verter and Becvarova, 2016). According to Daramola et al (2007), between 1950 and 1970 accounted for 60-70% of the country`s export, and its main agricultural exports included groundnut, cocoa, rubber, palm kernel, rubber, etc.

From 1970 up until late 2000s, the contribution of this sector to the country`s GDP was on a steady decline along with the export earnings. The fall in oil prices causing a significant decline of export earnings from crude oil has renewed interest in agriculture as an alternative source of export revenue and has revived the conversation of agriculture having a critical role in the diversification of the economy. Four big challenges have been identified that needs to be addressed: little access to finance and inputs to farmers, limited access to national and international markets for agricultural outputs, climate change threats and the security threats to

investments in agriculture arising from destruction of farmlands by herdsmen, cattle rustling, and kidnapping.

Mining

The mining sector in Nigeria is a big yet underdeveloped sector of the economy. It has received little interest from the government despite its potential in contributing greatly to the GDP and helping to diversify the economy. In the 1960s up to early 1970s, the country was a major exporter of columbite, tin and coal but like the agricultural sector, activities in the mining sector suffered a decline in the mid-1970s due to a shift of focus towards the exploration and production of crude oil.

Nigeria is endowed with a vast reserve of many solid minerals. This includes, but not limited to precious stones, metals, industrial minerals and energy minerals. There are more than 40 types of minerals in Nigeria and is spread across the country. However, not all the minerals are available in commercial quantities. Some of these minerals include gold, silver, iron ore, lead, granite, marble, gypsum, talc, lead/zinc, gemstones (emerald, sapphire, ruby, amethyst, zircon, tourmaline, topaz, etc.), barite, bentonite, limestone, lithium, etc.

Mining activities in Nigeria are quite rudimentary and are mostly carried out by unskilled, unlicensed individuals and small entrepreneurs, a situation that aggravated degradation of the environment, caused erosion and excessive pollution, exposed involved parties to health hazards and other uncontrollable risks. On a financial and economic level, there is a loss of revenue from royalties and taxes due to the unofficial structure of the sales channels that is overshadowed by smuggling and distribution cartels. Between 2014 and 2015 $9 billion was lost to the export of proceeds from illegal mining activities[12]. Overall, mining activities in Nigeria is undertaken by the informal sector and the contribution to GDP is less than 1%. Nevertheless the Nigerian government has targeted the solid minerals sector to contribute 10% to the GDP by 2020.

Apart from the unsophisticated nature of the mineral exploitation, and the illegal mining and export of solid minerals, the sector is facing a challenge of security. Some of the major mineral deposits are found in the Northern part of the country that is fraught with security issues. Mining activities in these areas are reduced due to continuous ethnic conflicts and terrorism. Furthermore, the lack of security has hindered the much needed foreign investment into this

[12] According to the Nigeria Extractive Industry Transparent Initiatives (NEITI) the revenue lost to illegal mining is linked to mostly unpaid licensing fees and royalty to the government.

sector. The small scale and artisanal miners' and the large scale industrial miners indiscriminately carryout extensive mining activities without any consideration to the environment and other users. These mining operations are mostly surface mining carried out with little or no advanced technology to manage the environment degraded by the mining operations (Oladipo, 2006). Increasing environmental damage is made worst by the fact that most of the miners undertake their operations illegally and have no official permission and their areas of operations are not known to government officials (Ahmed, 2013).

Previous studies have shown that solid mineral exploitation constitutes more than 1% of Nigeria's GDP as most of the mining activities are still mainly carried out by the informal sector with over 95% of mining activities carried out by artisanal and small scale miners, out of which 95%are illegal (Uzoka, 2001). The country was a major exporter of tin, columbite and coal in the early 1970s. Like in the agricultural sector, activities in the mining sector nose-dived considerably when crude oil production began to take the center stage, and became a major source of foreign exchange for the country.

However, strategies have been created by the government to develop the mining sector in meeting its intended objectives. The government aims to create an enabling environment to promote investments towards iron/steel, energy minerals and gold/gemstones. To do this the infrastructure network needs to be strengthened through the update and integration of the mining transportation and power requirements in national implementation plans. The government plans to ensure that there is a capacity to ensure a steady supply of talent by building local technical and managerial skills. The perception of the investment climate needs to be clarifying the tax and regulatory system and also address gaps and conflicts in government legislation by working the legislatures both in the states and at the national level.

Service sector

The Nigerian services sector is at the moment among the fastest growing in the country and the African continent in general. According to UNCTAD (2015), the sector grew in double digits from 2009-2012.

After the rebasement of the GDP figures in 2014, services accounted for 55% of total GDP and almost 60% in 2015 (Timmer et. al., 2015) Pre-rebased GDP, oil and gas production traditionally dominated the economy, accounting for between 30-40%. With the rebased figures, the services sector has been revealed to be one experiencing a major growth as subsectors such

as telecommunications, entertainment, information technology, airline, banking and the informal economy are now accounted for but not previously in official statistics.

Since the 1990s, the was a significant shift in the sector with the rapid rise the number of mobile telephone subscription as a result of the liberalization of the telecommunications sector and issuance of mobile telephone licenses in 2002. A resurgence in the banking sector also accompanied the growth of the service sector where there was an extensive consolidation (Iwuagwu, 2014). The services sector in Nigeria is the largest contributor to the country's economy accounting for over 55% of the GDP. From 2010-2015, this sector grew at an average of 5.8% per year.

As part of its diversification plan, and to attract much more foreign exchange while also creating jobs, a focus on developing certain services sub-sectors was prioritized as these sectors were identified as follows: telecommunications and information and communication technology (ICT), financial services, tourism and creative industries.

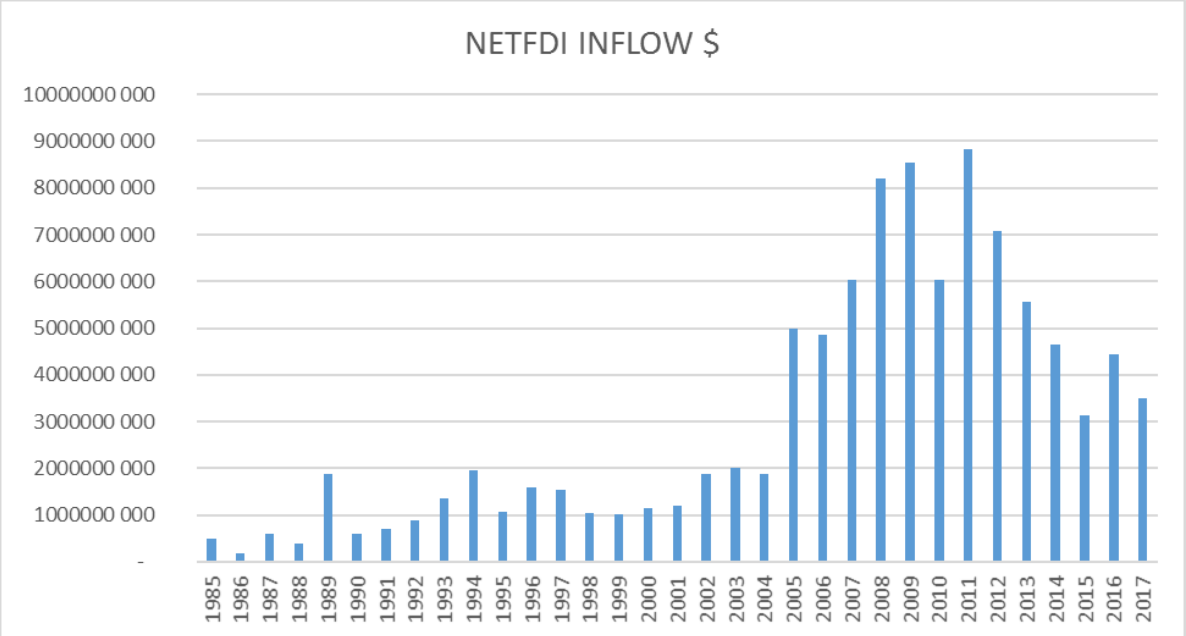

Figure 9: FDI inflows (1985-2017)

Source: World Bank

In summary, the inflow of FDI has increased over the years as the capital flow is becoming more diversified. Other sectors besides are attracting FDI especially due to their ties to market size. As a result, the value of FDI in total is on the increase as show in the figure above.

3.2. Nigeria as an Investment Destination

Nigeria has a range of country specific advantages that makes for an attractive destination for investment, and will give foreign investors a competitive advantage. From its natural resources, large market, geographic locations to its available workers, investing in Nigeria will open access to these factors.

Natural Resources: Nigeria is richly endowed with a range of natural resources spread across the 36 states in the 6 geopolitical regions of the country. Nigeria has an abundance of arable land and rich water resources, which is ripe for agricultural exploitation and an opportunity for foreign investments in the agricultural sector. With more than 84 million hectares of arable, only 40% is cultivated. There is also 230 billion cubic meters of water in addition to reliable rainfall across more than two-third of its territory. The country has a comparative advantage and is a major producer of certain agricultural products like cassava, cocoa, and yam. It is the largest producer of cassava in the world, accounting for 20% of global production with 50 million tons (FAO, 2018). Despite these huge amount of available arable land, there is still a reliance on imported food, and according to a PWC (2017) report, Nigeria's food import bill stands at $5 billion.

Nigeria is the fourth largest cocoa producer in the world and although Nigeria lags behind the Ivory Coast and Ghana in cocoa production, the country still has available land to expand and increase production unlike the other producing countries where the prospects for increased cultivation is low. With a growing demand for cocoa products like chocolate for example, there is great opportunity for investment.

Besides its oil and gas, the country is home to significant deposits of resources such as coal, lead, iron ore, tin, zinc, and lime stone. However, many of these minerals are still very under exploited in comparison to the extent of deposits that are discovered in the country, and it is estimated that the commercial value of the country's solid minerals run into hundreds of trillions of dollars. Nigeria is also home to many precious metals and gemstones such as gold, sapphire, emerald, and ruby which are in commercial quantity.

Large and Growing population: Nigeria has a large population and one that will continue to grow according to statistics and reports. With a population of about 197 million people as at 2017, Nigeria has the largest population in Africa and is the 8th most populous

nation in the world. The country's growing population is seen as very attractive which indicates the availability of labor and serves as a catalyst for market-seeking investments.

Strategic geographical location: Nigeria's strategic location geographically makes it a gateway for the expansion of trade across the rest of Africa, while also serving as a natural trade hub between America and Asia. Favorable trade agreements with countries such as the USA have encouraged some Asian businesses to locate production in Nigeria where they also benefit from lower custom duties on their exports to the United States.

3.3. How Nigeria attracts Investments

The Nigerian government has over the years adopted several policies to attract investments into the country. Among them is the structural adjustment program (SAP) implemented in the mid-1980s. The SAP entailed the liberalization of various sectors of the economy, using tax incentives to attract foreign investors to the manufacturing sector, liberalization of both the exchange and interest rates, and privation of several state-owned enterprises. These policies were implemented to increase the FDI flows into the economy by providing an enabling environment.

Export processing zones

One of the many trade policy instruments used to promoting non-traditional exports is the export processing zones (EPZs). They were part of the first initiatives promoted among developing countries with the goal of economic diversification and increasing the growth of their exports. The Newly Industrialized Countries of East Asia were among the first generation to serve as locations for EPZs. Investors were provided with remissions on import duties raw materials and inputs, improved and adequate infrastructure, and an acceleration of procedures for customs clearance. There were meaningful impacts generated by this strategy, and this encouraged majority of developing countries to adopt same. An export processing zone as described by the World Bank is an "industrial estate, usually a fenced-in area of 10 to 300 hectares that specializes in manufacturing for export. It offers firms free trade conditions and a liberal regulatory environment."

The NEPZA is an agency of the Federal Government of Nigeria that is responsible for the promotion and facilitation of both domestic and foreign investments into licensed export processing zones in the country. It was established under the Nigeria Export Processing Zones Act 63, of 1992 and is under the supervision of the Federal Ministry of Industry, Trade and Investment. The export processing zones were set up to improve the investment environment in Nigeria by stimulating business activities that are export-oriented through favorable and consistent strategic national economic policies, efficient administrative approval processes and a one-stop-shop service for interested businesses.

Import Substitution Policy

The Import Substitution Industrialization Strategy has been used by developing countries who plan to industrialize and shift from the production and export of primary commodities. Import substitution involves the production of goods of goods at home that would have been imported. There advantages that comes with this strategy. The first advantage is that the risks involved in establishing or setting up an industry to replace imports are low or reduced. This is because the market for the industrial product already exists (Salvatore, 2012). Secondly, it induces foreign firms to set up so-called tariff factories in order to overcome the tariff wall of developing countries. A third advantage of accruing from import substitution is that it makes it easier for developing countries to protect their own markets than forcing industrialized countries to open theirs (Carbaugh, 2004).

The Nigerian government has continued to promote import substitution policy as a result of several factors. The first reason is the belief that restrictions on trade and local contents requirements will attract FDI as well domestic investment that will develop local capacity to manufacture products and services that would have been imported otherwise. This is might be a justifiable policy considering the fact that Nigeria is a large market for goods and services and if it possesses comparative advantages in certain factor endowments then the import substitution strategy could attract market-seeking FDI. For example, a ban on rice importation in 2016 has already seen investments of more than $1 billion in farming and milling (Bloomberg, 2018). The second reason for promoting an import-substitution strategy is to reduce the demand of foreign exchange to import certain goods during times dwindling foreign exchange reserves as a result of falling oil prices.

However, this policy has been seen to be ineffective. Despite the import bans and high tariffs, there are many cases of smuggling of targeted products[13] especially through the country's porous land borders, thereby undermining goals of the policy. Also, the policy has been rife with corruption, most notably in the import quota systems that was developed to encourage domestic investment.

Fiscal Investment Incentives

There are various incentive programs that are provided and maintained by the Nigerian government to attract foreign investments into the country. For example, the Industrial Development/Income Tax Relief Act Number 22 of 1971 (amended in 1988) makes available incentives to pioneer industries that are identified as beneficial to the economic development of the country and to industries which are labor-intensive. Nigeria grants a five-year 100% tax holiday to firms that obtains a pioneer status. A firm may be granted a seven-year tax holiday if it is located in areas that are economically-disadvantaged including a 5 percent capital depreciation allowance over and above the initial capital depreciation allowance. There's a 30 percent concession of five years for industries who source 60 to 80 percent of their raw materials locally and 15 percent tax concession for investments that employ modes of production which are labor-intensive. There are also additional tax incentives available for investments that go into domestic research and development, for local value-added processing, in solid minerals and oil and gas, and also for investors who invest in disadvantaged local government areas (LGAs), and a number of other investment scenarios.

Foreign Ownership and Control

Nigeria allows for a 100% foreign ownership of investments except those related to national security, reversing the indigenization policies it enacted in the 1970s and 1980s. The aim of the indigenization policy was to increase Nigerians participation in the economy by transferring foreign holdings. According to Ogbuagu (1983) the goal of the policy was to move FDI towards intermediate and capital goods, and to reduce the concentration of foreign investments in non-durable consumer goods. This led some foreign investors (for example Lever Bros, Dunlop, Metal Box Ltd and The United Africa Company) who were affected by

[13] Rice smuggling is still common and it has been difficult to police unofficial borders. This is enabled by the fact that the domestic producers are struggling to meet the growing demand in a country with more than 190 million people.

this policy to issue shares on the Nigerian stock market. Other foreign investors such as IBM, Citigroup, Chase Manhattan Bank, etc., reacted by pulling out of the Nigerian market altogether.

After initial steps were taken in the late 1980s to open the economy, the government established the Industrial Coordination Committee (IDCC) in 1988. The Nigerian government partially re-opened many sectors of the economy to FDI after it introduced a major amendment in 1989. Foreigners were allowed once again to invest in a list of activities on the condition that they were in compliance with the investment in a project totaling N20 million (equal to $2.7 million as at 1989). In addition, the ownership interest of citizens would be at least 40 percent. In respect to the establishment of new businesses with foreign interests, the IDCC is tasked with coordinating the grant of business permits, incentives and expatriate quotas.

In 1995, the Nigerian government to further attract FDI, adopted one of the most liberal policies in Africa. The NIPC Act of 1995 enacted by the government liberalized the business ownership structure in Nigeria and virtually opened all areas of the economy to foreign investments, a total deviation from the indigenization policies that severely restricted FDI. With the exception of the oil and gas sector where investments is limited to production sharing agreements and joint ventures, there are no limits on foreign control of investments in the country. This means that as opposed to earlier arrangement which favored Nigerians in a 60 percent-40 percent ownership agreement, foreign investors can now own and control a 100 percent of shares in any company. Foreign investors are also restricted from businesses relating to national security such as ammunition and firearms, and military and paramilitary wares. The Act of the NIPC also protects foreign investors from the act of expropriation and nationalization except in cases of national interest.

The laws of Nigeria apply equally to both foreign and domestic investors alike, including tax incentives and both set of investors are largely treated the same. Some of these laws regulating foreign investments in the country include; the Central Bank of Nigeria Act of 2007, Money Laundering Act of 2003, Investment and Securities Act of 2007, Electric Power Sector Reform Act of 2005, Foreign Exchange Act of 1995, Banking and Other Financial Institutions Act of 1991, the National Office of Technology Acquisition and Promotion Act of 1979, the Nigerian Oil and Gas Content Development Act 2010, Nigeria Extractive Industries Transparency Initiative (NEITI) Act of 2007 and the Nigerian Minerals and Mining Act of 2007.

3.4. The Role of the Nigerian Investment Promotion Commission (NIPC)

While many countries across the globe have continually used the approach of attracting FDI to grow their economy, the techniques on how to do it is another issue. Improving the macroeconomic and microeconomic indicators in the country are some of the widely accepted ways necessary for attracting FDI in addition to economic liberalization. However, these approaches while a necessity, may not guarantee the attraction of FDI. This has therefore brought to the forefront the concept of investment promotion. Investment promotion is defined by Michal (2000) as "effort by a government to communicate to foreign investors the nature of the country's investment climate, and to persuade and assist these investors to invest, or reinvest in the country." Investment promotion is based on the intervention of government in the economy. They are regarded as a variety of activities, most of which look like marketing, and is used by to attract FDI. Activities covered by investment promotion include advertising, direct mailing, provision of market information, seminars on investment, participating in and organizing trade exhibitions, identifying potential investors, preparation of itineries for visits of prospective investors, acquisition of permits and approvals from several government departments, one-to-one direct marketing efforts, conduct of feasibility studies, preparation of project proposals, providing post-investment services to investors and matching future investors with local partners.

According to Trnik (2007), there are two basic approaches to investment promotion; neoclassical approach and interventionist approach. The neoclassical approach to investment promotion is based on the reasoning that investors will automatically seek out investment opportunities in a host country if it creates a favorable investment environment. The interventionist approach on the other hand, argues that it is not enough due to market failures that are linked to information gaps. An example is the UK Trade and Investment (UKTI), formerly called the Invest in Britain Bureau that was created based on the premise of information problems. It was discovered in the late 1970s according to research that American investments were going to Germany instead of the United Kingdom (UK) where it would have traditionally gone. It was concluded by the UK authorities that this was as result of wrong perceptions of events happening in the UK as portrayed by the media. Therefore it was important to counter the incorrect perceptions by creating an institution responsible for providing accurate information to foreign investors on the developments in the UK and also coordinate other subnational Investment Promotion Agencies to produced better results for the

country in general. In Nigeria, the responsibility of promoting investments and its coordination lies with the Nigerian Investment Promotion Commission.

The Nigerian Investment Promotion Commission (NIPC) is directly responsible for investment promotion and its coordination, and serves as a One-Stop Investment Center (OSIC) which involves the participation of 27 government and parastatal agencies for the purpose of streamlining and consolidating the administrative procedures for the establishment of new businesses and investments. An OSIC is a mechanism for facilitating investment by bringing all relevant government agencies together in one location, coordinated and streamlined to provide services to investors that are efficient and transparent. It reduces and simplifies the administrative procedures for the issuance of permits and licenses, business approvals and company incorporation, thereby cutting red tapes that investors face in the attempt to set up and run a business, and most importantly reduce the cost of doing business in the country.

The NIPC also provides information and statistical data on the economy of Nigeria, legal and regulatory framework, investment environment as well as information that are industry and sector specific in order to help prospective and existing investors make informed business decisions (NIPC, 2003). In addition, the NIPC is tasked with ensuring that the maximum benefits from the deregulation and liberalization policies of the national economy are realized. It is also the responsibility of the NIPC to unceasingly work to improve and launder the image of Nigeria internationally with tailored messages to reduce the negative perception of the country.

The NIPC however is not without its challenges. The ability of the NIPC to attract new investments into the country has been limited due to a lack of support both political and policy wise, and as a result of the unresolved challenges to foreign investments and doing business in Nigeria.

3.5. Challenges facing the Nigerian Investment Environment

Nigeria as an investment destination has always been attractive for foreign investors in search of large consumer markets, availability of low cost labor and the access to abundant natural resources. However, there are still challenges hindering the inflow of FDI and despite the attractive factors earlier mentioned, other factors like political instability, lack of transparency, poor infrastructure quality, insecurity and corruption are limiting the FDI potential of the country.

3.5.1 Terrorism and Insecurity

Nigeria in recent years has suffered economic losses due to acts of terrorism and general insecurity across the country. Quoting the encyclopedia of the social sciences, Braithwaite (1988) defines security as the "ability of a nation to protect its internal values from external threat and also the ability to protect lives and properties of its citizens and residence in such countries." Besides the loss of lives, terrorism will negatively affect investment behavior. Anderson and Marcouiller (2002) describes terrorism as equivalent to a hidden tariff or tax that generates price mark-ups. According to Frey et al (2007), when there is a direct destruction of infrastructure and a rise of operational cost due to a high demand for security, foreign firms and countries may withdraw their investments. This in turn will lead to loss of jobs and capital. According to Keefer and Loayza (2008), the economic dimension of terrorism constitutes loss of output, trade losses, and losses in FDI, decrease in tourism, damaged infrastructure and reduced economic growth.

Terrorism which breeds insecurity, has devastating effects on life and property, and also the economy as a whole. This is irrespective of whether it is transnational or domestic. It is important to differentiate terrorism from other forms of insecurity due to the dynamics in which it occurs. Violence or the threat of violence to frighten or intimidate people is the central focus when terrorism is defined. Terrorism may emerge as a result of conflict situations borne out of religious and ethnic rivalries, economic inequalities, or government repression. Terror groups are either classified as non-state supported, state-sponsored or state-directed groups (US Department of State, 2002). While both state-sponsored and state-directed groups are usually backed by foreign nations, non-state supported terrorist groups are special-interest groups that are deemed to lack special skills and training but are usually small. However, their tendency to be involved in ideological zealotry and ability, to garner sympathy and support both locally and internationally makes them dangerous as they could mobilize funds from private individuals with large personal wealth. Motives may differ between terrorists, but a standard pattern of action is still followed with the incidents of terrorism taking diverse forms; bombings, suicide attacks, airplane hijackings, threats, assassinations and kidnappings. All these incidents have a negative impact on FDI of any country.

Enders and Sandler (2008) argues that developing countries are more likely to be affected by the economic ramifications of terrorism, and Nigeria is no exception. Abadie and Gardeazabal (2003) adds that this will lead to a loss in FDI and GDP growth. Insecurity prevents growth and development from taking place, which will lead to a reduction in GDP and cause

inflation. It may also divert economic resources from highly productive sectors to less productive ones, thereby crowding out investment in the process. Insecurity across the country has impacted negatively on the Nigerian economy and its investment environment. The country have suffered losses in properties, infrastructures and human lives, which have disrupted economic activities and pushed out the positive effect of FDI (Osemwengie and Oriakhi, 2012). Dialoke and Edeja (2017) identified some militant activities to include illegal oil bunkering activities, kidnapping, hostage taking, attack on military and attack on water ways or continental waters.

Radical Islamic insurgence in the northern part of the country have also contributed to the challenges facing the business environment. The terror group Boko Haram has been responsible for thousands of deaths over the years and their activities have affected economic activities in the north. While their activities have not directly affected foreign investments in the country, they significantly contributed to the negative image of Nigeria as an unfavourable destination for investment. Their main activities include attacks on lives and property, kidnapping and hostage taking. According to Enders et al (2006) terrorism is anticipated to reduce FDI. Therefore, it is important that the Nigerian government invests' in its security infrastructure for a more favourable and attractive investment environment.

3.5.2 Inadequate Infrastructures

It is no secret that a lack of quality infrastructures in Nigeria has been a major challenge for both local businesses and foreign investors operating in the country. Despite the attractiveness emanating from its large market and natural resources, the country's ability to attract more investments beyond market and resource seeking has been limited. Foreign investors prefer to operate in an environment with good quality infrastructures. According to Wheeler and Mody, (1992); Demirhan and Masca, (2008), infrastructure consist of physical infrastructures such as communication and transportation facilities, as well as regulatory systems and services which are regarded as institutional facilities. An environment with good infrastructures is viewed by investors to providing a facilitating and supporting atmosphere for their projects. According to Kinda (2010) and Mottaleb (2007), good infrastructures reduce transaction costs and increases productivity in the process. It lowers the cost of transportation and facilitates the movement people and goods. It also provides for investors with supply and demand channels, an efficient and effective medium for communication.

According to the Global Competitiveness Report by the World Economic Forum (2018), Nigeria ranks 124th out of 140 countries on infrastructure. The index ranking broadly covers

the quality and extension of transport (road, rail, water and air) and utility infrastructures. Nigeria's infrastructures have suffered neglects for many years, thereby restricting its economic performance. Power infrastructure development is moving at a slow pace despite huge investments from the government, the roads in the country are dilapidated with many potholes, 80 percent of all shipping traffic occur at the Lagos sea port, making seaport is congested, and railway transport is underdeveloped. In order to increase the country's attractiveness as an investment destination, as well as its competitiveness, Nigeria must address its infrastructure needs. Efforts are being made in that direction. To ease congestion, the country is building a new deep-sea port, and a new railway to the ports in order to speed up cargo evacuation.

3.5.3 Corruption

Corruption is a global problem that is not peculiar to any country but however can vary in dimensions. It also poses a problem for economic activities and can be an obstacle to the inflow of FDI. Several studies have shown corruption negatively affects FDI (Woo, 2010; Samimi and Monfared, 2011; Brada et al., 2012; Pupovic, 2012; Tosun et al., 2014; Quazi, 2014). Applying a panel regression method, Woo (2010) evaluated the impact of corruption on FDI inflows in 90 countries from 1984 to 2004 and findings reveal that corruption had a negative influence on FDI inflows. Samimi and Monfared (2011) on the other hand, applied same method in their study of the effect of corruption on FDI in 16 member countries of the Organizations of Islamic Cooperation from 2002 to 2008, and found corruption is negatively correlated with FDI inflows. Findings from Pupovic (2012) using a questionnaire to investigate the impact of corruption on FDI in Montenegro revealed a negative effect of corruption on FDI inflows.

The theory explaining corruption and FDI can be traced to the grabbing hand and helping hand[14] theories. The grabbing hand theory as it relates to FDI is described by Bardham (1997) as the increase in transaction costs for investors. It is related to the payment of bribe to local officials for permits, licenses, contract awarding, etc. These payments increases the cost of investments, and the effect is a reduction in returns.

[14] Corruption from a „helping hand" perspective is argued to promote FDI by "greasing the wheels of commerce" in an economy where the legal system is feeble and porous (Bardhan, 1997). This argument has earlier been explained by Lui (1985) who stated that corruption can accelerate business decisions and productivity by helping to evaded problematic government regulations.

Corruption in general is identified as one of the main problems of contemporary Nigeria (Adeyemi, 2012), According to Omodero and Dandago (2018) it is present in every aspect of the Nigerian economy, becoming a natural phenomenon in everyday business transactions. They argue that this has negatively affected both local and foreign investments in the country. A study by Sorunke (2015) reveal that corruption adversely affects FDI in Nigeria and suggested that efforts towards reducing such incidents are intensified. According to findings, foreign investors relocated or considered relocation of their investments from Nigeria to other countries where corruption activities are less frequent.

Corruption also has qualitative costs as argued by Zhao, Kim and Du (2003). According to them, the reputation of a country can be lost on the international stage if perceived as corrupt. This perception can negatively influence investment decision making. The corruption perception index (CPI) from Transparency International for example, is a score that ranks countries on the perception of their public sector as corrupt by business executives and experts. Nigeria has performed badly on the CPI, ranking 146 out of 180 with a score of 26/100. Bribery is a major corruption activity in Nigeria especially in the bidding of contracts. Report from businesses reveal that it is common practice to bribe customs and officials at the port, in order to reduce and avoid clearance delays.

3.6. Sources of FDI into Nigeria

Nigeria attracts FDI from a diverse pool of sources originating from several countries across different continents. Some of the main investing countries in Nigeria include the USA, China, United Kingdom, the Netherlands and France. Investor activities in the country are also diversified across sectors and industries.

To illustrate the diverse nature of FDI in Nigeria, the table shows some of the major multinationals and their country of origin.

Table 4: Some multinational investors in Nigeria

Multinational Investor	Country	Industry
Mondelez	USA	Food processing
Chevron	USA	Oil and Gas

MTN	South Africa	Telecommunication
Diageo	UK	Beverage
Nestle	Switzerland	Food processing
Procter and Gamble	USA	Consumer goods
The GB Foods	Spain	Food processing
Shandong Ruyi Group	China	Textile
British Airways	UK	Aviation
ENI	Italy	Oil and Gas
Total	France	Oil and Gas
Shell	Netherlands	Oil and Gas
Friesland	Netherlands	Dairy products
KPMG	UK	Professional service
Airtel	India	Telecommunication
Marriot International	USA	Hospitality
Olam International	Singapore	Agri-business
Unilever	UK/Netherlands	Consumer goods

Source: the author's own elaboration based on literature review

Chinese FDI in Nigeria

The economic complementarities between Nigeria and China has been a driving factor in the growing relationship between both countries. Although this relationship has existed since the 1960s, the influx of capital investments from China into Nigeria became significant in the early 2000s after the 'Going out' policy initiated by the Chinese state government to promote Chinese

investments abroad. According to the world investment report from UNCTAD (2006) focusing on FDI from developing and economies, the purpose of the 'Going out' policy or strategy was to promote "the international operations of capable Chinese firms with a view to improving resource allocation and enhancing their international competitiveness".

Nigeria on one hand has an infrastructure deficiency that have posed a challenge to its development, and China is one of the leading countries with a strong construction industry that is very competitive with experience in the civil works category. On the other hand, China's large economy which needs to be sustained with natural resources that far outstrips their domestic supply see Nigeria with abundant oil resources and mineral deposits as a major source of supply. This has seen an increased investment in the oil sector by China and also a lot of financial assistance going to Nigeria for the purpose of upgrading their infrastructural capacity mostly carried out by Chinese owned companies. Nigeria is considered a strategic investment destination for China and was selected for the six pilot economic trade and cooperation zones at the Forum on China–Africa Cooperation (FOCAC) in 2006. Two out of the six proposed free trade zones (Ogun-Guangdong Free Trade Zone and Lekki Free Trade Zone) were ultimately established in Nigeria for the purpose of attracting Chinese FDI and providing the opportunity for the country to learn from the experience of China in establishing special economic zones (Bräutigam and Xiaoyang, 2012).

According to Oyeranti et al (2011), roughly 75% of FDI from China went to the oil and gas sector. However, there have been an expansion into other sectors of the economy. Nnanna (2015) identified the manufacturing sector as one of the fastest growing sectors beside the extractive industry that attracts Chinese FDI. However he further explained that this is a threat to local manufacturing firms as they face competition from Chinese multinationals. Chinese multinationals are more competitive than Nigerian firms, and have better skills and infrastructure (Nnanna 2015). As a result, he suggested FDI policies that protect manufacturing and other industries should be made.

Below is a table summary of major Chinese investments in Nigeria

Table 5: Summary of Chinese investments in Nigeria

Year	Month	Investor	Quantity in Millions $	Sector	Subsector	Greenfield/ Acquisition
2006	January	CNOOC	2 270	Energy		

2010	November	China Merchants and China Development Bank	150	Transport	Shipping	
2010	December	China Railway Construction, Nanjing Government, China Development Bank, and Guangdong Xinguang	1 910	Real estate	Property	G
2012	September	China Power Investment	130	Energy		
2012	November	Sinopec	2 500	Energy	Oil	
2018	April	China Energy Engineering, Power Construction Corp, Sinopec	5 790	Energy	Hydro	G
2018	April	China Great Wall	550	Technology	Telecom	
2018	September	Shandong Ruyi	200	Other	Textiles	G

Source: Chinese investment tracker (2019)

Chapter summary

The ability of Nigeria to attract FDI is to an extent tied to its abundant natural resources and its growing population, making attractive for natural resources seeking and market seeking investments. This was observed right from the discovery of oil in the country. At the same time, the agricultural sector which drove the economy pre-oil was neglected. This has had negative consequences for the economy as the country has suffered from external shock and depletion of foreign reserves. However the idea of diversification has not been lost albeit slow in policy implementation.

In an attempt to attract FDI into the country, Nigeria has adopted several policies over the years. These policies include the offer on incentives, possibility of 100% foreign ownership, the establishment of special economic zones and the import-substitution plan. Through the establishment of an investment promotion agency, the government directly promotes Nigeria as a favorable investment destination. Sources of FDI inflow into Nigeria is diversified in terms of country of origin, as investors in Nigeria span across continents from Asia to North America. These investors also invest in different sectors of the economy regardless of country origin.

Despite the effort, challenges still remain. Poor and inadequate infrastructures, insecurity in certain parts of the country, and corruption are the main challenges facing the country. But steps have been taken to address these issues.

CHAPTER 4
RESEARCH OBJECTIVES AND METHODOLOGY

This chapter discusses the methodology used in the research, in terms of answering the study's research questions achieving the objectives. It covers the data collection methods, methodological approach and data analytical tools for the research.

4.1 Research Objectives

The main objective of this research is to investigate the impact of FDI on the Nigerian economy including the relationship between local and foreign firms. Specifically, the research studies the impact of FDI on GDP and exports, and the effect of FDI linkages on local firms. In achieving these objectives, the research through a review of literature discussed important themes such as the determinants of FDI, the effects of FDI on host countries' economies, and the Nigerian investment which include how the country attracts FDI.

4.2 Research Questions

1) What is the relationship between FDI and Nigerian GDP?
2) What is the impact of FDI on Nigerian export?

These two questions will be answered with the use of Quantitative methods.

1) How does FDI affect the performance of local firms?
2) What type of spillovers occur between MNCs and local firms?
3) In what ways do local firms benefit from FDI spillovers?

To answer research questions no 3,4,5, qualitative method is used.

4.3 Research Hypothesis

H1. There is a correlation between FDI and GDP growth in Nigeria

H2. The inflow of FDI has a positive effect on exports

H3. FDI-linked local firms in Nigeria act as input suppliers to multinationals

H4. Spillovers transferred to local firms in Nigeria through FDI linkages are vertical in nature

4.4 Research Approach

When supporting the description of a research methodology, it is necessary for the research to have a research paradigm with the relevant research approach to the study. There are two approaches available for the author to choose from. They are the deductive and inductive approaches. The deductive approach is an approach that uses theory to establish a hypothesis for research. This implies that a hypothesis is developed by the researcher out of previous findings like from literature reviews for instance, or through the experience of the researcher, or from previous observations. Deductive approach is informally known as the "top-down" approach, as deductive reasoning works from a general perspective to the specific. To address a problem, a variety of data is collected by the author for the purpose of either confirming or rejecting the research hypothesis (Gill and Johnson, 2010). This is followed by observing and testing of the hypothesis through the sampling of data and information. This finally ends with a confirmation. The second approach which is the inductive approach, is a complete reversal of deductive approach. This means that under the inductive approach, there is no need for the development of a pre-determined theory if data is to be collected. In this approach, the direction of the research can be changed, even after the research process have been started by the researcher, thereby making this approach more flexible (Bernard, 2011).

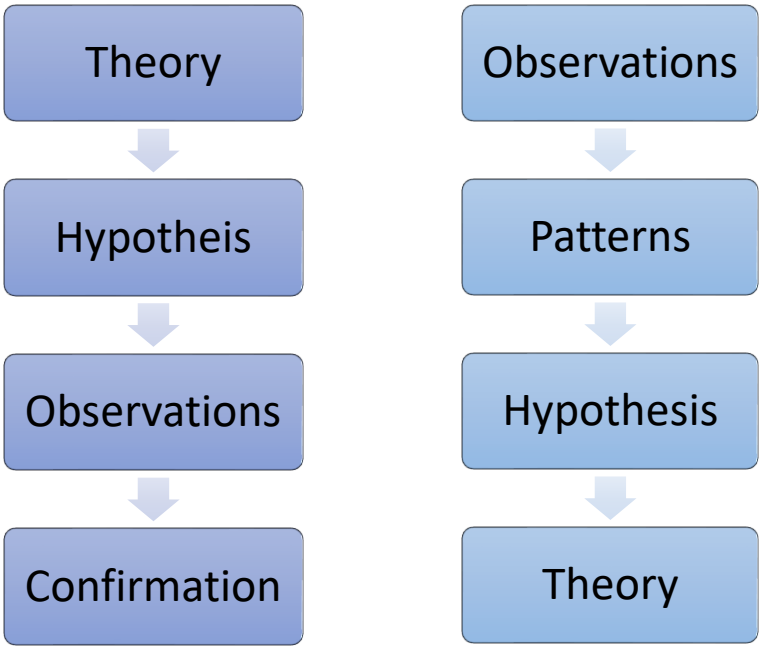

Figure 10: Deductive and Inductive approaches

Source: the author's own elaboration based on literature review

This research will apply the deductive approach for its analysis where the research questions and objectives have been formulated using existing theory and literature. The deductive approach has one of its main characteristic as one applied in a study that aims to explain the relationship between variables. The author intends to study the impact of FDI on the Nigerian economy and determine what relationship FDI has with certain aspects of the economy. To do this, the author collected data from various sources on the plausible impacts FDI can have on the economy. Through this information, the author developed various hypothesis for the Nigerian outcome. To test and confirm or reject the hypothesis, various data analysis tools relevant for the research were adopted to produce the results.

4.5 Mixed Methods Research

This research aims to measure the effects of FDI on Nigeria's economy and understand how FDI contributes to the country's economic development. Measuring the economic effects of FDI accurately have been difficult due to the fact that growth depends on several factors and because these factors are affected by FDI. There are two general approaches to analyzing the effects of FDI. The first approach is an econometric analysis of the relationships that exists between the inward flow of FDI and the different measures of economic performance. The second approach is the qualitative analysis of some specific aspects focused on the contribution of FDI. Analyzing FDI and economic development using econometric methods have been of long-standing tradition. However, the conclusions from the analysis can be unclear as some may reveal a positive impact and the others remaining agnostic. On the other hand, the analysis of FDI using qualitative methods is more practical and appealing. The notion is that there are positive and negative effects brought by FDI. The challenge is the separation of these effects, taking measures to maximize the first ones while minimizing the others.

Research in social sciences can be approached in two ways or a combination of both; quantitative or qualitative (Bryman and Bell 2003). This study combines both methods. A mixed methods research design refers to the procedure used for collecting, analysing and combining both qualitative and quantitative data and methods into a single study in order to understand a research problem. The main purpose of combining both methods is to expand on the scope of the study, strengthen the conclusions, and contribute to literature.

Mixed methods is chosen for this study in order understand the impact of FDI through statistical analysis and from a holistic perspective.

Mixing both methods can be beneficial in understanding a complex intervention. A qualitative approach can address how the intervention is used in practice with the outcomes, and the quantitative approach can be used to measure those outcomes. According to Plano Clark & Ivankova (2016), it enables a researcher to reach more rigorous conclusions by mixing two methods in a way that the strengths of both methods offsets the weakness of each other. This implies that there are areas where a qualitative approach is strong while a quantitative approach is weak and vice versa.

Selecting the quantitative method for this study was justified because the research will involve an empirical exploration of the quantitative aspects of FDI effects on the economy, and determine the relationship between variables. To gain an insight into impact of FDI on the activities of domestic firms, a qualitative method is adopted. Consequently, this research adopts a combination of both qualitative and quantitative research methods so as to provide a comprehensive analysis on the impact of FDI on selected aspects of the economy.

4.5.1 Rationale for mix methods

The rationale for this study adopting a mixed method approach is for "expansion". This study aims to explore and expand insights into the impact of FDI. The research addresses different aspects of this phenomenon by exploring the nature of interaction between FDI and the Nigerian economy, but also the strength of these interactions. The final results and discussion will present a more complete perspective of the FDI phenomenon which is lacking in most studies. One of the reasons for using a mix methods for this study is to address the range of research questions, which allows for an expansion rationale. As earlier presented, the research questions and objectives will be answered using both quantitative and qualitative methods. The quantitative phase of the study aims to determine the effects of FDI on GDP and exports and the qualitative phase explores the effects of FDI on local firms in Nigeria. In using a mixed method, one approach will be more appropriate in answering a type of question, and another approach is appropriate in answering a different kind of question (Dawadi and Giri, 2021). Expansion enriches and provides detail to the study by integrating procedures to present a broader insight on FDI and how it impacts on the economy.

4.5.2 Research philosophy: Pragmatism

This philosophical backing for choosing mix methods research is pragmatism. Pragmatism promotes freedom in the choice of research methods that are best suited to answer a research question, and multiple methods can be used but their usage must be guided by the research problem. It bridges the divide between qualitative and quantitative methods, and Feilzer (2010) suggests that the main issue is if the methodological approach helps the researcher in achieving their objectives. According to Creswell & Plano Clark (2011), the pragmatist philosophy in research "is pluralistic and oriented towards what works and 'practice". This simply means that objective and subjective knowledge are both valued in meeting the research objectives.

4.5.3 Research design

A convergent parallel mixed methods design is used in this research, and so both qualitative and quantitative data are collected and analyzed independently, and then integrated during the interpretation. Priority and equal status was placed on both studies. Quantitative data included timeseries data of GDP, exports, FDI and other independent variables. Qualitative data included responses to interview questions from participants. Findings from both studies will be converged at the intepretation phase where meaning will be provided.

4.6 Quantitative research: Effect of FDI on GDP and Exports

The quantitative research aspect of the study aims to determine the impact of FDI on the Nigerian economy by examining the effect the FDI on GDP and exports. The research questions to be answered in the section of the research are;

1) What is the relationship between FDI and Nigerian GDP?
2) What is the impact of FDI on Nigerian export?

A quantitative research method applies a measurement process that will assist the author in the prediction of relationships in the phenomena being investigated. According to Yin (1994), this method allows for a more comprehensive approach to explore the research topic. This is because, it provides the opportunity for the researcher to collect quantitative data that is relevant

to the study. These data are empirically analyzed using statistical, mathematical and computational techniques. According to Burns & Grove (2005), this method is used to describe variables, determine the cause and effect between variables, and also examine relationships among variables. The research questions for the quantitative study falls in the category of relationships as they will be concerned with trends between variables (Onwuegbuzie and Leech, 2006). The questions aims to first examine the relationships between the variables (FDI, GDP and exports), and then test the significance of the relationship.

Using this approach is worthwhile when there is availability of ample literature and data about the subject matter, thereby making the creation and verification of a hypothesis straightforward. It also helps to prevent a situation where the available evidence does not focus on the initial question of the research. To reduce error and eliminate bias, studies are chosen at random. According to Patton (1990), it also has a deductive characteristic, which involves contribution to knowledge by testing theories.

4.6.1 Data collection

To answer the research questions and achieve the objectives, the quantitative aspect of the study will make use of data collected from secondary sources. The research will also obtain statistical data from the Central Bank of Nigeria (CBN), World Bank, the International Monetary Fund (IMF) and the Nigerian Bureau of Statistics (NBS)

Table 6: Description of data variables

Variables	Description
FDI	Net FDI inflows
GDP	Total productivity
Exports	Total exports
Exchange rate	Currency value of the Naira to the Dollar
Oil price	Oil price on the international market
Labor force	Total labor force

4.6.2 Data analysis

The quantitative research will make use of measurable data for the formulation of facts and for uncovering any patterns in the research. It will involve data gathering and analysis, as well as the result evaluation. Quantitative data can be collected through various means and one way is through longitudinal studies which the research will make use of a lot. Variables of economic performance that will be measured against FDI include exports and the gross domestic product (GDP).

Table 7: Variable data (1990-2019)

Year	Net FDI inflows	GDP	Export	Labour force	Exchange rate	Oil price
1990	587 882 971	54 035 795 388	14 550 381 538	32 058 465	8	23
1991	712 373 362	49 118 433 048	13 140 203 698	32 859 513	10	19
1992	896 641 282	47 794 925 815	12 843 759 891	33 652 634	17	19
1993	1 345 368 587	27 752 204 320	11 072 588 287	34 548 217	22	17
1994	1 959 219 858	33 833 042 988	9 829 969 085	35 482 256	22	16
1995	335 842 165	44 062 465 800	3 840 512 882	36 439 785	22	17
1996	499 276 809	51 075 815 093	5 279 477 113	37 320 907	22	20
1997	469 577 020	54 457 835 193	4 878 570 067	38 262 439	22	19
1998	299 566 658	54 604 050 168	2 808 064 127	39 254 783	22	13
1999	1 004 915 631	59 372 613 486	13 855 883 974	40 317 120	93	18
2000	1 140 167 556	69 448 756 933	20 965 436 459	41 372 859	102	28
2001	1 190 618 644	74 030 364 472	19 644 892 959	42 380 692	112	24
2002	1 874 070 753	95 385 819 321	18 137 444 461	43 326 706	121	25
2003	2 005 353 563	104 911 947 834	27 448 726 478	44 414 245	129	29
2004	1 874 060 887	136 385 979 322	38 102 757 792	45 524 729	134	38
2005	4 982 533 930	176 134 087 150	56 994 046 167	46 722 817	132	53
2006	4 854 353 979	236 103 982 432	59 232 839 787	47 913 307	129	64
2007	6 036 021 405	275 625 684 969	67 494 191 531	49 159 600	126	71
2008	8 194 071 895	337 035 512 677	88 008 517 741	50 457 057	119	97
2009	8 555 990 007	291 880 204 327	58 393 121 276	51 778 077	149	62

2010	6 026 253 091	361 456 622 216	82 699 269 305	53 136 654	150	79
2011	8 841 062 051	404 993 594 134	102 437 485 784	54 538 708	154	104
2012	7 069 908 428	455 501 524 575	98 523 783 918	53 684 327	157	105
2013	5 562 857 987	508 692 961 937	99 418 985 596	52 793 935	157	104
2014	4 693 828 632	546 676 374 568	84 587 155 224	53 691 627	159	96
2015	3 064 168 904	486 803 295 098	49 047 768 016	54 559 255	193	51
2016	4 448 732 917	404 650 006 429	38 447 540 356	55 288 066	253	43
2017	3 502 999 131	375 746 469 539	50 847 986 749	56 831 352	306	53
2018	1 997 485 165	397 190 484 464	66 038 798 663	58 403 811	306	71
2019	3 299 085 483	448 120 428 859	69 926 720 656	59 873 566	307	64

Source: the author's own elaboration based on statistical data

a) Regression Analysis

Regression analysis is regarded a popular statistical tool used in economics and is a statistical technique for the summarizing of an empirical relationship between a variable and one or more other variables. To determine the impact of FDI on exports, GDP, unemployment and wages in Nigeria, a regression analysis will be used by the study to estimate the relationship between the dependent variable and the independent variables.

b) Correlation Analysis

The main aim of a correlation analysis is to see if there is a co variation between two measurement variables, and to quantify the relationship strength between the variables. Correlation analysis will test and measure the strength of the relationship among the FDI and the tested variables.

c) Descriptive Statistics

Descriptive statistics makes use of methods that are numerical and graphical in nature so as to summarize the information it reveals and present it in a way that is meaningful. It also describes the main features of the data collection. This research will conduct a descriptive statistics to give descriptive conditions of FDI, exports, GDP, labor force, and oil price by making use of the mean, maximum, minimum and standard deviation values.

4.7 Qualitative research: FDI linkage effect on local firms

The qualitative research aspect of the study aims to determine the impact of FDI on the Nigerian economy by exploring the effects of FDI on local firms through its linkages. The research questions to be answered in the section of the research are;

1) How does FDI affect the performance of local firms?
2) What type of spillovers occur between MNCs and local firms?
3) In what ways do local firms benefit from FDI spillovers?

Economic research today is typically conducted through econometrics and mathematical modelling. While these techniques have their advantages, they suffer from the limitation of being distant from the individual economic actors. However, conducting field research will allow for a direct contact with these actors. Helper (2000) argues that fieldwork can be complementary to other methods, whose merits are highlighted as follows;

1. It is not always easy to determine or figure out the strategies or incentives of people by looking at outcomes alone. Therefore, a fieldwork would enable researchers ask people about their constraints and objectives directly.
2. Secondly, through a fieldwork, researchers can explore areas that were limited by minimal data or preexisting theories.
3. Thirdly, the conduct of a field research would facilitate the use of the right data
4. Finally, field research can provide vivid images that promotes intuition.

Görg, and Strobl (2001) asserts that it is difficult to measure productivity spillovers. As explained by Krugman (1991), there are no paper trail left by knowledge flows by which they can be tracked or measured. Due to the inability of quantitative methods to explain how spillovers take place, economic literature mostly focuses on if multinationals affect the productivity of local firms (Görg, and Strobl, 2001).

This approach is advisable where the research question aims to understand a phenomenon or specific event of which the researcher has a limited knowledge of (Ryan, 2002). It explores questions that relates to values, beliefs, human behavior, motivations, person-environment interactions and meaning, mostly from the participant viewpoint as it pertains to the study

(Hammell et al, 2000). According to Yilmaz (2013), the findings from qualitative research depends a lot on context, so therefore it is expected of researchers to keep the outcome from the research in context and report any professional or personal information that could have an impact on the data collection process, including its analysis and interpretation.

4.7.1 Data collection

Primary data collected by the research is qualitative in nature, and was done through the conduct of semi-structured interviews.

a) Interviews

Interviews are discussions between two or more people to achieve a particular purpose, and are based on a conversation whereby questions are asked by a researcher to certain relevant respondents who are required to answer them. Interviews and their use in qualitative research has been well recognized and acknowledged (Yin, 2009). The qualitative research interview with a purpose, seeks to describe the meanings of central themes of the research topic. There are a number of strengths that comes with research interviews. This include being a form of research that is personalized. Other strengths include its flexibility and responsiveness to following up information, allowing access to opinions and views, providing comparative information on complex issues, building contacts, and accessing detail and depth quickly.

Semi-structured interview which this research will adopt is a powerful method that enables the researcher generate data that is rich and contextually situated. According to Burgess (1984), it is a 'conversation with a purpose'. They take place with respondents who have been known to be involved in a specific experience. Using semi-structured interviews for qualitative research is a good way to cover a broad range of topics, but to ensure that important information is not missed during a one-on-one interview. The questions are developed on the basis of an interview guide that specifies topics which are related to the research hypotheses. According to Dinnie (2005), it then focuses on the subjective experiences under study.

The choice of semi-structured interview by the author was justified by the sufficient flexibility it offers when approaching different respondents, and covering the same areas in data collection (Noor, 2008). This is in addition to the fact that it is considered the most common type of interview and one of the techniques used to gather primary data in qualitative research (Bryman, 2007; Robson, 2002). Clough and Nutbrown (2007) argue that the skill and communication of the interviewer are factors that determine the success of an interview.

Data Sampling

As the qualitative aspect of the research aims to understand a relationship, in this case the linkages between domestic firms and foreign firms, the selection of firms for the study were not chosen based on a probability sampling technique that would give each firm equal selection opportunity. Rather the research adopted purposive sampling, which is a non-probability sampling technique as the firms selected from the population were suitable for the purpose of the study. The best way to generalize the findings from a population will be through a random sampling technique. However, Marshall (1996) argued that it is not the best method to use if the author aims to develop an understanding of a complex problem that relates to human actions. The reason for not choosing a probability sampling technique for this study is that such methods can lead to the skewing of data towards specific subgroups, leading to sampling errors (Eisenhardt, 1989 and Patton, 1990). It was therefore recommended by Stake (1995) that researchers select cases which do not pose a problem for the research and are also useful to the research investigation. Qualitative researchers in general are more interested in the process responsible for the outcome, rather than the outcome itself. This is relevant in understanding the position of the participant in research, and their insights of the experience (Price, 2002). The purpose of the qualitative study is to explore and understand the linkage process between FDI and local firms and in respect to the study purpose, the research sought after participants with managerial responsibilities in the agribusiness sector and a business relationship with foreign firms. They were selected because of their significance to the theme of the investigation and particular qualities (Denscombe, 2007), which is beneficial in understanding how FDI links with local firms, and affects their operations.

This research focused on local firms with a transactional relationship with multinationals in the agribusiness sector. The agri-business sector or agricultural industry was selected based on the consideration by the government to promote the sector for investment and export diversification.

The first reason for choosing this sector is due to its importance to the local economy of Nigeria. Agriculture is the single largest contributor to Nigeria's GDP with 24.4% in 2016 while also employing 40% of the working population. However its contribution to GDP was even higher during the 1960s averaging 57% (Verter and Becvarova, 2016).

The second reason for selecting this sector is the country's plan to diversify from oil. Oil sales is the main revenue source of foreign exchange for Nigeria and this has been the case for decades after its discovery. The agricultural sector has been identified by the government as the

key to diversifying the export with the country possessing locational advantages, base but several attempts at diversification has failed and oil still remains the country's main export earner. While this sector is a huge contributor to GDP, its contribution to the country's total export is low.

The author identified FDI as a tool that can assist Nigeria in achieving its diversification goals. The author believes that understanding the process and conditions for spillovers is important, and the research through its qualitative study aims to explore and demonstrate how FDI can contribute to the diversification of the Nigerian economy, and provide insights into why the government should attract FDI and facilitate its contribution.

The author used a combination of methods in finding and contacting participants for the study. The author needed to contact them first of all to determine if they fit the sample criteria, and secondly to find out if they are willing to participate in the study. There is an incomplete database for firms and contacting them was difficult as some were listed but didn't have a full contact address. Few had full contact details and some were not willing to talk or participate. Some sample participants felt I was working for the government. This however is not surprising and my thoughts this behaviour have been confirmed by others. Onugu (2005), and Aremu and Adeyemi (2011) for example noted that government agents continually harass businesses for tax purposes, and sometimes they are extorted of their money by persons who impersonate as government officials. As a result, some of them hide their locations from very public addresses. Due to the experience of the author in the industry, some participants were directly contacted via the author's personal network. The participants were also contacted through third-party associates. Some participants found on a database were also willing to discuss with me based an anonimity which was accepted by the author.

After the findings from the study seemed to be robust with no unexplained phenomena or gaps, as was experienced by the author, Onwuegbuzie et al (2012) argues that saturation has been achieved. The hypothesis can be confirmed and it is easier to construct any resulting theory. With the conduct of 15 interviews, the study achieved data saturation as enough information was available and there was no further possibility for coding the data.

Data Requirement Table

The data requirement table aids the author in developing the interview questions from the literature in a way that the variables and justification for the question are identified. Through

the requirement table, the themes can be easily identified thereby making the data analysis straightforward. The data requirement table will aid the author in developing questions for the interview that will assist the author in answering the research questions and achieving the research objectives.

Table 8: Interview questions and data requirements

Investigative questions	Required variables	Details in which data is measured	Justification for choosing question
Q1. What is your responsibility in the company?	• Position • Job title • Responsibility	Participants position and responsibility in the company	Data collected to ensure the trustworthiness and credibility of participants and to, confirm their membership of the organizations. Also justified in order to identify their level of authority to provide useful information.
Q2. Do have a previous experience somewhere else before working in the current company?	Related experience Unrelated experience No experience	Identification of participants previous experience	The question reveals the participants previous experience to identify if it influences interviewees current management practice.

Q3. Who are your customers?	• B2C (Consumers) • B2B (Local business) • B2B (Multinationals)	Transactional parties doing business with the participants	The question reveals the nature and type of customers
Q4. What business activity does your client do?	• supply of inputs • purchase of inputs • manufacturing • processing	Commercial activities carried out by the participants	The question aims to identify the nature of business activity to determine their sector according to the three-sector model, motivation for investment
Q5. What business activity does your company do for your client?	• manufacturing • processing • supply of inputs • purchase of inputs	Specific transactional activities carried out between participants and multinationals	This question reveals the nature of the firm's relationship with their client including the linkage between them.
Q6. How did you meet your client?	• Direct contact • third party • Government	Match making and business network	The question reveals the mode and channel of contact between partners
Q7. Have you received any request in terms of the product standard from your client?	• product standard • quantity • production change	Transactional requirements and conditions relating to business activities	This question reveals the terms for the fulfilment of the transactional activities between the local firm and multinational
Q8. Has your client	• Knowledge • Technology	Benefits from transactional	This question reveals the changes in

contributed to your company in any way besides the specific business transaction?	• Training • Finance • Productivity • Management • Product quality • Economies of scale	relationships, changes in operational methods	operations and any benefits that has been gained from the linkage and the primary terms of the business relationship (Reganati and Sica, 2007; Kusek and Silva, 2017)

Pilot testing

To prepare for the interview, the author carried out a pilot test. Pilot testing is a key element to the interview preparation as it helps the author to identify limitations, flaws or other weakness within the interview design. According to Kvale (2007), this will enable the author make the necessary revisions before the study implementation. The author conducted a pilot test with participants having similar interests and knowledge as those ones selected for the study. The author will also be able to refine the questions where necessary as a result of the pilot test.

Pilot test study feedback

After the interview questionnaire was piloted by the researcher, the pilot study participants were requested to give feedback. According to one of the participants, they could not answer some questions because they were too long and misunderstood. Several participants also identified the same problem. Other participants consider some questions requiring internal business information as private or sensitive.

The feedback from participants enabled the author reexamine the questionnaire and reframe some of the questions for easier understanding and answering. Other questions were completely removed to prevent misrepresentation. The pilot enabled the author to identify questions that would provide the best data that is relevant to the study. Conclusion from the feedback was that the research needed to simplify the questionnaire and focus on the business relationship between the local firms and multinationals.

Both the pilot and final interview questionnaire can be found in the appendix section of this dessertation.

4.7.2 Data analysis

The study applied multiple qualitative analytical techniques on the data. The main analytical method used for the data is thematic analysis. In addition, thematic analysis was supported with a domain analysis and network analysis. Combining analytical techniques enables the author extract as much meaning from the data as possible to present a holistic view of the FDI spillover process. Investigating the effects of FDI through its relationship with local firms will require a broad understanding of the process, from the formation of the relationships to the effects from the relationships.

Template analysis

As mentioned earlier, primary data will be collected from interviews which the interview guideline will be pre-decided on. The interviews will be recorded and transcribed to ensure sufficient and adequate information is acquired. To make meaning of the information, the research will adopt key words and themes will be used to code each transcript (Saunders et al., 2007). Template analysis is the process that involves the organization and analysis of textual data collected in relation to priori-codes or a set pre-defined theme. According to Crabtree and Miller (1999), the template organization will involve the coding of large amount of textual data in order for the almagamation of segments related to a specified topic, and fulfil the process of interpretation. Gibson and Brown (2009) described a priori codes as general categories that are extracted from the objectives of the research and which would form skeleton on data exploration can be started. These codes enable the author in developing a structure for the data analysis process.

Several advantages have been identified and acknowledged by several researchers (Braun and Clarke, 2006; Edwards and Wolfe, 2007; Brooks et al, 2015) in the use of template analysis. These advantages are as follows:

- It’s a technique that is easy to learn
- Its usage is very flexible
- It’s a convenient technique for researchers with less experience in qualitative research

- It can lead to identifying unexpected insight that would allow for a collective interpretation of the data
- It's a valuable tool that can be used for producing qualitative analysis suitable for policy making
- It can be used to emphasize the relationship and variations across a set of data
- It can offer an "extensive explanation" of the dataset through its application in reviewing key characteristics of large volumes of data.

Coding

Nvivo software is used for the qualitative data analysis of the study, and it enabled the author in translating the concepts emerging from the textual data of the interview transcript into a visual presentation, and illustrating how they link to one another. The adoption of Nvivo for this analysis was of great assistance in promoting theoretical development as the nodes generated were assembled by the author and coded into a wider concept based on meaningful connections.

Hypothesis coding

Based on the choice of a deductive approach, the analysis will apply hypothesis coding. It is appropriate for the testing of hypothesis and the analytic induction of the qualitative data, especially in the investigation of a data to search for explanations, rules and causes. It can be applied in the process of data collection or analysis to either confirm or disconfirm any theories or assertions developed so far.

Thematic application

The coded data was compiled into themes to assist the author in analyzing the data collected from the interview. It is argued by Ryan and Bernard (2003) the identification and classification of themes is a key step in the analysis process. The author can derive themes for the data analysis either from the literature review (Bulmer, 1979) or from whatever can be made out of the data collected, and opinion during the research (Holliday, 2002).

The author adopted Braun and Clarke's (2006) six-phase approach for selecting and analyzing themes. This was carried out through a system of coding that identified themes determined by the occurrence of their frequency within the data.

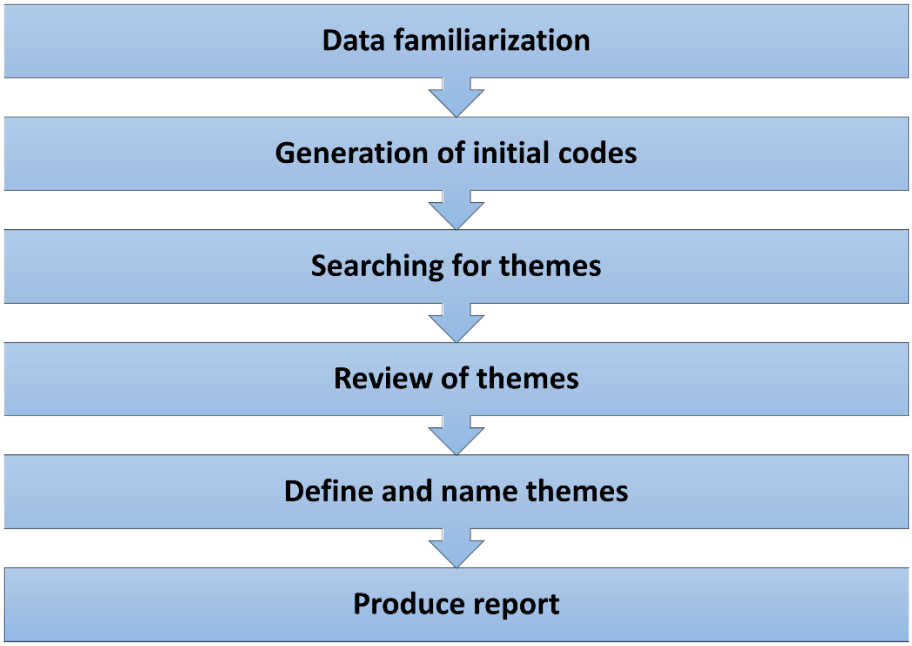

Figure 11: Six-phase approach to thematic analysis

Source: Braun and Clarke (2006)

Data familiarization

The first phase is the familiarization of the data which serves as the foundation for the rest of the phases. Despite possessing some prior information about the data, the author immersed himself in the data. The data was reread repeatedly to ensure it was comprehensively explored in an investigative manner.

Generation of initial codes

The author began this phase with an analytical process aimed at understanding the data. It was important to clarify the difference between codes and themes. Codes are represented as labels the author attached to phrases or other extracts from the data that he considered relevant to the analysis. Themes on the other hand, are regarded by the author as a broader level of categorizations representing several aspects of the data. This phase was manually carried out and adopted a hybrid approach in analyzing the data. The generation of codes was based on the knowledge obtained from previous literature and theoretical perspectives.

Searching For Themes

This phase draw upon the codes generated by the author in the second phase which analyzed towards the development of themes. The author organized generated codes into potential themes, and during analysis a few codes were combined to create major themes. The codes

were finally categorized into themes and sub-themes as the author determined possible relationships between codes.

Review of Themes

In this phase, the author engaged in revising the initial themes constructed through a reflective process. Preliminary themes were modified and their relevance and practicability were assessed in line with the codes.

Defining and Naming Themes

In this phase, the themes were defined based on the discourse of the research. This phase also assisted the author in defining the sub themes and the idea behind them. It also helped in defining the relationships between the sub themes and overarching themes. The names given to the themes were based on the relevant literature, the context of their application, as well as the qualitative data.

Producing the Report

In this stage, the author communicates the complex information and findings that has been incorporated into themes in a manner that is both simplified and persuasive, to convince readers. The findings are presented in a way that is impossible for readers to identify the study participants and the information they disclosed. This stage is carried out in the discussion chapter of the research where the implications of the findings are discussed, and the preconditions or assumptions that led to the themes are questioned. The report will strengthen the analysis by referencing previous literature to build support for why specific themes were selected by the author.

Themes

For this research, certain themes were identified after a review of the FDI linkage literature, which will help guide the research investigation. This is in line with the deductive approach adopted for this research involving approaching the data with some predetermined themes the

author expects to be reflected in it, based existing knowledge or theory. The first theme is linkage formation which identifies the nature of the relationship between the multinational and local firm. The second theme is spillover which is used to identify the effect from the linkage.

Frequency distribution

Frequency distribution is a common way to organize qualitative data after categorization by listing the number of occurrences in the findings. It is the frequency of all the different values that are present in the data. It will reveal how important the codes and themes identified in the study by the number of times they occur. After analysis of the data, the frequency distribution of the codes categorized under specific themes will be calculated and presented in a bar and pie charts.

Domain analysis

Domain analysis provide another perspective through which the linkage relationship between multinationals and local firms can be studied. Spradley (1979) suggests the use of semantic relationships to assess possible variations of the domain. Semantic relations will facilitate the groupings of relations in the FDI-local firm linkage process and support inference of relations in the study through specified patterns of relation chains.

Table 9: Spradley's Universal Semantic Relationships

Semantic relationships	Relationship of X and Y
1. Strict inclusion:	X is a kind of Y.
2. Spatial:	X is a place in Y, X is a part of Y.
3. Cause-effect:	X is a result of Y, X is a cause of Y.
4. Rationale:	X is a reason for doing Y.
5. Location for action:	X is a place for doing Y.
6. Function:	X is used for Y.
7. Means-end:	X is a way to do Y.
8. Sequence:	X is a step/stage in Y.
9. Attribution:	X is an attribute/characteristic of Y.

Source: Adapted from Spradley, (1979)

Social Network Analysis

Networks play an important role as a means of transfering resources, information, influence and ideas among members (Kempe et al, 2003; Lea et al, 2006). Social network analysis (SNA) includes identifying relationships and characteristics of key actors, groups or members that comprises a social network.

Research validity

Verbatim quotations from the research findings will be used in the report and analysis of the qualitative data. In management and social science, this is an acceptable practice and will aid in demonstrating the validity of the researcher's argument (Rose, 1982). According to Lofland (1971), the use of verbal quotations in qualitative research is an important way to provide credible theoretical analysis. The author used direct verbatim quotations from the interviews conducted with the research participants in order to present and analyse the study's qualitative data, and to build an understanding of the relationship between multinational firms and local firms, and how the FDI activities of the multinational firms affect the local firm's performance. To further support my choice for reporting, presenting and analysing my qualitative data using verbatim quotation, Glaser and Strauss (1967) argue that it aids the author in understanding the theoretical framework, and on how to communicate the social world explored in a clear manner. Walker (1985) also adds that the author's primary concern in using verbatim quotations is to present research analysis and narrative to the social world in an understandable, trustworthy and significant manner to the reader. To summarize, using verbatim quotation in qualitative research is very significant as it is used to establish the credibility of the research findings (Long and Godfrey, 2004). The use of multiple methods of analysis will also provide validity to research findings.

4.8 Integration of both methods

Integration is regarded as an important part of a mixed method research process (Fetters et al., 2013; O'Cathain et al., 2007). Integration in a mixed method refers to the stage of the research process where the qualitative and quantitative methods are mixed or integrated (Tashakkori and Teddlie 1998; Creswell et al. 2003). Creswell (2015) defines it as the intentional process by which qualitative and quantitative are brought together by the research into one study. Through integration, insights, facts or knowledge not available from a qualitative or quantitative study can be accessed by the researcher (Fetters and Freshwater, 2015; O'Cathain et al., 2007).

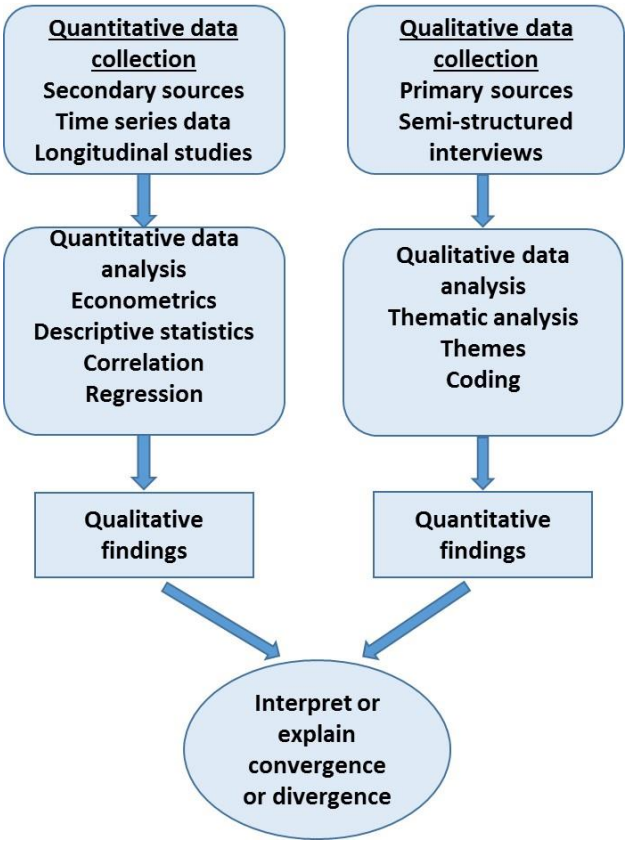

Figure 12: Integration and research design of the study

Source: Adapted from Creswell (2003)

There are three levels at which a study can achieve integration in a mixed methods research; research design, methods and data collection, and/or during the interpretation and reporting levels.

Table 10: Integration Levels in Mixed Methods Research

Level of Integration	Approaches
Design	Basic designs • Explanatory sequential • Exploratory sequential • Convergent Advanced frameworks • Multistage • transformative • Intervention

	• Case study Participatory—Community-based participatory research, and
Methods	Connecting Building Merging Embedding
Interpretation and Reporting	Narrative—Weaving, contiguous and staged Data transformation Joint display

Source: Fetters et al (2013)

At the design level, integration will occur through a convergent design where the research collects and analyzes the data for both studies in a similar timeframe. The approach to integrating the qualitative and quantitative phases at the method level of this study is through merging both studies. Integration at the interpretation and reporting level for both studies is done through narrative. When integrating through narrative, the findings from both studies is presented in a single report. Implications for the results are discussed in the subsequent discussion chapter where both findings are brought together to provide meaning.

CHAPTER 5
RESULTS AND FINDINGS

Introduction

This chapter presents the findings of the research based on the quantitative and qualitative analysis of data collected from the statistical documents and interviews conducted with managers of Nigerian SMEs in Nigeria. While the data for econometric analysis purposes where collected based on the major aspects of an economy to be affected by FDI as were identified in literatures, the interview questions were designed based on the critical review of literature on the trade interaction and link between domestic and foreign firms.

5.1 Quantitative findings: Impact of FDI on GDP and Export

The quantitative research aspect of the study aims to determine the impact of FDI on the Nigerian economy by examining the effect the FDI on GDP and exports. The research questions to be answered in the section of the research are;

1) What is the relationship between FDI and Nigerian GDP?
2) What is the impact of FDI on Nigerian export?

The process to answering these questions is carried out through an econometric analysis of relevant time-series data. Analysis includes a descriptive statistic, correlation analysis and regression analysis.

5.1.1 Descriptive statistics

The descriptive statistics for the variables are presented in the table. There are 33 observations of each variable and non-missing.

Table 11: Summary Statistics, using the observations 1990 – 2019

Variable	*Net FDI inflows ($)*	*GDP ($)*	*Export ($)*	*Labour force*	*Exchange rate (Naira)*	*Oil price ($)*
Mean	3 244 142 958	222 096 042 751	42 949,895 985	45,868,250	121,82	48,11
Median	2 001 419 364	156 260 033 236	38 275,149 073	46,123,773	127,24	40,27
Standard Deviation	2 664 939 906	177 583 579 281	32 863,495 193	8,485,952	88,85	31,06
Minimum	299 566 658	27 752 204 320	2,808,064 126	32,058,465	8,04	13,06
Maximum	8 841 062 050	546 676 374 567	102,437,485,784	59 873 566	307	105,01

Source: author's own contribution

The highest value of FDI inflow represented by the maximum for the period under investigation was 8,841,062,051 and the lowest value of inflow represented by the minimum was 299,566,658.3. The mean FDI value representing the annual average FDI inflow for the period of study was 3,244,142,958.42 and the median value was 2,001,419,364.01. GDP was at its highest value in 2014 at 546,676,374,567.72 and lowest in 1993 at 27 752 204 320.09. The mean average within this period according to calculations was 222,096,042,751.77 and the median value was 156,260,033,236.39. For exports, the highest value of exports occurred in 2011 and stood at 102 437 485 783.99, while the minimum value representing the lowest value within this period stood at 2,808,064,126.79 in 1998. Within the study period, the minimum number of labour force according to the descriptive statistics was 32,058,465 and maximum is 59 873 566. The mean for that period is 45,868,250 with a median of 46,123,773. The lowest exchange rate within the period of study is 8.04, and the highest exchange rate is 307. The mean

exchange rate is 121.82 and the median is 127.24. The maximum oil price for the period is 105.01 and lowest is 13.06. The mean for the period is 48.11and the median is 40.27.

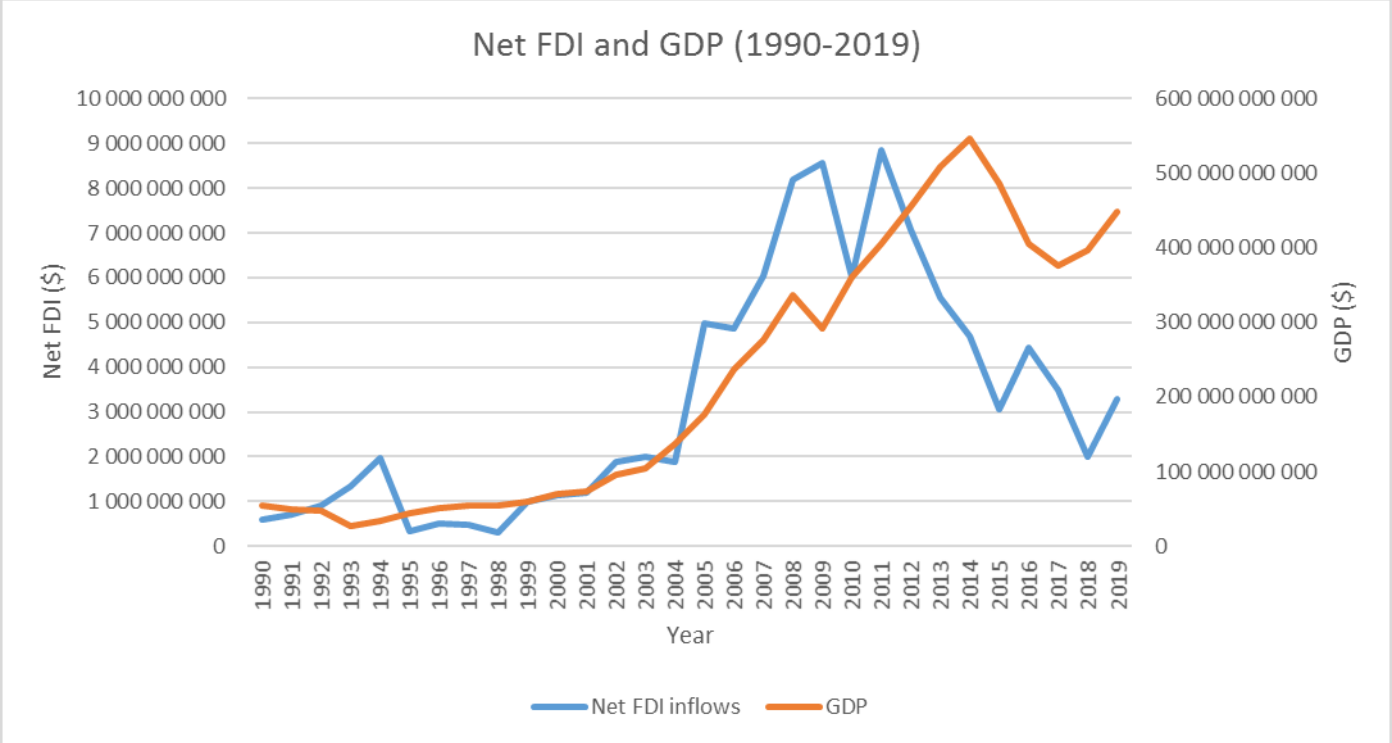

Figure 13: Combo chart of FDI and GDP (1990-2019)

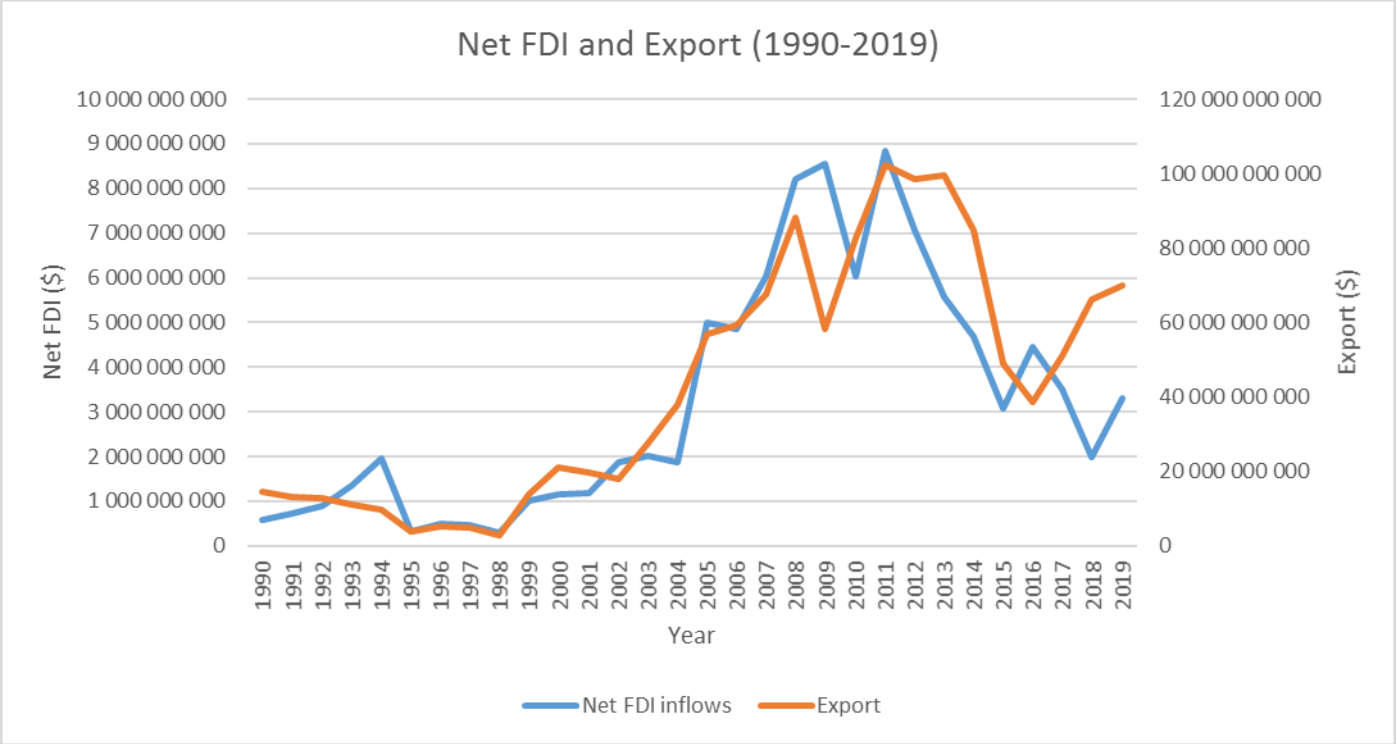

Figure 14: Combo chart of FDI and Export (1990-2019)

5.1.2 Correlation results and analysis

	d_l_Export	d_l_Exchangera~	d_d_l_GDP	d_l_NetFDIinfl~	
d_l_Export	1.0000	0.5406	0.1834	0.6487	d_l_Export
d_l_Exchangera~		1.0000	-0.0625	0.4223	d_l_Exchangera~
d_d_l_GDP			1.0000	-0.0299	d_d_l_GDP
d_l_NetFDIinfl~				1.0000	d_l_NetFDIinfl~

	d_d_l_Labourfo~	d_l_Oilprice	
d_l_Export	0.0229	0.6882	d_l_Export
d_l_Exchangera~	0.0289	0.0375	d_l_Exchangera~
d_d_l_GDP	-0.0182	0.3503	d_d_l_GDP
d_l_NetFDIinfl~	0.0014	0.2185	d_l_NetFDIinfl~
d_d_l_Labourfo~	1.0000	0.0163	d_d_l_Labourfo~
d_l_Oilprice		1.0000	d_l_Oilprice

The correlation matrix for the variables is captured in the table above. As revealed, there is a negative relationship between 'Net FDI inflows and GDP (r = -0.0299). A negative relationship implies that as net FDI inflows increase, GDP will decrease. Conversely, a decrease in Net FDI inflows will mean an increase in GDP. However, this relationship is weak. Furthermore, there is a strong positive relationship between Net FDI inflows and exports (r = 0.6487). This also

implies that an increase in FDI will lead to an increase in exports. In the same vein, a decrease in FDI inflows will also lead to a decrease in exports.

In addition, the findings from the analysis reveals a positive relationship between 'Net FDI inflows' and 'Labour force' (r = 0.0014). The result might imply that an increase in Net FDI inflows will lead to an expansion of the labour force and vice versa is true. However, the correlation coefficient is too weak to be statistically significant. The analysis further reveals a strong positive relationship between 'Oilprice' and 'Export' (r = 0.6882). This indicates that as oil price increases, exports will also increase. However, if there is a fall in oil price, the volume of export will decline accordingly. Also, the correlation matrix reveals that oil price and exchange rate have a positive relationship (r = 0.0375). This indicates that as oil price rises, exchange rates will also rise. On the hand, if there is decline in the oil price, exchange rate value will also decline. However, despite a positive correlation, this correlation coefficient is too weak to be statistically significant.

5.1.3 Effect of FDI on GDP

The linear function of this equation is as follows:

$$\ln(GDP)= \beta 0 + \beta_1 * \ln(FDI) + \beta_2 * \ln(LABOR) + \beta_3 * \ln(EXCH) + \beta_4 * \ln(OILP) + \upsilon$$

The null and alternative hypothesis are as follows:

H_0: FDI does not have a positive effect on GDP

H_1: FDI has a positive effect on GDP

5.1.3.1 Regression results

```
Model 4: OLS, using observations 1992-2019 (T = 28)
Dependent variable: d_d_l_GDP

                     coefficient   std. error  t-ratio   p-value
  ------------------------------------------------------------------
  const              -0.000600279  0.0464426   -0.01293  0.9898
  d_l_Exchangerate   -0.0266193    0.163064    -0.1632   0.8718
  d_l_NetFDIinflows  -0.0393845    0.0894349   -0.4404   0.6638
  d_d_l_Labourforce  -0.473581     3.97003     -0.1193   0.9061
  d_l_Oilprice        0.321903     0.171725     1.875    0.0736

Mean dependent var    0.007716   S.D. dependent var    0.220471
Sum squared resid     1.133702   S.E. of regression    0.222017
R-squared             0.136161   Adjusted R-squared   -0.014072
F(4, 23)              0.906332   P-value(F)            0.476660
Log-likelihood        5.163753   Akaike criterion     -0.327506
Schwarz criterion     6.333517   Hannan-Quinn          1.708835
rho                  -0.485490   Durbin-Watson         2.938351
```

Table above shows the regression output. From above, the regression equation becomes;

y = - 0.00060002 – 0.0266193Exchangerate – 0.0394 NetFDIinflows – 0.4761 Labourforce + 0.3219OilPrice

Findings from the results reveal that NetFDIinflows has a negative impact on GDP. To further explain in absolute terms, this implies that an increase in FDI by 1 unit will lead to a decrease in GDP by 3.94%. The variable 'Exchangerate' is also revealed to have a negative impact on GDP and it shows that when 'Exchangerate' increases by 1 unit, GDP decreases by 2.7%. The variable Labourforce also has a negative impact GDP and for every 1 unit of increase in labour force will decrease GDP by 47%. Oil price on the other hand has a positive impact on GDP. The results indicate that every 1 unit increase in oil price will lead to the increase in GDP by 32.19%. The R-square from the analysis is 0.05957, which implies that almost 6% of the variation in the model has been generated by the variables.

Breusch-Pagan test for heteroskedasticity

The Breusch-Pagan test for heteroskedasticity is applied to test whether the residuals conforms to the normality assumptions. The hypothesis to be tested is set as follows:

H_0: There is no heteroskedasticity (homoskedasticity)

Against;

H_1: There is heteroskedasticity (lack of homoskedasticity)

Breusch-Pagan for Heteroscedasticity

```
Breusch-Pagan test for heteroskedasticity
OLS, using observations 1992-2019 (T = 28)
Dependent variable: scaled uhat^2

                      coefficient   std. error   t-ratio   p-value
  ---------------------------------------------------------------
  const                 1.22072      0.630116     1.937    0.0651  *
  d_l_Exchangerate     -1.86393      2.21238     -0.8425   0.4082
  d_l_NetFDIinflows     1.50906      1.21342      1.244    0.2262
  d_d_l_Labourforce     7.38781     53.8638       0.1372   0.8921
  d_l_Oilprice         -1.75301      2.32990     -0.7524   0.4594

  Explained sum of squares = 17.4789

Test statistic: LM = 8.739474,
with p-value = P(Chi-square(4) > 8.739474) = 0.067952
```

As shown above, the p.value = 0.06795 > 0.05, which offers enough evidence to accept and conclude that there is no heteroscedasticity, implying that the model does not violate normality assumptions. Therefore, the model can be said to be precise.

Test for Autocorrelation Assumption

In a well-fitted model, the assumption is that the errors are independent of each other. The absence of independence might indicate that the autocorrelation is zero. The presence of autocorrelation is tested using the Durbin-Watson test which has been conducted below. The hypothesis is set as;

H_0: True autocorrelation is zero

Vs.

H_1: True autocorrelation is greater than zero

Durbin-Watson Test

```
Durbin-Watson statistic = 2.93835
p-value = 0.9956
```

As shown in the table above, the Durbin-Waston statistic is 2.93835, which is closer to the middle of the range, signifying a lack of autocorrelation. Additionally, the p.value > 0.05, is enough evidence to accept the null hypothesis and conclude that true autocorrelation is zero. In other words, the model does not suffer from the autocorrelation model, meaning that it is a good fit to establish how the independent variables impact the dependent variable.

5.1.4 Effect of FDI on Exports

The linear function of this hypothesis is as follows:

$$\ln(EXP) = \beta 0 + \beta 1 * \ln(FDI) + \beta 2 * \ln(LABOR) + \beta 3 * \ln(EXCH) + \beta 4 * \ln(OILP) + \upsilon$$

The null and alternative hypothesis are as follows:

H_0: FDI does not have a positive effect on exports

H_1: FDI has a positive effect on exports

Regression results

```
Model 3: OLS, using observations 1992-2019 (T = 28)
Dependent variable: d_l_Export

                     coefficient  std. error  t-ratio   p-value
  ------------------------------------------------------------
  const              -0.0697055   0.0400182   -1.742    0.0949   *
  d_l_Exchangerate    0.560021    0.140507     3.986    0.0006   ***
  d_l_NetFDIinflows   0.300747    0.0770633    3.903    0.0007   ***
  d_d_l_Labourforce   0.0910153   3.42085      0.02661  0.9790
  d_l_Oilprice        1.03737     0.147970     7.011    3.82e-07 ***

Mean dependent var   0.059706   S.D. dependent var   0.445643
Sum squared resid    0.841744   S.E. of regression   0.191305
R-squared            0.843021   Adjusted R-squared   0.815720
F(4, 23)             30.87902   P-value(F)           6.04e-09
Log-likelihood       9.332501   Akaike criterion    -8.665002
Schwarz criterion   -2.003979   Hannan-Quinn        -6.628661
rho                 -0.043059   Durbin-Watson        1.959313

Excluding the constant, p-value was highest for variable 19 (d_d_l_Labourforce)
```

The table above shows the regression output. From above, the regression equation becomes;
y = - 0.0697 + 0.5600121 Exchangerate + 0.3NetFDIinflows + 0.09Labourforce + 1.037 Oilprice

As revealed in the model above, FDI has a positive impact on exports. According to the regression results of the model, a unit increase in FDI inflows will lead to an increase in exports by 30%. Findings from the model also reveal that exchange rate positively affects exports as a unit increase in exchange rates leads to a rise in exports by 56%. Additionally, labour force according to findings positively affect exports as it shows a unit increase in labour will increase exports by 9%. However, this impact seems to be insignificant. The findings on the impact of

oil price on exports reveal that oil price positively affects exports as a unit increase in the oil price increases exports by 37%. The R-square from the analysis is 0.8157, which implies that 81.57% of the variation in the model has been generated by the variables.

Breusch-Pagan test for heteroskedasticity

The Breusch-Pagan test for heteroskedasticity is applied to test whether the residuals conforms to the normality assumptions. The hypothesis to be tested is set as follows:

H_0: There is no heteroscedasticity (homoskedasticity)

Against;

H_1: There is heteroscedasticity (lack of homoscedasticity)

Breusch-Pagan test Output

```
Breusch-Pagan test for heteroskedasticity
OLS, using observations 1992-2019 (T = 28)
Dependent variable: scaled uhat^2

                     coefficient   std. error   t-ratio   p-value
  ---------------------------------------------------------------
  const                0.837331     0.236968     3.534    0.0018  ***
  d_l_Exchangerate     1.78991      0.832013     2.151    0.0422  **
  d_l_NetFDIinflows   -1.58770      0.456331    -3.479    0.0020  ***
  d_d_l_Labourforce   -3.68276     20.2566      -0.1818   0.8573
  d_l_Oilprice         0.705885     0.876206     0.8056   0.4287

  Explained sum of squares = 16.2618

Test statistic: LM = 8.130882,
with p-value = P(Chi-square(4) > 8.130882) = 0.086900
```

As shown in the table above, the p.value is 0.0869, which offers sufficient information to accept the null hypothesis and conclude that there is no heteroscedasticity. Therefore, it should be concluded that the model does not violate normality assumptions.

Test for Autocorrelation Assumption

Just like in the first model, it is imperative to test for autocorrelation in the second model. In like manner, the Durbin-Watson test has also been applied to test the hypothesis that;

H_0: True autocorrelation is zero

Vs.

H_1: True autocorrelation is greater than zero

Durbin-Watson Test

```
Durbin-Watson statistic = 1.95931
p-value = 0.471627
```

As shown in the table above, the p.value = 0.471627 > 0.05. This information offers sufficient evidence to accept the null hypothesis and conclude that True autocorrelation is zero. Given that the model does not suffer from autocorrelation, it is logical to conclude that it is a good fit. Therefore, it can be used to evaluate the factors that determine GDP growth and export volumes.

5.2 Qualitative findings: Impact of FDI on Local firms

The qualitative part of the study aimed to investigate how FDI creates spillovers and the process through which these spillovers and other benefits are transferred. The research questions to be answered in the section of the research are;

1) How does FDI affect the performance of local firms?
2) What type of spillovers occur between MNCs and local firms?
3) In what ways do local firms benefit from FDI spillovers?

As a result, the research interviewed 15 local firms involved in the agricultural sector about their relationship with multinationals.

5.2.1 Nature of linkage formation

To identify the linkage formation and type of transactional relationship that exist between the local firms and the multinationals, the interviewees were asked the question *"What business activity does your company do for your client"*? The following responses from the interviewees were recorded, transcribed and are as follows;

The first interviewee briefly states that *"Dairy production is our main aim. We produce milk from cows and sell to our customers"* (LF1). Another interviewee explained *"We serve as out-growers and supply them with fresh tomatoes for their production factory.* From further investigation on the term *"*out-growers", they are part of an out-grower scheme, also refered to as contract farming. This involves the production and supply of agricultural input based on an agreement between the buyer and the producers. In describing the relationship with the multinational, the interviewee explains that *"As out-growers we are contracted by the company to help them meet up the demand capacity in their factory but we are not the only ones, as the demand is well above our own capacity"* (LF2). The third interviewee describes the nature of their operations leading up to their transactional obligation. They state that *"We are one of the biggest producers of poultry products and sell them to several type of customers. What we do is that we buy our birds as chicks and grow them, which we then supply to our customers at maturity"* (LF3). According to the fourth interviewee, *"We supply cocoa beans for all our chocolate production in Nigeria"* (LF4). The fifth interviewee involved in the production of sorghum states that "*We supply them with high quality sorghum grains for their brewing and malting"* (LF5). Another interviewee firm in the diary production business states that "*Our main business activity is diary production. We produce fresh milk from our livestock such as*

cows and sell them to our customers" (LF6). The seventh interviewee whose client are rice millers states that "*We are part of an outgrower program that supply them with rice that we harvest from our farm"* (LF7).

5.2.1.1 Supply of inputs

The theme linkage formation was coded and generated the high code of *supply* after a thorough analysis of the responses. Findings reveal that the local firms serve as suppliers of production inputs, therefore making them vertically integrated in a backward linkage relationship with the multinationals. All respondents interviewed described their relationship with the multinationals and when coded for analysis, were identified to be suppliers and in the upstrean market where foreign firms or multinationals purchase intermediate products from local firms.

5.2.2 Spillovers

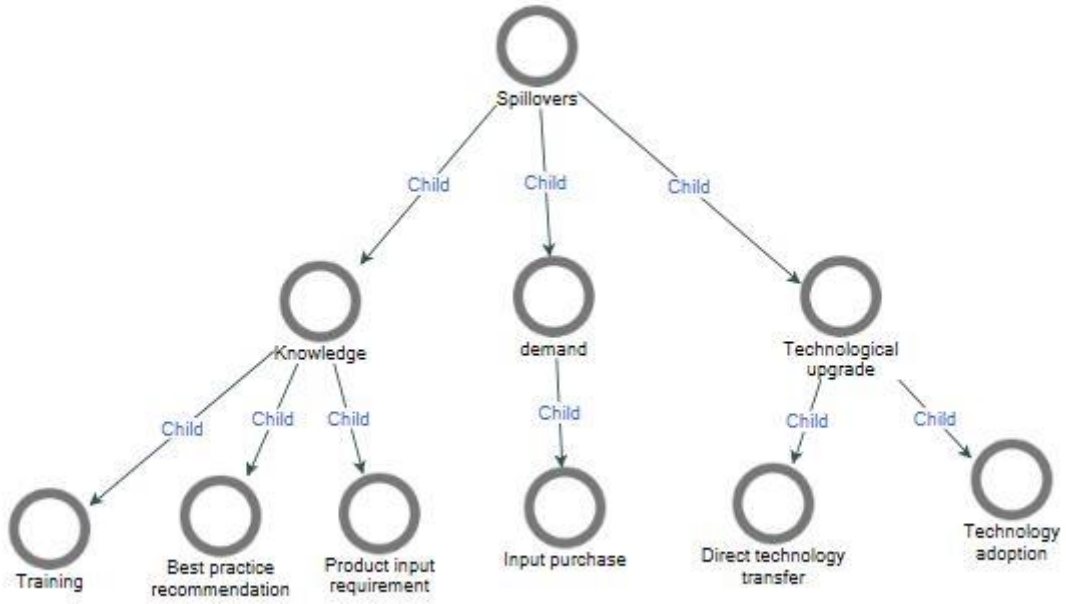

Figure 15: Coding for spillovers

Source: the author's own elaboration based on findings

To identify operational changes and if any spillover may have taken by investigating how the multinationals have contributed to the local firm besides their formal business transaction, the interviewees were asked the question *"Have your client contributed to your company in any way besides the specific business transaction"*? Findings reveal their relationship with the multinationals have affected their operational methods, and several contributions and benefits mostly in the form of spillovers have occured. The following responses from the interviewees were recorded, transcribed and are as follows.

The first interviewee states that *"I would say they have contributed a lot in helping us to improve our milk production. Just around one year into our business with them, they flew in dairy experts from Holland into the country to help us and show us how to improve the quality of our milk. They showed us how to take care of the cows to make sure they're healthy. They taught us how to vaccinate the cows and recommended some medicines to our veterinary doctor, and how to give them to the cows. Like for example, our doctor should not touch the drug directly but should wear a disposable glove before giving the drug to the cows"*.

Similarly, second interviewee says *"Yes they have contributed in a positive way to my business. As suppliers, our income has increase due to their demand a lot of tomatoes. They supplied us with tomatoes seedlings and agrochemicals like fertilizer. As a result, we have better production yield with little damage of out product. They also gave us water pumps and hose pipes, so that we could have access to water during the dry season. We have also been trained on good agricultural practices that we didn't have knowledge of, and this has helped us in increasing our yield with little losses compared to before. The company provided us with free plastic crates to keep out tomatoes as we delivered to them. We have learnt a lot"*.

The third interviewee comments that *"We have to say that both of our international customers are one of our most regular and consistent buyers. They have also bought more of our poultry products and more regularly. As a result we had to buy more layers and broilers from our own suppliers. We are happy with our business relationship with them and they have help us to improve our standard of operations and management. We upgraded the equipment that we use and now produce better product than we used to. We now produce the same quality of products and sell to not only our foreign customers but also our local customers as well. As a result of our business with them, we employed more workers to help meet up their demand, and in the process created more jobs.*

The fourth interviewee claims that they have both benefited from each other in their relationship. They said *"We have been able to shape each other, having a more standard business relationship, the requirements from our foreign partner inspired us as suppliers to also*

educate the farmer on the essence of growing organic cocoa beans instead confectionary (sprayed with pesticides, weedicides and artificial fertilisers which may be dangerous to the biodiversity)".

The fifth interviewee admits to receiving several assistance by stating "*They have contributed in many ways that has helped us to improve our productivity. We faced a lot of challenges in the area of low yields which also means low income for us. But after we used hybrid sorghum seed provided to us by the company, we overcame this challenge. The hybrid is more resistant to disease and we experienced an increase in production yield. Now we are also able to meet the supply needs of the company. We have also received training on good farming skills and practices. They send experts to our farms to provide the training and demonstrate to us how to do it. We have also fertilizer and equipments from them".*

The sixth interviewee agrees on the contribution of their multinational partner in improving their product's quality sharing knowledge with them. In their own words, they say „*Yes they have helped us a lot in terms of improving the overall quality of our milk productions. We have come to learn new things very quickly from our every daily experience. We have come to know through their supports on her to keep our livestocks more healthier by adhering to simple hygiene practices."*

According to the seventh interviewee firm, they have benefitted from the contributions made the multinational firm. Their response which contains further elaboration states *"Yes they have contributed to our business and we have benefited a lot from the program. They gave us seeds and fertilizers to improve our paddy yields. we received some training from them. They provided mechanized tools to help us with the farming. We have also been able to make more income as they buy more from us than any of our local customers at a good market price".*

5.2.2.1 Knowledge

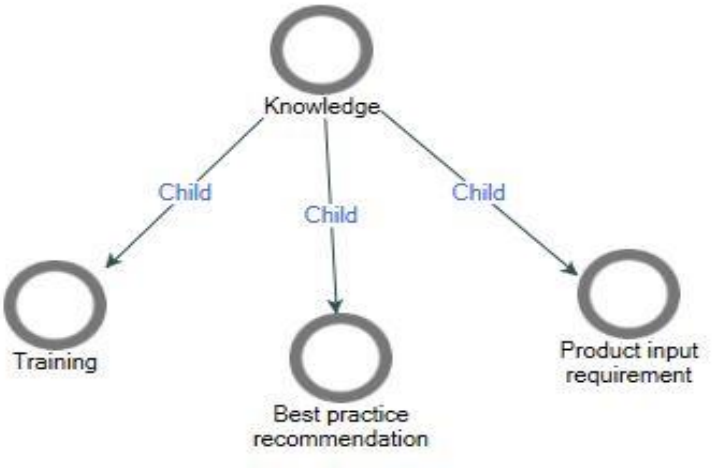

Figure 16: Coding for knowledge

Source: the author's own elaboration based on findings

The theme spillover was coded and it generated a high code knowledge and a low code training, input requirement and recommendation. The low codes identified were all found to represent the mechanism for knowledge transfer. The transfer of knowledge from the multinationals is a significant spillover from the linkage with local firms. The interviewees were asked about the contribution of the multinationals on how it has impacted their operations, and many of them acknowledge that the multinationals have contributed to their improved peformance by diffusing some knowledge to help them. The interviewee of LF1 comments that *They showed us how to take care of the cows to make sure they're healthy. They taught us how to vaccinate the cows and recommended some medicines to our veterinary doctor, and how to give them to the cows. Like for example, our doctor should not touch the drug directly but should wear a disposable glove before giving the drug to the cows*. To summarize, they simple said *"We have learnt a lot"*. The interviewee from LF2 says that *We have also been trained on good agricultural practices that we didn't have knowledge of.* This finding suggest that FDI is also a source of knowledge for best practices. Another evidence of knowledge spillover was found in the interview with LF6 where in their explanation on the multinational's contribution states „*We have come to learn new things very quickly from our every daily experience"*.

.

5.2.2.1.1 Training

Figure 17: Coding for training

Source: the author's own elaboration based on findings

Further analysis was conducted and findings reveal that one of the ways through which knowledge was transfered from the multinationals to the local firms was *training*. Training was was identified as a mechanism to transfer knowledge and this was explained by the interviewees. As one interviewee summarised, they were trained on good agricultural practices they previously had no knowledge of. Another interviewee also alluded to the fact that experts from the mulitinational's home country were brought to train them on good operational management practices. To quote LF1: *„Just around one year into our business with them, they flew in dairy from Holland into the country to help us and show us how to improve the quality of our milk"*.

LF5 had similar experience with the acquisition of knowledge through training stating *"We have also received training on good farming skills and practices. They send experts to our farms to provide the training and demonstrate to us how to do it"*.

LF6 in elaborating the contribution made by their multinational partner but without specifics, states that "*we received some training from them"*.

5.2.2.1.2 Recommendation

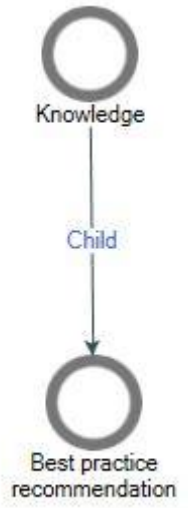

Figure 18: Coding for recommendation

Source: the author's own elaboration based on findings

Through recommendation of best practices and suggestions from the multinationals, local firms received valuable knowledge according to findings. Recommendation is generally regarded as a form of suggestion made by an authourity or expert personel regarding the best course of action. The recommendation of practices represented new knowledge that the firms were not aware of. According to LF1 in relation to their interaction with *„recommended some medicines to our vetinary doctor"*. The respondent from the answer given indicated the multinationals showed them several ways to improve the health of their dairy cows by recommending alternative practices different from existing ones. These recommendations are made to help local firms improve their own managerial and operational practices that would lead to better product quality.

In analysing the interview answers from LF6, it was found that they learnt how to improve their product through recommendation of best practices. They state that „*We have come to know through their supports on her to keep our livestocks more healthier by adhering to simple hygiene practices"*.

5.2.2.1.3 Product input requirement

Figure 19: Coding for product input requirements

Source: the author's own elaboration based on findings

Product input requirement was identified as one way knowledge was transfered from multinationals to local firms. One of the interview questions aimed to find out if there were requirements for their contract fulfilment.

According to findings, local firms were required to meet certain product standards before they could supply their foreign partners. However through this, they acquired new knowledge on processes, improving product quality, new product variety and international product standards. One firm whose multinational partner exports to the european market, acquired knowledge of the EU standards for their product. Interviewee four admitted that *"Yes they requested that our cocoa should be grown organic without applying pesticides or artificial fertilizer"*, adding that these requirements are *"based on both EU food standards"*. LF4

LF6 also states that they received specific requests which they say is already adhered to in their operation process. They said *„Oh yes we are in constant communication with our clients on what food should be given to our livestock, specifically the cows. Most of their demands on what should or not be feed to the cow are among the already measures put in place by us enable us produce healthy quality milk"*.

5.2.2.2 Demand

Figure 20: Coding for Demand

Source: the author's own elaboration based on findings

The theme spillover was coded and also generated a high code demand and a low code of input purchase. Responses from the interviewees reveal that the linkage with the multinationals affected their conditions of supply. The demand for production inputs or intermediate products increased and the interviewees identified it as a positive contribution and effect in their relationship with the multinationals. From findings one interviewee says that both of their *"international customers are one of our most regular and consistent buyers."*. They further added that *"They have also bought more of our poultry products and more regularly"*. Another interviewee admitted that their international partner demanded a lot of their products. The findings reveal that presence of multinationals who are seen as customers affected the condition of supply of local firms through the demand of production inputs. Another firm interviewed agrees that demand for their products is a positive contribution by stating "*they buy more from us than any of our local customers at a good market price"*.

The increase in the demand from multinationals had two effects on the local firms; more hired labour and increased sales. This is discussed under the "spillover outcomes" section.

5.2.2.2.1 Input purchase

Predictably the spillovers from demand occured through the purchase of inputs by the multinationals. While it has been found that the primary obligation of the interviewee firms to the multinationals involves the supply of inputs, the local firms admitted an increase in the purchase of their products. As explained by most interviewees, the purchase of inputs by the multinationals whom have been identified as *„consistent buyers"* purchasing *„more regularly"* of their products is a positive contribution to their performance. Another interviewee states that in addition to buying more of their products from them, these products are bought at a "*good market price"*.

5.2.2.3 Technological upgrade

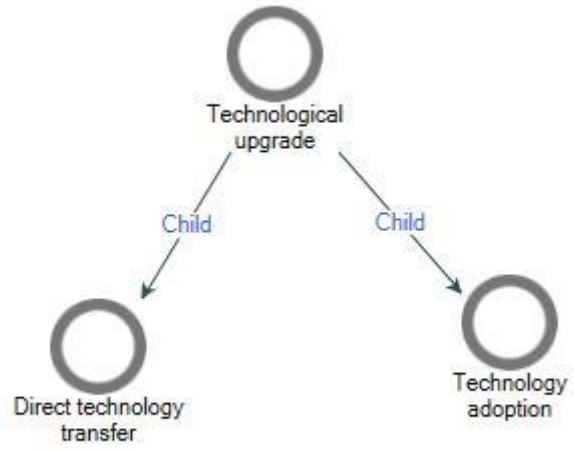

Figure 21: Coding for technological upgrade

Source: the author's own elaboration based on findings

The theme spillover was coded and it generated a high code technological upgrade and a low code New technology adoption and direct technology transfer. The relationship between multinationals and local firms has led to the upgrading of technologies used by local firms according to findings. To satisfy the product quality and supply requirements, some local firms admitted they upgraded their equipments in order to meet the supply requirement standards. The findings from the study identified two ways in which these upgrades occured: through the adoption of new technolgy, and the direct transfer of technolgy from the multinationals.

5.2.2.3.1 Adoption of new technology

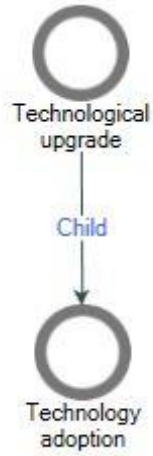

Figure 22: Coding for technology adoption

Source: the author's own elaboration based on findings

In the response to question 8, one interviewee in describing the contribution made by the multinational, they claimed they now produce better quality products and credited this improvement to the upgrade of their technology. In their own words „*We upgraded the equipment that we use and now produce better product than we used to".* LF2. Technology adoption is the acquisition of new technology by the firm which is motivated by the need to produce a certain standard of product.

5.2.2.3.2 Direct technological transfer

Figure 23: Coding for direct technology transfer

Source: the author's own elaboration based on findings

Besides the upgrading of technology by local firms, the study found out that there was also instances of direct technology transfer by multinationals to support the production capabilities of the local firms. One respondent acknowledge this support by stating that *„They also gave us water pumps and hose pipes, so that we could have access to water during the dry season".* Another respondent while discussing the contribution of multinational admits that they „*received equipments from them"* (LF5). According interviewee LF7, *"They provided mechanized tools to help us with the farming".*

5.2.3 Spillover outcomes

Further analysis of the findings identified several outcomes which reprented direct impact on local firms due to the spillovers from the multinationals. Question 8 from the interview was specifically asked in order to identify the possible and specific impact the linkage relationship with the multinationals have had on their performance. The spillover outcomes represents the effects of the spillovers transfered by the multinationals to local firms through different mechanisms already identified in the previous section. Several outcomes were identified by the study and findings reveal that local firms benefited from improved product quality, increased sales, and increased productivity. Findings also reveal the broader national economy benefited

from job creation. The illustration of the spillover effects from the linkage is shown in the figure below.

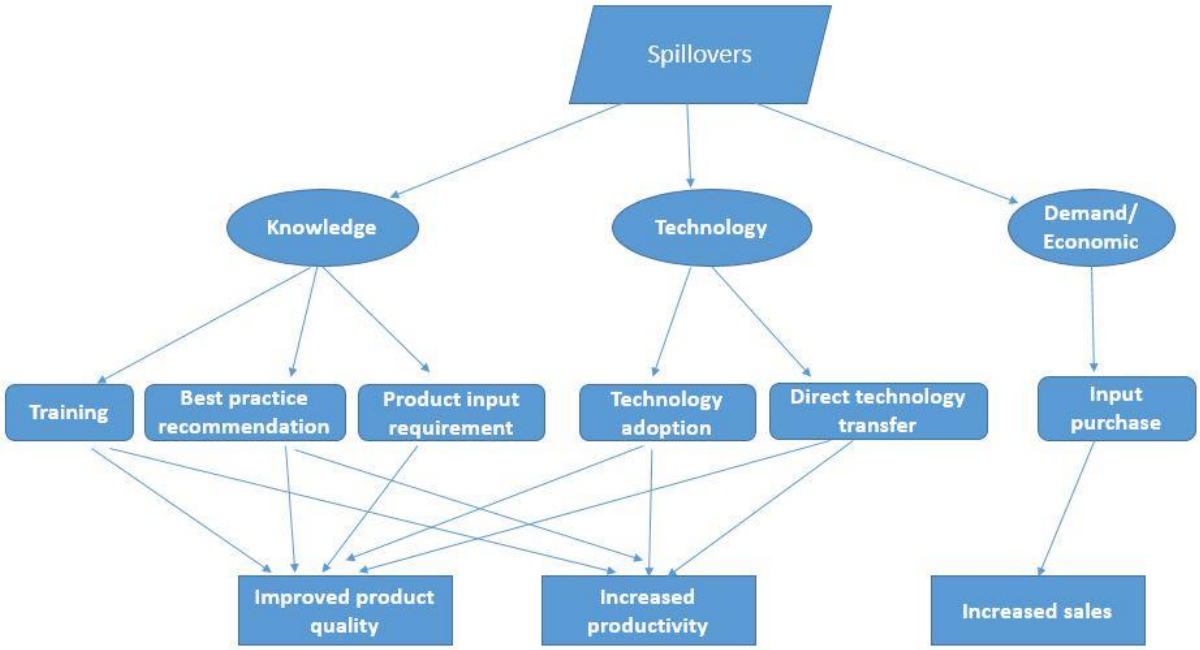

Figure 24: Coding for spillover outcomes

Source: author's own elaboration based on research findings

5.2.3.1 Improved product quality

Improved product quality is an outcome of the knowledge spillover from multinationals to local firms. As a result of the training, product input requirement, and the upgrade to newer technologies, local firms improved their product quality, which also met international standards for the European market. Several interviewee admit to the improvement in quality of their products as a result of the contributions made by multinationals to their business. The following are extracts from the interviews that reveal evidence of improved product quality;

"they flew in dairy experts from Holland into the country to help us and show us how to improve the quality of our milk". LF1

"We upgraded the equipment that we use and now produce better product than we used to. We now produce the same quality of products and sell to not only our foreign customers but also our local customers as well". LF3

"Yes they have helped us a lot in terms of improving the overall quality of our milk productions". LF6

"Since then we produce better quality products that grow better and are more resistant". LF13

5.2.3.2 Increased productivity

Increased productivity is an outcome of the spillover from multinationals. Local firms experienced an increase in production yield and a reduction in loses at the same time. This is as a result of the knowledge diffused through training, and the upgrading of technology. In the words of one interviewee, they claim that *„We have also been trained on good agricultural practices that we didn't have knowledge of, and this has helped us in increasing our yield with little losses compared to before"* LF2.

According to LF5 lower yield was a problem but the donation of hybrid seeds improved their productivity. In their words, "*The hybrid is more resistant to disease and we experienced an increase in production yield"*. For another firm, productivity came from supporting resources donated by the multinationals- *"They gave us seeds and fertilizers to improve our paddy yields*" LF7. One firm also increased their productivity, and credits the technical assistance provided to them. The firms says *"With the technical assistance we received from them, we have benefited from higher yields"*. LF13

5.2.3.3 Increased sales revenue

Increased sales revenue is an outcome that occured as a result of the increase in demand of their products from multinationals. Findings show that firms experienced an increase in sales revenue as a result of the demand in products from the multinationals. When asked about the contribution of the multinationals if any, LF first of all stated the importance of their multinational partners as customers. In admission of such importance, they said „*We have to say that both of our international customers are one of our most regular and consistent buyers. They have also bought more of our poultry products and more regularly"* LF3. LF2 specifically admitted that „*As suppliers, our income has increase due to their demand a lot of tomatoes"*. According to LF5 lower yield in production meant lower revenues. In their own words, „*We faced a lot of challenges in the area of low yields which also means low income for us"*. However, the donation of hybrid seeds which increased their yield and income, helped them in overcoming this challenge. In the case of LF7, they experienced an increase in their income from the demand of their products by the multinationals. In their words, they state that "*We have*

also been able to make more income as they buy more from us than any of our local customers at a good market price".

Another firm confirms an increase in their income which they attribute to the higher price multinationals pay for their products. In their own words "*Our income has increased because of the higher price they pay for our products*". LF13

Job creation

Job creation is an outcome that occured from the linkage between the multinationals and locals. While this may not be a direct positive on local firms, its an outcome that positively affects the wider economy of Nigeria as the host country. Multinationals indirectly created jobs in the local supplier firms due to their demand for inputs. Findings reveal that in order to meet the quantity demanded from the multinational, more workers were hired in the local firms. According to one of the interviewe, the quantity demanded from their multinational partner made them employ more workers. They stated that „*As a result of our business with them, we employed more workers to help meet up their demand"* LF3.

5.2.4 Frequency distribution

The statistical analysis on the importance of the codified findings is presented through a frequency table and chart. The data reveals which spillover mechanisms are prominently used to transfer spillovers and which spillover effects or outcomes are more prevalent among local firms.

Spillover mechanisms

Table 12: Frequency distribution for Spillover mechanisms

Spillover mechanisms	Frequency	Relative frequency
Training	7	0,30
Recommendation	1	0,04

Input requirement	9	0,39
Technology transfer/adoption	2	0,09
Input purchase	4	0,17

Source: the author's own elaboration based on findings

According to findings the most frequent mechanism through which multinationals transfer spillovers is input requirement which is a knowledge-based spillover mechanism, and meaning that firms are more likely to absorb knowledge spillovers through the product supply requirements imposed by multinational firms.

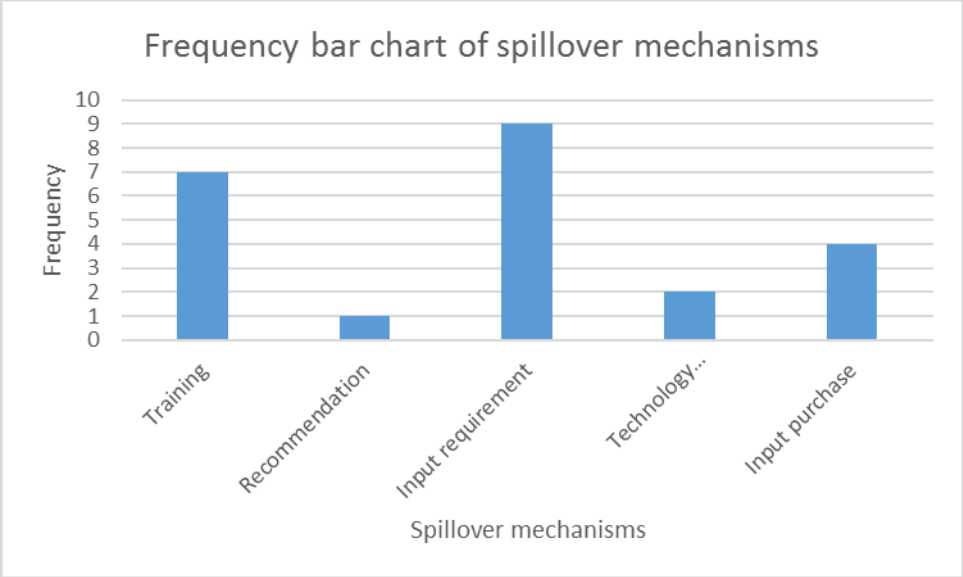

Figure 25: Frequency bar chart of spillover mechanisms

Source: the author's own elaboration based on findings

Training is the next spillover mechanism identified the most from the data analyzed. This is followed by the purchase of inputs by the multinationals and the adoption/transfer of new technology.

According to the pie chart it is revealed that Input requirements which was the most identified spillover mechanism in the bar chart constitutes 39% based on the data analysis.

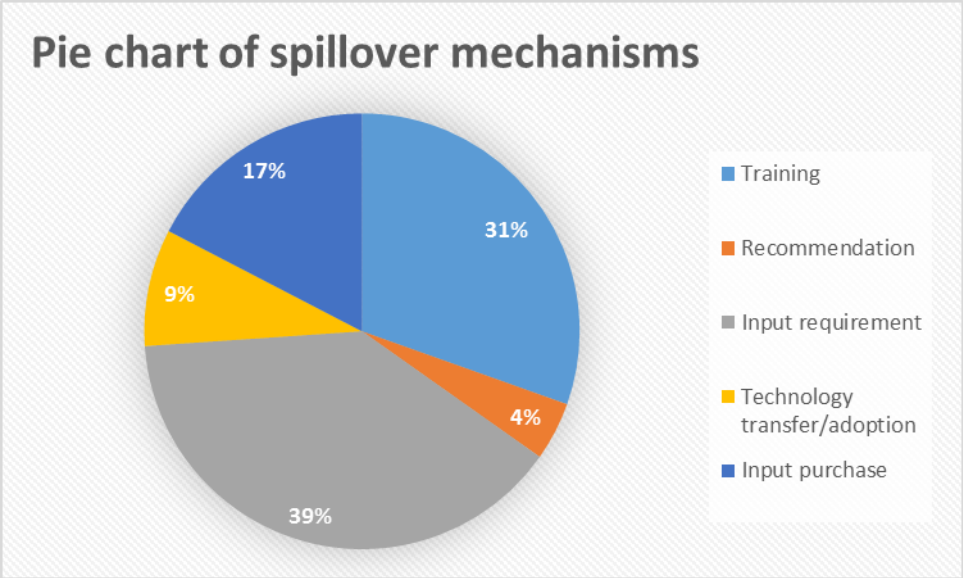

Figure 26: Pie chart of spillover mechanisms

Source: the author's own elaboration based on findings

Training which is the second most identified constitutes 31%, Input purchase is 17%, Technology transfer/adoption is 9% and Recommendation is 4%.

Spillover outcomes

Table 13: Frequency distribution for spillover outcomes

Spillover outcomes	Frequency	Relative frequency
Increased productivity	11	0,32
Improved product quality	9	0,26
Increased sales revenue	14	0,41

Source: the author's own elaboration based on findings

On the outcomes or effects from spillovers, the bar chart below reveals that increased sales revenue was mentioned the most in terms of spillover effect or outcomes experienced among

local firms, meaning that firms are more likely to benefit from an increase in their income based on the findings of this study.

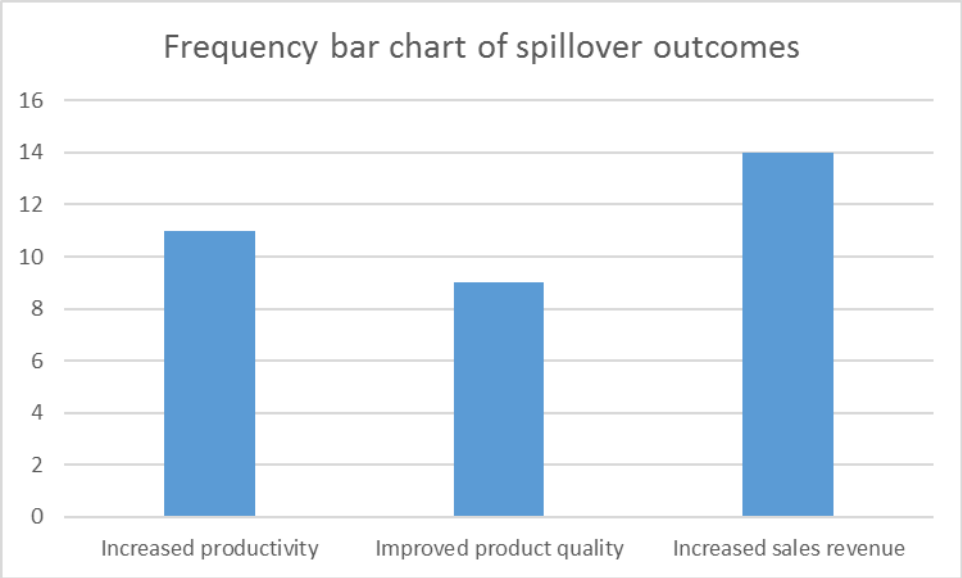

Figure 27: Frequency bar chart of spillover outcomes

Source: the author's own elaboration based on findings

The second most identified outcome is an increase in productivity which local firms admitted as a contribution of multinationals to their performance. The last-mentioned outcome is an improvement in the product quality of local firms.

As the pie chart below reveals, increase in sales revenue constitutes 40% as the most identified outcome mentioned by local firms.

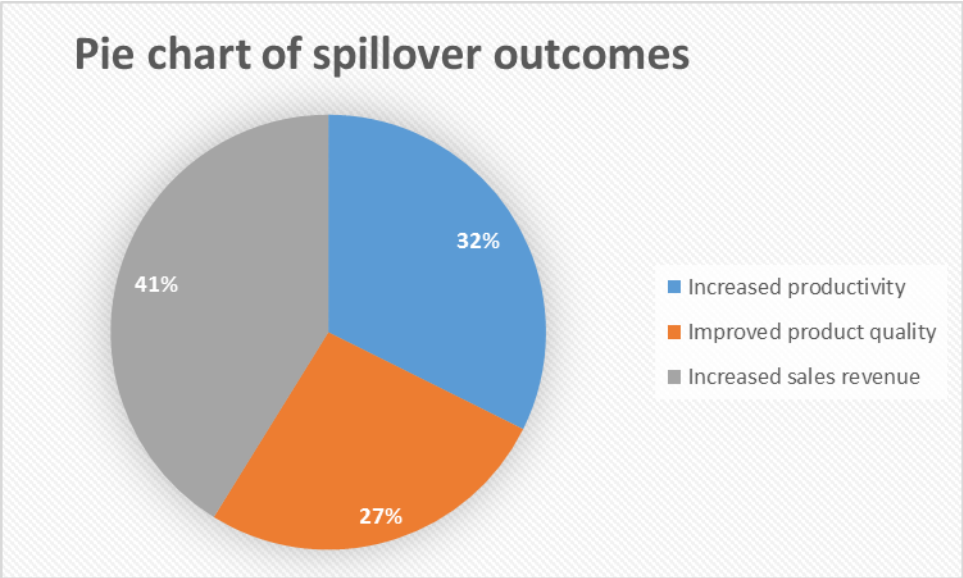

Figure 28: Pie chart of spillover outcomes

Source: the author's own elaboration based on findings

The chart also shows that the increase in productivity among local firms was the second most identified effect from the spillovers from multinationals and constitutes 32%, which the improvement in product quality constitutes 27%.

5.2.5 Semantic relationships

Analysis of the findings also reveal several relationships in the FDI-linkage process with local firms. The general consensus on how FDI affects local firms is through spillovers, and these spillovers form the basis of the relationship between FDI and local firms. To avoid repetition and duplication of the findings, the presentation of the semantic relationship will briefly state the similarities found in the domain analysis with that of the thematic analysis.

Table 14: Semantic relationships of the FDI spillover domain

Semantic category	Included terms	Relationship	Cover term
Strict inclusion	Knowledge	is a kind of	Spillovers
	Technology upgrade		
	Product demand		

Rationale	Meeting international regulations	is a reason for	Spillovers
	Need for quality products		
	Product variety		
Cause-effect	Increased productivity	is caused by/are the effects of	Spillovers
	Improved product quality		
	Increased sales revenue		
Function	Training	is used for transferring	Spillovers
	Input requirements		
	Recommendation		
	Technology adoption		
	inputs purchase		

Source: the author's own elaboration based on findings

The first relationship identified is the strict inclusion relationship and it indicates that knowledge, technology upgrade and product demand are a kind of spillover. This corresponds with the thematic analysis findings where they are identified as forms of spillovers. The second relationship found in the study is the rationale relationship and it reveals that the reason behind the transfer of spillover are to meet regulations of international markets, the need for quality products, and the variety of products. The cause-effect relationship was also identified during the analysis and it corresponds with the spillover outcomes presented in the thematic analysis. It reveals that increased productivity, improved product quality and increased sales revenue as the effects of spillovers. The final relationship is the function relationship which is similar to the spillover mechanisms identified from the thematic analysis. It shows that the spillovers are transfered using training, input requirements, recommendations, technology adoption and donation, and the purchase of inputs.

5.2.6 Social Network Analysis

The qualitative study explores the impact of FDI through its linkages with local firms to understand how the process by which the effects of FDI are created. After examining the data collected, several actors were identified from the interview responses. To investigate and determine the role of these actors and reasons for their existence in the data, a social network analysis is applied. The network has been named the "FDI vertical spillover network" based on the aim of the study, and it is important to note that this study analyzes the network from the perspective of the local firm from which the author obtained the data. To explain the network and the positions of the nodes, the measures of centrality are applied.

Based on the data, 6 actors were identified and their reasons for existing in the network including their relationship with each other if any, will be analysed. They are;

1. Local firms who are identified as the actors in a direct business relationship with local firms
2. Multinationals who directly linked with local firms
3. Government who are identified as one of the actors responsible for contacting the local firms
4. Intermediaries who are also identified as the other actors beside the government that contacted the local firms
5. Other local firms who are identified to have supplied FDI-linked local firms with initial inputs for the production of intermediate products for the multinationals
6. Other customers besides the multinationals whom local firms also supply their products to.

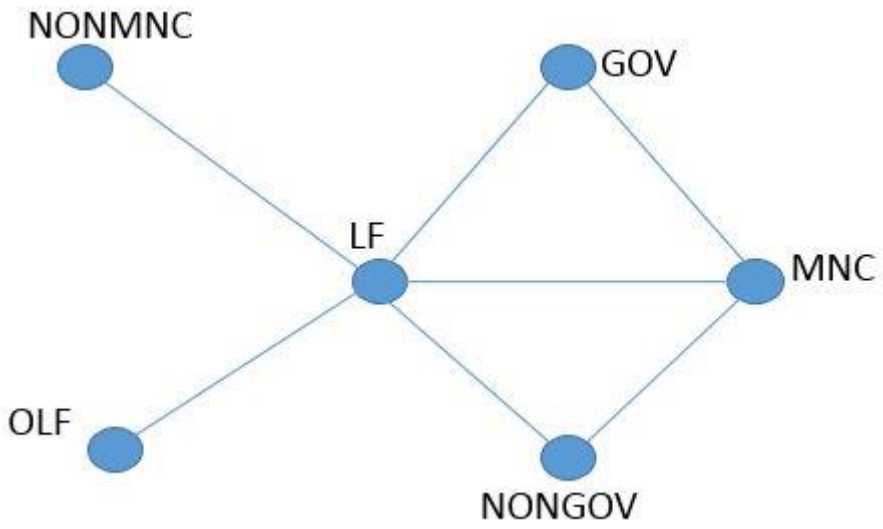

Figure 29: FDI vertical spillover network

Source: the author's own elaboration based on findings

A network was designed based on the data analysis, and the figure above is a sociogram illustrating the link between the various actors or nodes in the network. The accronyms assigned by the author to the nodes represent the actors in the network and are as follows; GOV=Government; LF=Local firm; MNC=Multinationals; NONGOV=Non government intermediaries; NONMNC=Non multinational customers; OLF=Other local firm suppliers.

Centrality measures

The prominance of an actor in the network describes those actors with high visibility, relevance and influence in relation to other actors. This can be determined by the degree centrality and the betweeness centrality all of which are calculated in the study

Degree centrality: Degree measures the involvement of an actor in the network and is used to find those that quickly connect with other actors in the network.

$$C_i^{DEG} = \sum_{j=1}^{n} a_{ij}$$

Degree centrality is determined by counting the number of links or ties connected to each node. Results from this measure is presented in table 14

Table 15: Centrality degree of FDI vertical spillover network

Nodes/Actors	Degree
GOV	2
LF	5
MNC	3
NONGOV	2
OLF	1
NONMNC	1

Source: the author's own elaboration based on findings

Findings from the table shows that LF is the most involved in the network as it has highest number of ties connected to it. This is followed by MNC with the second highest involvement in the network. Both the GOV and NONGOV are equal in ties, and the least number of ties in the network belongs to OLF and NONMNC.

Betweeness centrality: Betweeness assesses the extent to which a node lies between other nodes in the network. These nodes are known as the gate keepers in a social network context. An actor with a high betweeness occupies an important role in the network as they are positioned to work as an interface for different regions in the network.

$$C_{B(i)} = \sum_{j}^{n} \sum_{m}^{n} b_{ijm}(i \neq j, i \neq m)$$

Table 16: Betweeness score of the FDI vertical spillover network

To	From	Pathway		GOV	LF	MNC	NONGOV	OLF	NONMNC
GOV	LF	(GOV,LF)		0	0	0	0	0	0
GOV	MNC	(GOV,MNC)		0	0	0	0	0	0
GOV	NONGOV	(GOV, LF, NONGOV) (GOV, MNC, NONGOV)		0	0.5	0.5	0	0	0
GOV	OLF	(GOV, LF, OLF)		0	1	0	0	0	0

GOV	NONMNC	(GOV, LF, NONMNC)		0	1	0	0	0	0
LF	MNC	(LF,MNC)		0	0	0	0	0	0
LF	NONGOV	(LF,NONGOV)		0	0	0	0	0	0
LF	OLF	(LF,OLF)		0	0	0	0	0	0
LF	NONMNC	(LF,NONMNC)		0	0	0	0	0	0
MNC	NONGOV	(MNC,NONGOV)		0	0	0	0	0	0
MNC	OLF	(MNC, LF, OLF)		0	1	0	0	0	0
MNC	NONMNC	(MNC, LF, NONMNC)		0	1	0	0	0	0
NONGOV	OLF	(NONGOV, LF, OLF)		0	1	0	0	0	0
NONGOV	NONMNC	(NONGOV, LF, NONMNC)		0	1	0	0	0	0
OLF	NONMNC	(OLF, LF, NONMNC)		0	1	0	0	0	0
			T	0	7.5	0.5	0	0	0

Source: the author's own elaboration based on findings

The betweeness measure is applied to determine the actors who influence the flow of spillover activity in the system, and the analysis shows that LF with a 7.5 has the highest betweeness score among all the nodes. MNC from calculations possess a 0.5 score. The significance of LF can also be viewed in the sociogram as it is central and provides a path for other nodes to connect with each other. Analysis of the graph indicates that local firms act as the main gatekeepers in this network, as they are not only the main beneficiaries due to their direct linkage with the multinationals, but provide a path for other local actors outside the linkage, to experience the spillover effects from FDI through them.

Summary and implications of the network

The network reveals the actors present in the FDI linkage process and their involvement. It shows that the linkage between multinationals and local firms are facilitated or made possible by the government and non-governmental actors who acting as matchmakers, bring together both local and multinational firms. In the network, they form a "clique" as each of their nodes are connected by an edge which forms a tryad in the process. In the context of networking,

cliques are the goup of actors who know each other. Findings indicate a possible FDI effect on unrelated actors with a direct link with local firms. It reveals that FDI can also indirectly increase the productivity of other firms, and this is made possible through local firms who are directly linked with multinationals in an intermediate products supplier relationship, but are also linked with other firms from whom they purchase inputs for making their intermediate products. It also reveals that other non-multinational buyers could benefit from improved product quality from local supplier firms through the spillovers transfered to them by multinationals. It also indicates the importance of strengthning the linkages with local firms as a channel, because they are key to distributing the positive effects of FDI to other actors in the economy

There is a possibility that the FDI spillover network may have more actors in the system than what the author identified in this study. This is because the focus of the study limits itself to understanding the FDI linkage effects on directly linked local firms. However, there are evidence that the effects from FDI linkages can flow beyond directly linked firms to other firms. In support of this fact, this study can be a foundation for more comprehensive studies focusing on networks in an FDI spillovers system to be conducted.

CHAPTER 6
DISCUSSION OF FINDINGS

This chapter will discuss the findings from the research. It will look at the empirical findings and evidence obtained from the study in relation to the research questions and objectives. The findings obtained will be presented and synthesized with reviewed literature from previous chapters.

Introduction

The research aimed to study the impact of FDI on aspects of the Nigerian economy with focus export performance and GDP. Quantitative findings will be discussed in relation other studies. The second part of the research aimed to investigate the relationship between the local and foreign firms, and how they interact with each other through their linkage activities. Based on the analysis of the data, the study will discuss the qualitative findings through the following themes: linkage formation, spillover mechanism and spillover outcomes.

The chapter will conclude with a framework aimed to promote an understanding of the FDI process and will illustrate its relationship with local firms in the country. The chapter comprises of three main sections and several subsections. They represent the key research objectives: FDI and export performance, FDI and GDP, and FDI and local firms. This chapter will summarize and describe the research findings for the research objectives within the perspective of current academic knowledge of the topic.

6.1 Findings from FDI effect on GDP and Export

6.1.1 FDI and Economic growth in Nigeria

Economic growth is used as a performance indicator for measuring the strength of an economy, and FDI according to several studies (Oseghale and Amonkhienan, 1987; Borenszetein et al, 1998; Mustapha et al, 2008) is expected to contribute positively to a country's economic growth. Nigeria attracts FDI using some of its locational advantages. However, the study finds that economic growth has not benefited from the FDI. According to findings, FDI has a negative impact on GDP which is used to represent economic growth in the study. These findings are similar to other findings that has been conducted in other countries. For example the study by Levine and Carkovic (2002) on the effect of FDI on economic growth found no impact of FDI

in the long-term for economic growth, despite the availability of human capital, openness of the economy or the host country's level of economic development.

One of the reasons that may cause the insignificant impact of FDI on economic growth is due to the flow of investments towards natural resources exploitation. Nigeria has an abundance of energy resources and is the largest producer of oil in Africa which can be credited to FDI as evidenced in the oil multinationals operating in the country. This however has not translated to FDI-led growth as also found by Alfaro (2003) that FDI inflows has a negative impact on the growth of the primary sector but has a positive impact on the manufacturing sector.

The impact of FDI on economic growth does not occur in a vacuum as conditions must be met. Studies reveal that the impact of FDI is dependent on other factors such as the absorption capacity which is determined on the development of human capital. For example, studies carried out by Jyun-Yi, Wu and Hsu Chin-Chiang (2008) examined if FDI promotes economic growth and their findings showed that FDI strongly contributes to economic growth but the initial GDP and human capital were major factors explaining FDI. Their findings show that when the initial GDP and human capital are on a higher level, FDI will have a positive impact on economic growth. Macroeconomic stability was another important factor that influences the significance of FDI-led economic growth. The study by Mustapha et al (2008) made this conclusion as they found no significant effect of FDI on growth in MENA countries with a conclusion that FDI and economic growth is dependent on the stability of the macroeconomic environment especially at the CPI level.

This concludes that the effect of FDI on economic growth can be on a sectoral basis. Also there is a minimal possibility for spillover into the agriculture and mining sectors, therefore reducing the efficiency of FDI inflows. From the findings of the study, and other studies discussed in the literature, there is significant consensus that the positive contribution of FDI depends on the sector.

6.1.2 Impact of FDI on Nigerian export performance

Studying the impact of FDI on Nigeria's exports will reveal either of two effects as identified in literature. The questions are does an increase in FDI lead to an increase in exports which represents a complementary effect? Or does an increase in FDI lead to a decrease in exports which is a substitution effect? To determine the impact of FDI on exports in Nigeria, the nature or pattern of investment and the location advantage of the country should be analyzed. As Kojima (1975) already explained that the relationship between FDI and trade is complementary

when the inflow of FDI creates or expands the opportunity for exports. This seems to be the case with the pattern of FDI flows in Nigeria. Nigeria as a natural resource rich country attracts natural resource seeking investments which is expected to be exploited for exports to countries with high demand. This was clearly described by Schimitz and Helmberger (1970) in their explanation of the FDI-trade complementary relationship. In their examination of the extractive industry, they assumed that one country with a large domestic demand for a specific natural resource is also a country with a capital surplus. Tekin-Koru (2007) also adds that the motives for seeking natural resources are not to serve the host country but may rather a third-country market and the home country. The findings from the study revealed that FDI flows into Nigeria increases the exports of the country. FDI and exports was found to be positively correlated. Oil price was used as a proxy for natural resources in the study. Oil accounts for almost 90% of Nigeria's exports and FDI flows into the country's primary oil sector plays a significant role in export activities.

6.2 Findings from FDI linkage effect on local firms

The study aimed to investigate the spillover effects of FDI on local firms and how these spillovers are transfered to local firms. The study found that the presence of multinational firms and their interaction via linkages impacted on the economic performance of local firms (Laenarts and Merlevede, 2011). It was found that the productivity of local firms increased, and confirming that linkage externalities occur when multinationals source their inputs from local suppliers in the economy (Reganati and Sica 2007). Linkage formation is one of the important themes in the study of the impact of FDI on local firms and how multinationals and local firms interact in the economy. Findings confirmed the existence of linkages by identifying several transactional relationships between local firms and multinationals. In this case, linkages occurred as a result of the multinationals affecting the conditions and amount of supply from the local firms (Dunning and Lundan, 2008). As evidenced in the research findings, local firms act as input suppliers to multinationals, which makes them vertically linked.

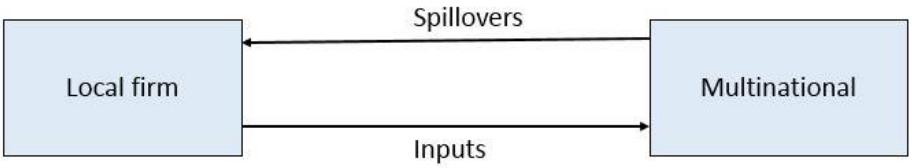

Figure 30: FDI linkage relationship between the multinational and local firm

Source: the author's own elaboration based on findings

To discuss the findings, the study decided to break down the linkage process and identified several components. It includes the forms of spillovers transferred from the multinationals to the local firms, the mechanisms through which these spillovers are transferred, and the outcomes or effects of these spillovers.

6.2.1 Forms of spillovers

Several spillovers were identified and based on the motives, they were termed as product-support spillovers and trade-related spillovers. The study defines product-spillovers as those spillovers which flow from multinationals to local firms to enable them meet the required product standard. These spillovers are intentionally transferred, and in return, local firms are able to supply the right inputs/intermediate products. The two main product-support spillovers identified in the study are knowledge spillovers and technological spillovers. The third spillover found in the study identified as demand spillovers, occurs as a result of the sourcing of inputs from local firms by the multinationals. Demand or economic spillovers can be described as trade-related spillovers as they occur as a resullt of the transactional exchange between local firms and multinationals.

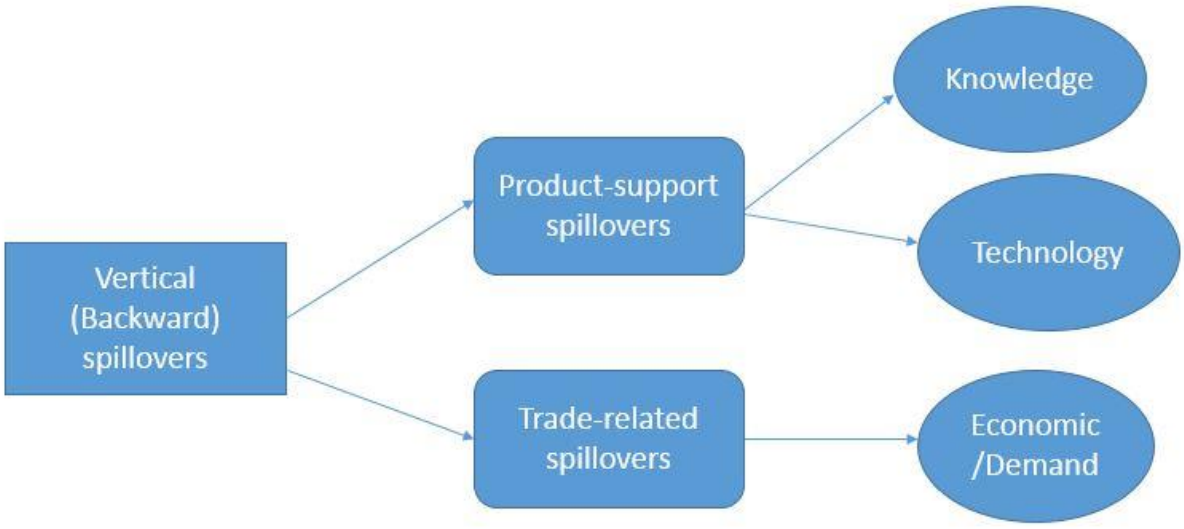

Figure 31: Conceptual classification of vertical backward spillovers

Source: the author's own elaboration based on findings

6.3.1.1 Knowledge transfer

On the vertical linkage relationship between both firms, knowledge transfer is a key spillover that local firms have benefited from. The reason for knowledge spillovers is as a result of the multinationals not limiting its diffusion in backward linkage relationship. Study findings reveal that knowledge transfer is the most common form of spillover experienced by local firms. This is similar to the findings from previous research that knowledge is the most likely way that spillovers would occur in backward linkages (Smarzynska 2004; Kusek and Silva, 2017). Based on the findings, various reasons were identified for the diffusion of knowledge from the multinationals to the local supplier firms. One reason identified for multinationals transferring knowledge to local firms was to enable them meet their product quality specifications (Smarzynska 2004; Dunning and Lundan, 2008; Newman et al, 2018). As explained by Dunning and Lundan, (2008) the transfer of knowledge or incentive structures by a multinational to its suppliers would enable local firms meet their product quality specifications, and further improve the performance of the supplier firm. Pack and Saggi (2000) also argue that the knowledge transfer for product quality reasons will benefit the multinationals from a profit perspective. Another reason identified by the study was the need for multinationals to meet and satisfy regulatory standards of their target markets. Export oriented multinationals who invest for the purpose of exports and require the use of local inputs must ensure that the locally sourced products meet the requirements of the export market. Therefore, they transfer

knowledge to local firms to ensure conformity. The knowledge transferred to local firms according to the research findings enabled the suppliers in meeting international standards and satisfying product regulation requirements. Westphal (2002) identified quality control, process improvements, and information on other markets as knowledge that can be obtained from multinationals. According to Pack and Saggi (2000), multinationals expects beneficial effects which explains their motivation in providing proprietary knowledge to local firms. This implies multinational firms who are export focused or engage in platform FDI are not just closer to international best practices but also transfer necessary export market knowledge. Multinationals due to their international experience, are closer to international best practices and can be viewed as a source of new knowledge.

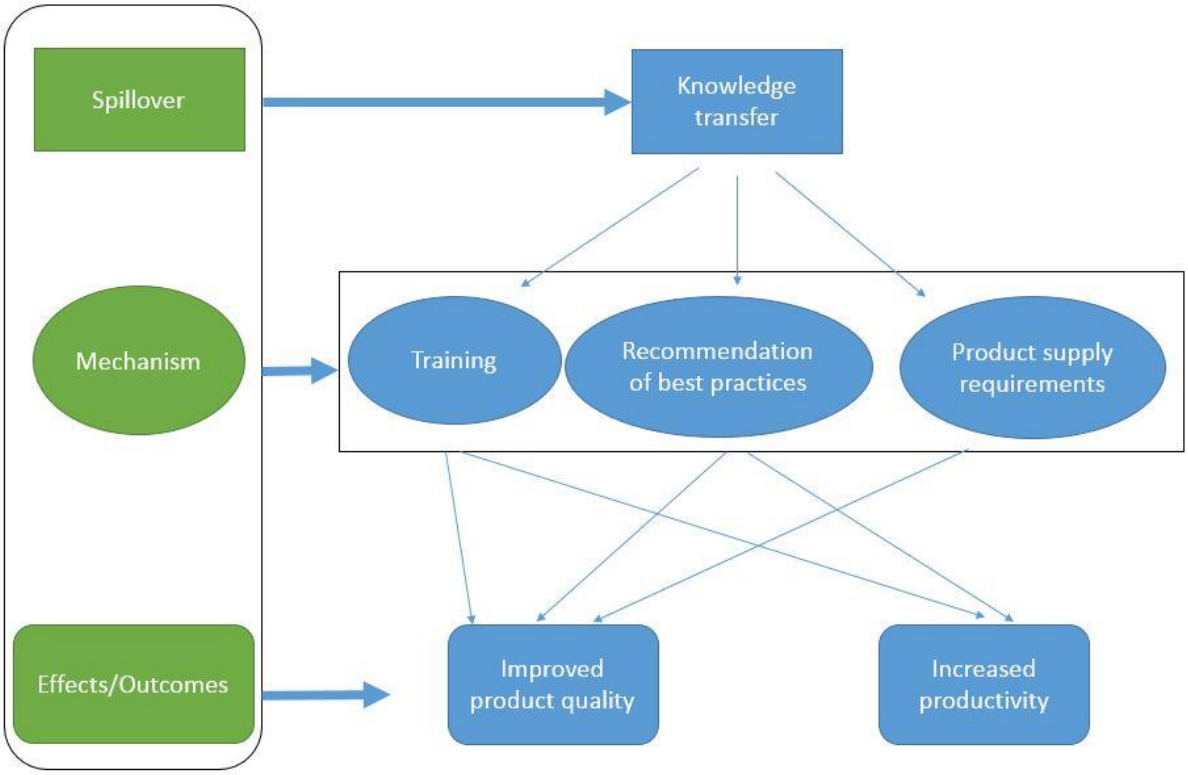

Figure 32: Conceptual model of knowledge spillover process

Source: the author's own elaboration based on findings

This study differentiates itself from other studies in that it breaks down the spillover process where it identifies the mechanisms through which the spillover is transferred and also the outcome from this spillover. As will be discussed further in the study, the model illustrates how knowledge is diffused from the multinationals to local firms.

6.3.1.2 Technological upgrade

The linkage between multinationals and local firms in their transactional relationship, led to the upgrading of the latter's technology as found in the study. Local firms benefited from the exchange of technology from the multinationals (Girma et al., 2004; Günther, 2005). The research found that the upgrade of technology by local firms was due to the need to meet and satisfy the product quality requirements demanded by their multinational partners. The upgrade was also necessary to increase productivity and meet the quantity requirements. This finding is similar to Smarzynska (2004) who explained that the upgrade of technology by local firms is one way through which spillovers from backward linkages occur, an is incentivized by higher standards requirement demanded by multinationals in terms of product quality. Local firms who supplied inputs to multinationals as outgrowers or contract suppliers received technical support. This support is in the form direct technological transfer to ensure local firms meet required product input supply standards.

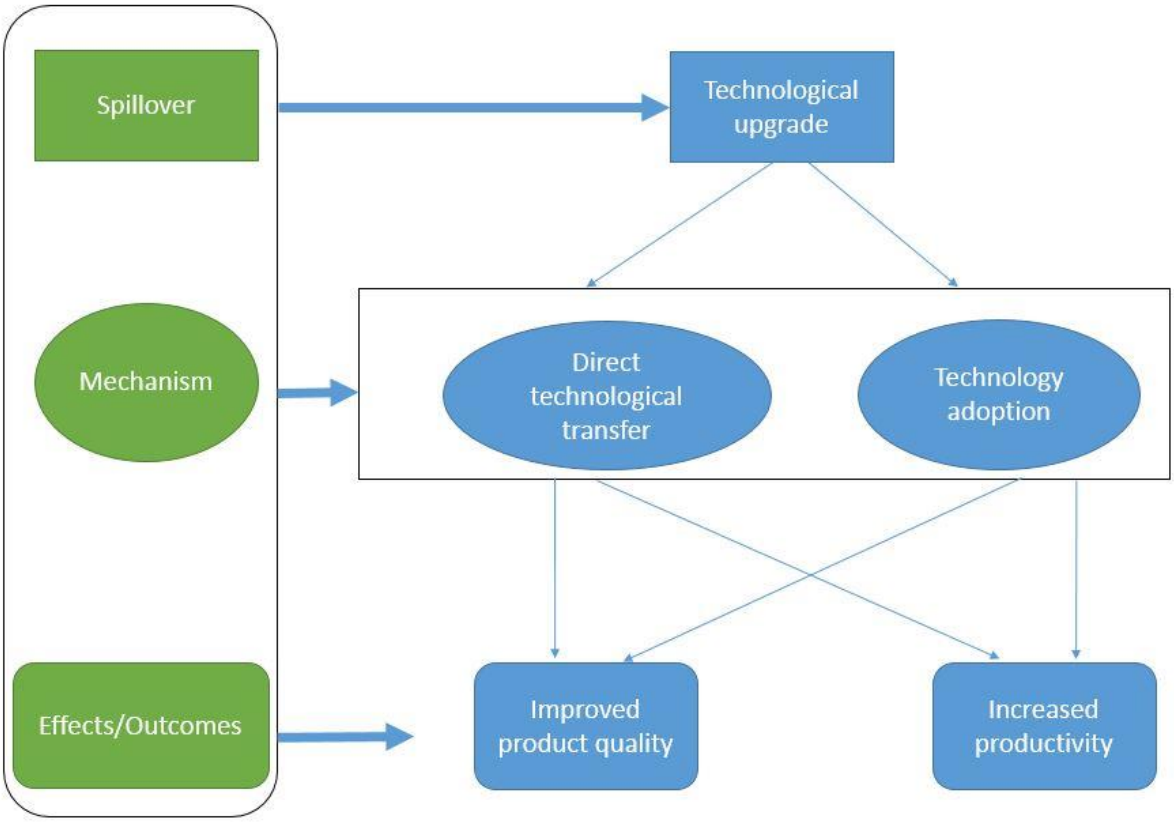

Figure 33: Conceptual model of technological spillover process

Source: the author's own elaboration based on findings

The model illustrates how local firms upgrade their technologies and these upgrades contribute to their performance as found in the study.

6.3.1.3 Product demand

The third spillover effect identified in the study was the increased demand for production inputs. The study reveals that the presence of the multinationals and the current supply linkage relationship with them led to the increase in demand of inputs from local firms. This is a confirmation of the findings from Dunning and Lundan (2008) that local firms will gain from the increased demand for the product they provide, which they termed as pecuniary externalities. Smarzynska (2004) and Newman et al (2018) also present the same arguement that local firms benefit from an increase in demand of intermediate products which would allow them achieve economies of scale. The demand for inputs or intermediate products from local firms affects their condition of supply as revealed in the study, and there are two reasons for this effect. Multinationals require certain production inputs, and their presence in the host

country represents an additional customer creating more supply opportunities for local firms. The second reason is that due to their scope of operations, the quantity demanded by multinationals are lot larger than that of local customers. Therefore even when there are no transfer of knowledge, there might be a production of intermediate products on a larger scale due to increasing demand, which would improve the supplier firms cost of competitiveness.

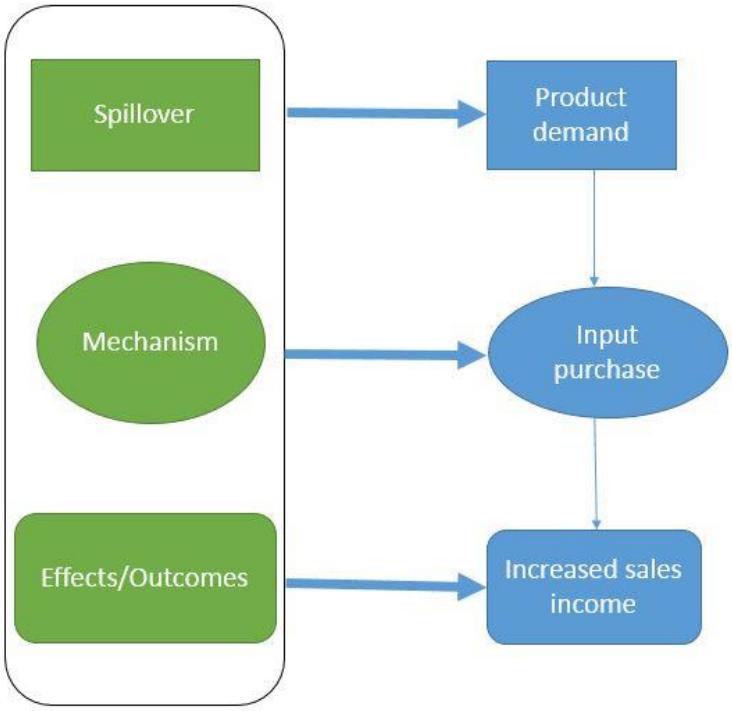

Figure 34: Product demand/Economic spillover conceptual model

Source: the author's own elaboration based on findings

The demand and purchase of inputs by multinationals provides additional economic gains for local firms. As seen in the model, local firms experience increase revenues from the sales.

6.2.2 Spillover mechanisms

During the analysis of the findings, the study found that some of the spillovers experienced by local firms were transferred through several mechanisms. The theme spillover mechanism represents the process or means by which the spillover takes place.

6.3.2.1 Training

Evidence from the study shows that one of the ways through which knowledge was diffused from the multinationals to their local firm partners is in the form of training. Training involves the act of teaching a specific skill and developing such skills up to a required to meet certain goals by practice and instruction. The evidence of training and technical support to local suppliers agrees with the findings of Reganati and Sica (2007) who explained that in the event of linkage externalities, multinationals usually assist in management, and also provide training and technical assistance to local suppliers. This improves the process in local production, and the quality of domestic products suppliers. In the case of the study, training the local firms increased their knowledge and skills for supplying the required inputs product and meeting the standards.

6.3.2.2 Input requirements

The study found that input requirements from multinationals represented a means through local firms learnt of new ways to produce inputs differently. When multinationals contract local firms to supply them with production inputs or intermediate products, they expect these inputs to fit their production objectives as they will be part of the final products. This is because they may produce unique products, several product categories or varieties, or need to comply with product regulatory standards. As they will need to diffuse information to supplier firms in order for these firms to supply them with the right inputs according to these information. Newman et al (2018) also suggest that local firms acting as input suppliers must produce input varieties that are similar to those required by multinationals for positive spillovers to occur. The input requirement also spurred the need for local firms to upgrade their technology in order to satisfy those requirements. Knowledge spillover through input supply requirements exists and is beneficial when the knowledge diffused to local firms is different from their original knowledge about the input production process.

6.3.2.3 Recommendation

Through recommendation of best practices and suggestions from the multinationals, local firms received valuable knowledge according to findings. Recommendation is generally regarded as a form of suggestion made by authority or expert personnel regarding the best course of action. While operational and managerial recommendations are not compulsory or mandatory to fulfil

contractual obligations, local firms are exposed to new methods and ideas that may be beneficial in improving their productivity and standard of management.

6.3.2.4 Direct technology transfer and adoption

The upgrade of local firm's technologies occurs either through the direct transfer of technology from multinationals, or the adoption or acquisition of new technology by the local firm itself. This upgrade is mostly motivated by the need for the firm to meet supply requirements in terms of product quality and quantity. Based on the study findings, direct technology transfers are described to be direct intervention by multinationals on the operations of local firms by supporting them with equipment and tools for production. As the name implies, direct technology transfer is the voluntary transfer of technology to local firms from multinationals. It is different from the technology adoption as in the latter, the firm acquires such technology by itself. Smarzynska (2004) also stated that higher standards requirement demanded by multinationals in terms of product quality will incentivize local firm suppliers to upgrade their technology. In other words, this technology upgrade can be described as product-support spillovers.

6.3.2.5 Input purchase

The purchase of inputs from multinationals is another mechanism through which spillovers take place, in this case economic spillovers. Input purchase affects the conditions of supply and local firms are able to increase their supply and make economic gains through the increase in revenues.

6.2.3 Spillover effects/outcomes

The spillover outcomes represents the actual benefits experienced by local firms as a result of the spillovers. They are the effects or results from the spillovers absorbed by local firms in their relationship with multinationals.

6.3.3.1 Improved product quality

The improvement in the quality of products from local firms was an effect of the knowledge and technological spillover from multinationals. Multinationals are exposed to better management practices, and more knowledgeable about product quality and standards. In order

have access to better quality inputs, they assist local firms with the necessary knowledge. The knowledge absorbed by local firms through training, input requirements and best practice recommendation increased their capacity to produce and supply better quality products. This was also supported by the upgrade in the technology of local firms to satisfy those requirements and specifications. As explained by Reganati and Sica (2007) the quality of products from local suppliers and their production process will improve multinationals assist them with training, technical assistance and better management practices.

6.3.3.2 Increased sales revenue

Besides the achievement of economies of scale due to an increased demand of intermediate products from multinationals (Smarzynska 2004; Newman et al, 2018), one of the supply effects local firms experience from linkages is an increase in sales revenue or income. When multinationals enter a new market, local firms can expand their services if needed or become part of their product value chain process through vertical linkages. In this case the presence of the multinationals affected the amounts of supply from local firms (Dunning and Lundan, 2008). As a result, the firm's productivity increased and more inputs were supplied. This increase in the supply of inputs also increased the sales revenue of the firms.

6.3.3.3 Increased productivity

The linkage between FDI and local firms is expected to bring improved productivity to the latter (Reganati and Sica 2007) through direct spillover effects from multinationals. As expected, there were positive spillovers from FDI on local firms which is confirmed by other studies (Haskel et al, 2007; Ayanwale and Bamire, 2001; Blomström and Kokko, 1998). One way it was made possible is through the considerable knowledge spillovers (Balasubramanyam et al 1996; Kumar and Podhan, 2002) diffused to local firms through training and recommendation of best practices. The upgrade of technology by the local firms also improved their productivity level.

6.3.3.4 Job creation

The demand of inputs from multinationals affects the labour structure of local firms. The demand from multinationals for production inputs and intermediate product leads to local firms

hiring more workers to meet up the quantity demand requirements, creating indirect jobs in the process. Some of the firms interviewed admitted that due to the increase in demand for the products by the multinationals, they had to employ more workers to fulfil their order request as they were short of workers. The wider implication of this is that FDI linkages affects the conditions of labour and the hiring of more labour by local firms represents the creation of jobs which is a positive contribution to the broader economy.

6.3.3.5 Effects on third-party actors

While it may not be empirically proven as no investigation was directly conducted, it is hypothesized that other local firms were indirectly impacted by FDI due to their presence or participation in the value chain. Local firms directly linked with the multinationals affected the conditions of supply with other local firms they source inputs for their intermediate products. As directly linked local firms increase their supply of inputs to multinationals, they will demand more production inputs from other local firms, which is expected to increase the productivity of the latter. In summary, the presence of multinationals will not only affect the local firms they come in contact with through linkages but also other firms along the value chain.

Other local customers benefited from an improved quality in the input/product supplied by the local firm. These effects indirectly ''spillovered" to other actors in the economy as a result of the direct linkage of the local firms and multinationals. The explanation to this cause is that local firms who benefit from knowledge spillovers from multinationals are likely to retain that knowledge and apply same to other local partners.

6.2.4 Factors influencing transfer of product-support spillovers

It is also important to note other key observations that influenced the linkage process and the spillovers to take place. One this observation is the rationale behind the transfer of product-support spillovers.

Motivating factors for product support include:

- **Need for quality products.** Product quality is the most common factor. For local firms to make and supply the required product and quality, multinationals are motivated to diffuse the necessary knowledge and technology input to ensure conformity.

- **Regulation and standards in international markets.** Regulations and standards for products differ among international countries. Multinationals must ensure their products meet these requirements for their target market and therefore are motivated to transfer the knowledge and other forms of assistance to local firms.
- **Product variety.** Multinationals may produce several varieties of product due to availability of resources, the taste and demand from consumers, or other social factors bothering on culture and religion. Therefore, there can be slight but significant variations in the products according to the market.

6.3 Answering the research questions and achieving the research objectives

The main aim of the study was to understand the impact of FDI on the Nigerian economy using a mixed methods approach. This was acknowledged through the use of both quantitative and qualitative methods in answering the research questions and achieving the research objectives. The subsequent section discussed how the research questions in the study along with its objectives were answered and achieved. The primary objectives are summarized below.

Determine the impact of FDI on GDP and exports in Nigeria

To determine the effect of FDI on GDP and exports, the following questions were asked:

1. What is the relationship between FDI and Nigerian GDP?
2. What is the impact of FDI on Nigerian export?

To answer the research questions the study adopted a quantitative approach by conducting an econometric analysis. Using time series data, the research sought to determine the effect of FDI on GDP and export performance. The research conducted a correlation analysis to determine the relationship between variables, and used a regression to determine if FDI has an impact on GDP and exports, and how significant that impact is, if any. These objectives were achieved in Section 5.1.2, 5.1.3 and 5.1.4.

Understanding the linkage effects of FDI on local firms

To understand the linkage effects of FDI on local firms, three research questions were asked:

1. How does FDI affect the performance of local forms?
2. What type of spillovers occur between MNCs and local firms?
3. In what ways do local firms benefit from FDI spillovers?

To answer the research questions, the study adopted a qualitative approach by conducting a series of interviews with local firms in order to understand the FDI-linkage process and the impact of the linkage on their performance. The interviews resulted in the collection and analysing a set of qualitative data. During the analysis, some themes that would enable the author understand the linkage process were created. The themes that were identified during the research findings were nature of linkage, spillovers, spillover mechanisms and spillover outcomes. These objectives were achieved in section 5.2.1, 5.2.2 and 5.2.3.

6.4 Integration and implications from the mixed study

The quantitative and qualitative sections of research were conducted independently of each other during the data collection and analysis. However, the findings presented from both studies are integrated during interpretation to show how they're connected. The quantitative section of the research sought to measure and determine the impact of FDI on the economy and the qualitative section explored how positive externalities from FDI are created and transfered to local firms through spillovers. Findings from the quantitative section reveal an insignificant impact of FDI in creating productivity in the country as a whole. The qualitative study reveal FDI does create productivity despite not significant.

Despite the overall contribution of FDI to productivity in Nigeria is not significant, the study demonstrates how FDI can contribute to Nigeria's productivity if the right policies to deepen linkages with the local economy are implemented. The research through the qualitative study reveals what can be done to make the impact of FDI on the Nigerian economy more significant. FDI can bring knowledge and technology that will help local firms increase their productivity and other aspects of their operations.

It shows that while FDI can make a positive impact, it does not operate in a vaccum and can be insignificant if not managed properly which the quantitative study shows. Positive externalities does not just occur from FDI either without the required conditions in place. These conditions include the specific roles to be played by relevant actors such as the government, which is discussed in a subsection below and is presented in more details in the conclusion chapter of the research as recommendations.

6.5 Other insights from the study

In accordance with the characteristics and consequences from a mixed study, new insights not previously known or intentionally researched can stimulate new ideas and even create new research questions.

These insights actually reveal important issues not previously thought of but play a role in the outcome of the study. Through these insights, better conclusions and understanding of the research are drawn. In fact, they make the study more holistic, which is actually the aim of the study.

Multinational purchasing behaviour

During the analysis of the qualitative data, some insights into the purchasing behaviour of multinationals were identified, which the study theorizes, has an influence on trade-related spillovers. One instance is during the coding for the demand of inputs by multinationals, the characteristics of the multinationals were identified based on how they purchase from local firms. From the study, local firms described the nature of multinational purchase behaviour as more consistent and regular. This meant that the demand for inputs by multinationals is consistent which could translate to a steady and regular income for local firms. They also described multinationals as bigger buyers as they buy more inputs than other customers. This is another purchasing pattern by the multinationals that would translate to increase income for local firms, as higher demand for their inputs means higher sales. Finally, multinationals were also described as fair buyers who purchase inputs from local firms at good market prices. This implies that the price at which multinationals buy from local frims is profitable. In summary, trade-related spillovers are influenced by the purchasing behaviour of the multinational as it determines the quantity of inputs supplied by local firms, and the regularity of those supplies It can be concluded that the multinational purchase behaviour can contribute to the productivity of local firms.

The role of the government, multinational and local firm in deepening the linkage process

The study reveals that productivity and other positive externalities do not just exist out of nothing, but requires certain spillovers to be transfered by multinationals to support local firms. Findings also imply that without specific facilitation activities to attract FDI and deepen its linkages with the local economy, the full benefits from potential spillovers will not be

maximized. As a result, it is concluded that to ensure full spillover benefits, the relevant actors in the FDI-linkage process must play their roles. Based on findings, the research developed a triangular framework describing the roles played by the government, multinationals and local firms and their responsibilities to each other.

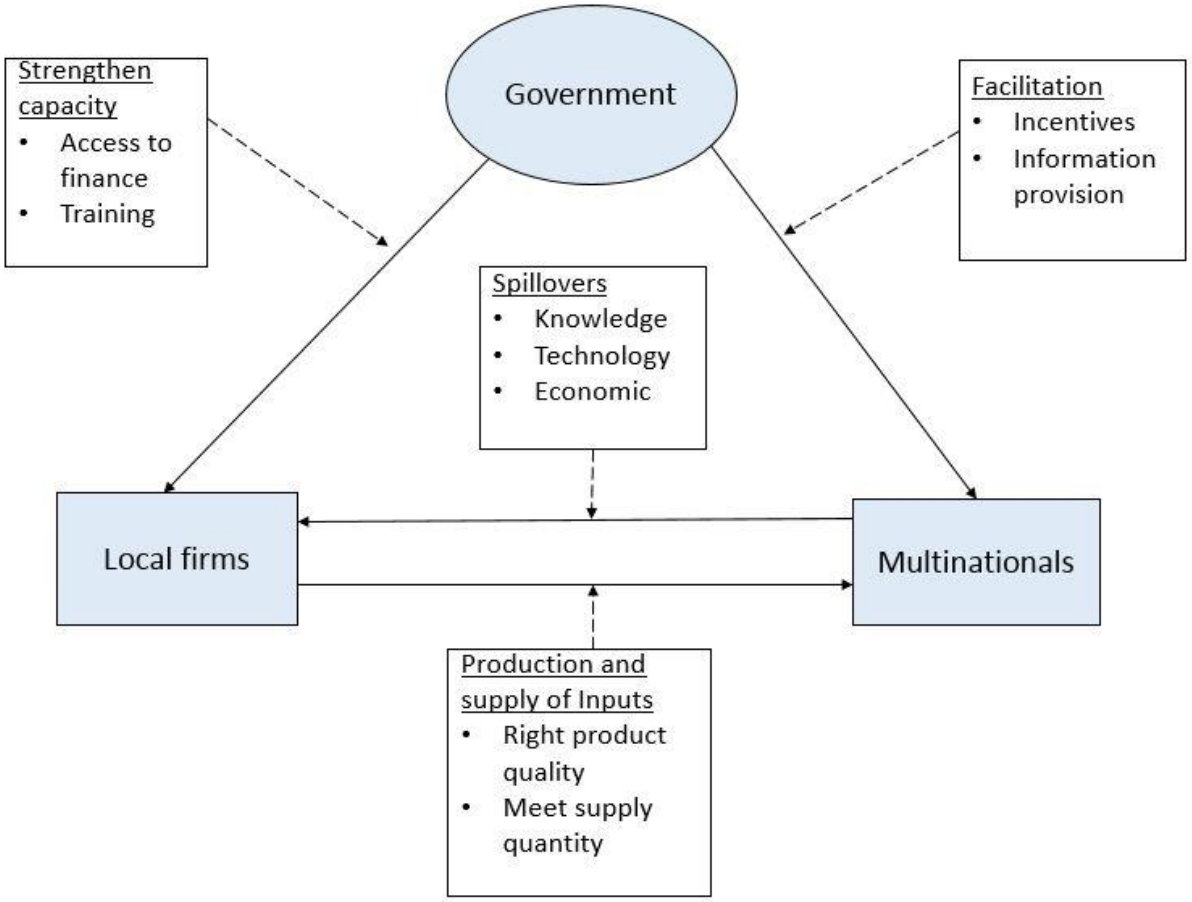

Figure 35: Conceptual framework for FDI-linkage growth

Source: author's own elaboration based on research findings

The figure describes the roles or responsibilities played by each actor in the linkage and growth promotion process. Government has responsibilities to both multinationals and local firms. The responibility to local firms is that of capacity strengthning, i.e the government needs to strengthen or increase the capacity of local firms to absorb potential spillovers from multinationals. Specific responsibilities in this regard include providing access to finance, and to relevant education and training. For multinationals, the responsibility of government is mainly that of facilitation. To increase the participation of multinationals and FDI in the economic process of the country, government should facilitate multinationals by offering

incentives, disseminating information on investment opportunities, and assist in matchmaking activities to link multinationals with local business partners.

In the linkage between multinationals and local firms, both actors have roles or responsibilities to ensure the linkage produces the desired outcomes. On the side of the multintionals, they transfer knowledge and technology where necessary to local firms in order to ensure that local firms supply them with the right standards of product required. In return, the role of local firms in the linkage process is to produce and supply multinatiionals with the right quality of products and the required quantity demanded. A more comprehensive description of these roles are presented in the conclusion chapter through my recommendations.

CONCLUSIONS

This section contains the conclusions from the research, as well as recommendations. It summarises the objectives of the research, the literature used and the research findings. It will also make recommendations if any and where necessary. The chapter will then discuss the implications of this study for government and policy makers, and also its contribution to knowledge.

Summary

The contribution of Foreign Direct Investment (FDI) to the development and growth of developing countries cannot be overemphasized. As an important factor in globalization, FDI is identified to be a positive contributor to providing jobs, managerial skills, knowledge transfer, technology, market access and capital. However, as the literature pointed out, FDI flows to locations where its motives are met. According to the findings from literature, factors such as access to natural resources, operational efficiency, consumer market potential and strategic assets are important. Most studies on FDI have focused on the activities of the investing firm, while relatively few studies have attempted to investigate FDI from the perspective of the host economy, in particular how it is affected by FDI. It is important to understand the issues that concern host governments and their relationship with FDI. This is because if FDI has a negative impact on the host economy, the host government will be motivated to implement policies that constrain future FDI. Nigeria has several reasons to attract FDI and benefit from it. The country has abundance of natural resources that needs to be exploited for economic gains. Nigeria is also regarded as a mono-product economy because it relies heavily on crude oil sales for its revenue. With the volatility of oil prices and exposure to external shocks, the country aims to diversify its economy and export base by attracting FDI into non-oil sectors of the economy. There is also a need to provide jobs for its increasing young population. For Nigeria to explore and maximize its full economic potential, it is important that it uses its unique advantages and develop capabilities that would absorb the potential spillovers from FDI.

The main objective of this research is to study and analyse the impact of FDI on the Nigerian economy. Other objectives include identifying factors that determine FDI inflow and discussing how Nigeria attracts FDI into the country. The research adopted a mixed method approach. Econometric tools such as correlation and regression were used to determine the type of relationship and effects that FDI has on several aspects of the economy. To understand how

local firms interact with foreign firms, the research conducted interviews with local firms which underwent coding and template analysis to determine key factors of the relationship.

On the impact of FDI on exports, findings revealed that FDI has a significant impact on Nigerian export performance, and the relationship between both variables are positive. According to findings, FDI improves the export performance of the country but is tied to the primary which is dominated by oil and gas. This is evident in the export base composition it makes up 90% of total exports. FDI on the other hand does not have an impact on the Nigeria's GDP performance. This can be explained by the fact that a significant bulk of capital inflows flows to the primary sector dominated by oil and gas. Available statistics cited earlier in chapter three revealed that the oil sector only contributes 8.68% to GDP despite accounting for 90% of the country's total exports.

The impact of FDI on GDP was found not to be significant. This was as a result of most capital inflows going to the primary sector especially oil and gas. Further analysis shows that the oil and gas sector which attracts most of the FDI contributes less than 10%.

On the linkage between multinational and local firms, findings show FDI can contribute positively to local firms by increasing their productivity through the transfer of spillovers. These spillovers were identified to be product-support spillovers as they were intentionally transferred to assist local firms in meeting the required product standards. These spillovers were influenced by the need for multinationals to meet international regulations of their export market, and for local firms to supply the right type of product inputs for their product categories. Knowledge spillovers diffused to local firms through training, product input requirements and recommendations contributed to improving the product quality of inputs produced by the firms. Technological spillovers influenced by the need to meet the quantity requirements and product quality contributed to the increase in the productivity of local firms. This occurred through the upgrading of technology and transfer of technology. Local firms also benefited from economic spillovers through the increased supply of inputs and intermediate products. Sales revenues increased due to quantity demanded by multinationals for their production. The demand for inputs by multinationals also positively affected other local firms along the value chain. It also impacted positively on the wider national economy through the increase in job creation. Multinationals are also found to indirectly influence the business practices of local firms. While certain standards are required by foreign firms from their local counterparts in terms of business fulfilments, local firms seem to retain such standards in their business operations with other local partners and customers. The outcome is that local customers benefit from quality products.

In conclusion, FDI is very important to Nigeria's economy as it creates opportunities for growth, job creation, exports and the acquisition of new knowledge and technology. As a result, the Nigerian government and its policy makers should ensure that the right policies are put to maximize these benefits.

The microeconomics and macroeconomics perspective of this study

The general aim of the study is the exploration of FDI and its impact on the Nigerian economy. The research took a different approach from many other studies by conducting both and quantitative and qualitative to understand the effects of FDI and the effect-creation process. The quantitative aspect of the research is a macroeconomic study that aims to determine overall impact of FDI on the national economy. On the other hand, the qualitative aspect of the research is a microeconomic study that investigates and explores the impact of FDI on individual firms through economic linkages. Total output is a subject matter for macroeconomics but it is determined by the sum or aggregate of outputs from individual firms. However, the study of individual firms is a subject matter for microeconomics. Therefore, it is theorized that the macroeconomics effect of FDI on productivity is dependent on the microeconomics effects of FDI on individual firms.

The study revealed that while exploring the impact of FDI on a microeconomic level, FDI positively improves the productivity of individual local firms. However, on a macroeconomic level, the impact of FDI on productivity is not significant. The implications of this research from a micro and macro perspective reveals that the performance of individual firms will influence the overall performance of the national economy, and that strong linkages should be formed in the economy to increase the productivity of local firms which would in return raise the total national output.

Implications for government and policymakers

Chapter 5 which contains the findings from the research have helped to determine the impact of FDI in Nigeria and how FDI has benefited the country. While Nigeria needs FDI to reduce unemployment, increase its exports, acquire new technologies and knowledge, this can only be done by creating an environment that is favourable and adequate to benefit from it. This research reveals how FDI affects the performance of local firms and provides some recommendations on how FDI management bodies can design better policies that will create a positive impact on the economy. The government organizations and policy makers that are responsible for attracting FDI and designing FDI policies in Nigeria must ensure that FDI in

the country impacts positively on the country, and also helps in achieving the intended objectives for which it was attracted for.

The ability of government to attract FDI may also depend on the availability of local supplier firms to support multinational activities with intermediate products. The alternative is the importation of same products or the internalization of that value chain activity. The high cost for the alternative might discourage multinationals from investing. Therefore the government has a role in creating linkage opportunities and strengthening the existing ones.

The need for government intervention in the linkage formation process is due to several reasons. The first reason is that multinationals may be unaware of potential local supplier firms or locating and dealing with them might be too costly. Secondly, local supplier firms may be unable to access technology or finance, or it may not be feasible for multinationals to invest in these local suppliers because their capabilities may be very low. Local firms may not have supplier capability which the multinationals might deem inadequate. Finally, multinationals may be reluctant in establishing a linkage relationship with local firms through building their local capabilities because other buyers may benefit from it. As a result, markets may be unable to create strong linkages and increasing the cost in entering into long-term supply relationships between both parties.

The question of how Nigeria can benefit from the positive effects of FDI is answered through the implications for policymakers and government which serves as recommendations. This study makes the following specific policy recommendations that the government can follow to actively promote and strengthen linkages.

1. **Reduce the gap in information asymmetry**

The problem of information asymmetry prevents multinationals from making informed decision about an FDI location and will therefore decrease the attractiveness of a location. In this case, multinationals might find it difficult in locating potential local partners as a result of inadequate knowledge of the location. Nigerian policy makers should ensure that multinationals are able to locate potential local suppliers by creating a supplier data base and establishing business matchmaking programs. The government can facilitate matchmaking through the sponsorship and organization of exhibitions, conferences, fairs and missions. Meetings between local supplier firms and multinationals can be organized with the government serving as an intermediary. Industry specific events that brings multinationals and local firms together can be

organized to enable both parties make contacts, showcase products and services, and agree deals.

2. **Increase absorptive capacity of local firms**

Increasing the absorptive capacity of local firms is vital if they are to effectively assimilate the technologies and knowledge spillovers or externalities that the FDI linkages may provide for them. While it is expected that local firms will benefit from knowledge spillovers, it is important that they are capable of absorbing these benefits by meeting the required level of knowledge threshold. Government should promote education and technical training to increase the ability of local firms to utilize knowledge spillovers, as well as adopt new technologies. Financial support and incentives should be provided for local firms to enable them upgrade their technologies and reduce the technological gap that might exist between local firms and multinationals.

3. **Protect local firms from crowding-out effects**

On the impact on local firms, it is important that policy making regarding FDI should not lead to the crowding-out of local firms. Government and policy makers should ensure that foreign firms who are carriers of FDI and their local counterparts complement each other. FDI into the country should be able to increase the productive capacity of local firms through knowledge transfer and vertical spillovers. Policy makers should engage and work with local firms to identify their needs and the productivity opportunities that they can benefit from through FDI. That way, the government can attract the right type of investments that will support the industrial development of local firms.

4. **Strengthen the supplier capacity of local firms**

The government can promote deeper linkages by strengthening the supplier base of local firms. This should include policies that would assist local firms in increasing their supplier capabilities and overcome supply-side constraints to meet the quantity requirements of multinationals. Local firms should have access to finance to upgrade their technologies especially where such technologies are not available.

In summary, policy makers should promote linkages by supporting local firms, and also identify and address critical areas to be improved. Policies that will be implemented should be based on

a comprehensive investigation or audit of the business and supply-capacity needs or deficiencies of the local firms.

General recommendations to increase FDI are as follows

Findings from the research reveal that oil exports is responsible for the country's biggest share of revenue as a percentage to total exports. To change this trend, government and its policy bodies must review and create policies that will attract FDI into sectors for which they intend to be export-oriented focused.

- Financial and non-financial incentives should be developed to make those sectors attractive.
- Infrastructures that support export activities should be put in place to reduce the extra costs. Barriers in the form red tapes and bottlenecks should be reduced to facilitate FDI inflow and export activities.
- Develop human capital for sectors aiming to attract FDI through education and technical training. Human capital is not only an important factor in attracting quality FDI, it determines the type of investments flowing into the country
- Target investors through investment promotion. This will involve marketing activities to attract FDI into specific sectors

Contribution to knowledge

A research's contribution to knowledge is one of its main expectations and determinant of its novelty including added value. Beech (2005) identifies several forms of contribution that includes: Existing theory confirmation; Theory extension into new areas; Reflection of theory on practice; Advancement in methodology; Hypothesis generation; Disproving a null-hypothesis; A proof; Generation of insights; Grounded theory development; Development in the application of techniques; New conjunctions between previously different disciplines or theories.

One of the motivations behind this research was to contribute to the development of a better understanding of the relationship between MNCs and local firms, as there are complexities and variations in their interaction. This research has made various academic contributions to knowledge through expanding the literature on FDI in emerging and developing economies, and closing the knowledge gap specifically from the Nigerian perspective. The main contributions are as follows:

1. There is little to no research on the nature of spillovers from FDI, the mechanisms through which these spillovers are disseminated, and the effects of these spillovers on local firms and the Nigerian economy. Part of this research attempted to bring this aspect of FDI into the body of literature.
2. This research will assist other Nigeria-focused researchers by providing a blueprint for future research on the impact of FDI on local firms in several economic sectors. The research methodology can be replicated.
3. The research also added to the body of academic knowledge by reviewing the existing literature that aided us in understanding FDI and how it impacts on an emerging or developing economy.

Contribution to methodology

In using mixed methods research, the study attempted to challenge the existing research assumptions and approaches based on a review of previous literature. The study presents a novel approach to analysing the impact of FDI through a convergent parallel research design. This was achieved by collecting and analysing both quantitative and qualitative data, unlike previous studies where either a quantitative or qualitative research approach is selected. To ensure a comprehensive finding on the effects of FDI, including the effect-creation process, a mixed method approach was adopted. The author considers this approach as a methodological contribution to this research area, as well as an innovative step.

Contribution to practice

If research is classified in the applied research domain, one important research criteria to prove its quality is the research contribution to practice. Such contribution could be in the form of acknowledging professionals and policy makers by helping them in their business and policy decision making through the implications and conclusions of the research.

1. First and foremost, the empirical findings from the research has helped to establish the importance of FDI and its contribution to the Nigerian economy.
2. The findings from this research will enable government policy makers to broaden their knowledge and understanding of FDI and the linkage process between multinationals and local firms.

3. The findings of the research will assist government policy makers in the design and implementation of adequate policies that will improve the capacity of local firms to absorb the benefits from FDI.
4. The findings from this research is useful to local firms as it will enable them understand the benefits from FDI through their linkage with multinationals and will enable them improve their own capacity in absorbing those benefits.

In summary, understanding how FDI impacts on different aspects of the economy will enable government and policy makers design and implement policies that will help the country benefit positively from FDI. The findings of this research have illustrated how local firms in Nigeria can link up with foreign firms and benefit from increased productivity, knowledge transfer and improved product quality. A strong linkage will also benefit foreign firms in the country as it reduces transportation costs, reduces their tax exposure, secures and diversifies their supply chain, and protects them from exchange rate fluctuations that would affect their cost of goods.

Research limitations

A researcher always has a boundary to what they can achieve in every particular research study. Nevertheless, this does not invalidate the research carried out, but provides an opportunity for future research studies in other areas. Recognizing the research limitations actually strengthens the robust nature of the research process, and the validity of the research findings. In view of this, the limitations of my study are related research aims, methodology and population sample. The research also aimed to understand the linkage process between multinationals and locals, and to identify what spillovers takes place in the process. The research can be criticized for focusing on backward linkage relationships. However, it has already been argued that previous research has focused on forward linkage relationships, with limited attention to backward linkages.

To strengthen validity, the findings of the research are derived from fifteen case studies which might be disputed to be inadequate to make generalized conclusions as it focused on one country. In addition, it can be debatable that the findings cannot be generalized as the research is limited to the agricultural sector. However, this research while studying the linkage effect of FDI on this sector, discovered specific insights and several layers of this process that are robust and powerful contextually. It can also be argued by the author that the cases studied in this context is sufficient due to data saturation issues, which was exactly the case.

Suggestions for future research

1. As this research focuses solely on the Nigerian case and its experience with FDI, comparative studies can be conducted in other African or emerging economies. For example, the FDI-local firm dynamics can be studied and compared with the findings from Nigeria.
2. Previous studies argue that the effect of FDI depends on the economic sector. Therefore this research suggests that sector-based studies should be carried to determine the impact of FDI.

Reflections from the doctoral study

Studying for a PhD degree at the University of Gdansk has been a great experience, and represents one of the best and challenging decisions of my life and career. My expectations for the program were high as an international student, and I have not been disappointed. Besides the guidance and support from my supervisor, I also received valuable advice for my research work from other professors during the classes. The learning environment was also stimulating due to the interactions with my fellow doctoral students who come from different backgrounds discipline wise. We were able to support each other through different approaches, new thoughts and social motivation as new friends. As a scholar, the doctoral program gave me the opportunity to develop and be trained as a researcher, through which i acquired the skills that are fundamental to writing and conducting quality research. While I acknowledge I am still developing these skills, there have been significant improvement from the start of the program, until the completion of my thesis work.

I joined the doctoral program with a Master's degree (MSc) in International business from the University of Buckingham, a program I completed at the International Business School (IBS) in Budapest, Hungary. However, my academic and professional journey to enrolling for a PhD began in Nigeria when I was a teacher at a high school college where I taught commerce. Coming from an accounting background through my bachelors', teaching commerce was my full introduction to international business and trade as a field. I became interested in economic issues from an international perspective, and this further motivated me to pursue a PhD degree after master's studies.

The unique feature I enjoyed in this program was the freedom to pursue a topic that I found interesting, while having the assistance of my supervisor in narrowing it down to specific research objectives. It offered a good balance between in-class lectures and the time for

independent study periods. Throughout my study, I had the opportunity to research extensively on foreign direct investments and its interconnectivity with other issues. My extensive research on FDI also exposed me to several interdisciplinary relationships with other fields of which I developed significant interests. This created endless research possibilities and publication opportunities for me. I was able to publish few papers in research journals in the process as a sole author and also with my supervisor Dr Johana Pietrzak

The courses in the program were beneficial to the development and completion of my research work. The research methodology course introduced me and provided me with insights on the structure of a PhD thesis. The course on the history of economic thought assisted me in identifying and developing the theoretical background behind my topic. Both the macroeconomic and microeconomic courses gave me insights into FDI from those perspectives as I developed my literature review. The course on quantitative research methods introduced me to quantitative techniques including the application of econometrics to determine the effect of FDI on selected economic performance variables. In the qualitative research course, I was introduced to methods of data collection and analysis in qualitative research. This included the use of interviews as a data collection tool, and the coding qualitative analysis technique which I used in analysing my qualitative data and to present my research findings in a structured and organized way.

The completion of this thesis did not come without its own challenges. The global environment is not static, and changes continually as a result of both predictable and black swan events. Challenges were both academic and non-academic in nature. Decisions I had to face include changing and adding more literature as a result of events that can influence my topic and field of interests.

The Covid-19 pandemic was one of such global black swan event. Besides the disruption of everyday life witnessed through international travel restrictions and business shutdowns, the main effect was the cost of human lives. While I experienced no direct loss of lives, I had close friends and family members who all contacted the virus and recovered. This posed a great mental and emotional challenge. In the process of completing my research work, the pandemic hindered my ability to travel especially in the area of data collection. But where I couldn’t travel, I utilized the use of digital tools to support my work which in no way reduced the final quality of my work. The epidemic also had an impact on the global FDI and value chain activities, however it is not included in this thesis

In summary as a result of being part of this study program, I have become more knowledgeable in my field, analytical in my approach, and better equipped to confront issues in economics and

FDI. My study through the doctoral program have placed me in career paths which I only discovered during the period and of which I intend to pursue. As I continue my research in economics, I also will explore the interdisciplinary opportunities the program provided me as indicated below.

Field	**Interdisciplinary variables**
Economic diplomacy	FDI and international relations
Investment promotion	FDI and marketing

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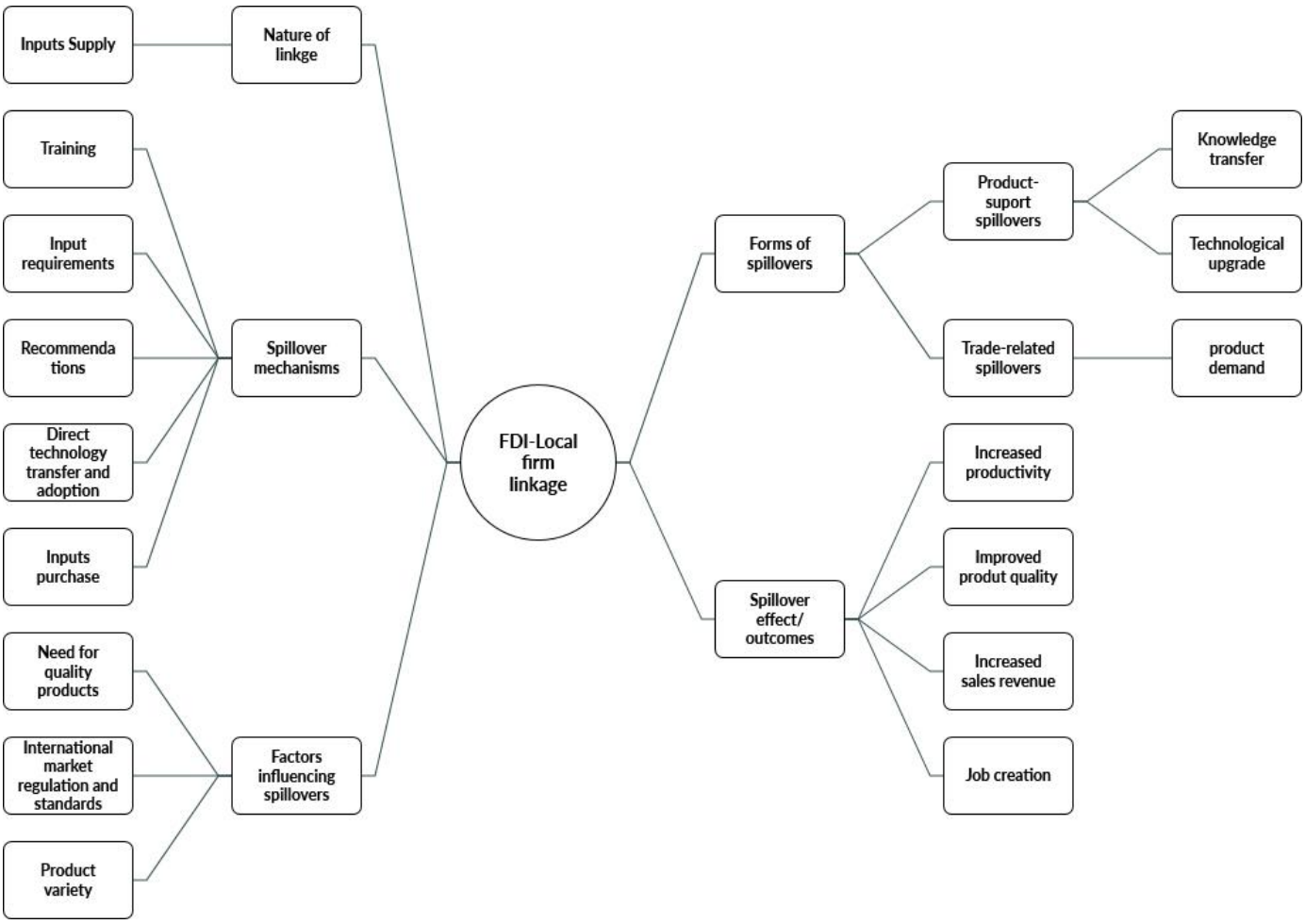
APPENDICES

Appendix

Mind map summary of FDI-linkage effects study



Appendix

Adjancency matrix of the FDI vertical spillover network

Vertex						
	GOV	LF	MNC	NONGOV	NONMNC	OLF
GOV	-	1	1	0	0	0
LF	1	-	1	1	1	1
MNC	1	1	-	1	0	0
NONGOV	0	1	1	-	0	0
NONMNC	0	1	0	0	-	0
OLF	0	1	0	0	0	-

Appendix

Adjacency list of the FDI vertical spillover network

Vertex	Vertex
GOV	LF
GOV	MNC
LF	GOV
LF	MNC
LF	MDM
LF	NONMNC
LF	OLF
MNC	GOV
MNC	LF
MNC	MDM
MDM	LF
MDM	MNC
NONMNC	LF
OLF	LF

Appendix

Pilot interview questions

	Questions
Q1.	What is the name of your company?
Q2.	How old is your company
Q3.	Where are you located?
Q4.	What is your responsibility in the company?
Q5.	What is the sales turnover in your company?
Q6.	How many employees work for you?
Q7.	Are you legally registered as a company?
Q8.	Who introduced you to your multinational client?
Q9.	Do have a previous experience somewhere else before working in the current company?
Q10.	Who are your customers?
Q11.	What business activity does your client do?
Q12.	What business activity does your company do for your client?
Q13.	How did you meet your client?
Q14.	Have you received any request in terms of the product standard from your client? And if yes, explain these requests?

Q15.	Have your client contributed to your company in any way besides the specific business?

Appendix

Interview questions

Q1.	What is your responsibility in the company?
Q2.	Do have a previous experience somewhere else before working in the current company?
Q3.	Who are your customers?
Q4.	What business activity does your client do?
Q5.	What business activity does your company do for your client?
Q6.	How did you meet your client?
Q7.	Have you received any request in terms of the product standard from your client? And if yes, explain these requests?
Q8.	Have your client contributed to your company in any way besides the specific business?

Appendix

Sample letter of request for interview

Dear Sir/madam,

Request for Interview

I am a PhD student in Economics and Finance at the University of Gdansk, Poland. To fulfil the requirement for the doctoral programme, I am currently conducting a research on the impact of foreign direct investment (FDI) on the Nigerian economy.

The purpose of this research is to enable us understand how FDI affects the Nigerian economy including its impact on local firms having a direct working relationship with foreign companies. I intend to accomplish this task by conducting a semi-structured interview with management stakeholders from local Nigerian firms in the country. Furthermore, this research will be of immense value to business practicioners, academics, and government policy makes as it will contribute to knowledge and practice on how Nigerian firms can benefit from FDI linkages.

Please I want you to be assured that the information provided to the questions will be treated as confidential and is only meant for academic purposes. It is my believe that the findings from your participation and answers to the interview questions will assist relevant stakeholders in making better strategic and policy decisions.

I am grateful for your anticipated co-operation and time.

Kind regards,

Bamituni Etomi Abamu

Appendix

Interview excerpts with LF7

Q1. What is your responsibility in the company?

‘’My role as the director of operations, has given me the responsibility to oversee the daily business operations of our company. I have other subordinates who deputise for me when I am not available due to attending other business activities. My role is also to mentor some these colleagues with my business ideas and operational capabilities’’.

Q2. Do have a previous experience somewhere else before working in the current company?

‘’ I definitely have previous experience. I started working in a diary company as an intern during my University days, working for a company called Goodies which specialises in cocoa and dairy products. Immediately, after my NYSC I was gainfully employed. My responsibility was to oversee some of the milk production quality control. I worked for 6years and left for overseas to further my study. Coming back I was employed with my present company to oversee the operations.’’

Q3. Who are your customers?

‘’We have numerous customers both within Nigeria and outside the shores of this country. We do have dedicated customers we supply our milk to. We supply to some diary food processing companies that produces ice creams and yoghurts. We tried to supply fresh milk to Nigerian, but the mind set of people towards fresh milk is that it is a luxury waste of money since it cannot be preserved and be used for a long time ’’

Q4. What business activity does your client do?

‘’Our clients are into food processing using the milk we supply to them to make dairy products such as ice creams, milkshakes and dry milk (I mean milk in powder form).Most of this powder milk find its way into Nigeria and are highly consumed in the country.’’

Q5. What business activity does your company do for your client?

‘’Our main business activity is diary production. We produce fresh milk from our livestock such as cows and sell them to our customers’’.

Q6. How did you meet your client?

‘’Although, the world has become a global village for businesses. Most of our customers actually come from the ministry of agriculture organised trade fares and the recommendations from some of the government and non-government parastatals’’.

Q7. Have you received any request in terms of the product standard from your client?
‘’Oh yes we are in constant communication with our clients on what food should be given to our livestock, specifically the cows. Most of their demands on what should or not be feed to the cow are among the already measures put in place by us enable us produce healthy quality milk.’’

Q8. Have your client contributed to your company in any way besides the specific business transaction?
‘’Yes they have helped us a lot in terms of improving the overall quality of our milk productions. We have come to learn new things very quickly from our every daily experience. We have come to know through their supports on how to keep our livestocks more healthier by adhering to simple hygiene practices.’’

Appendix
Interview excerpt with LF2

Q1. What is your responsibility in the company?
I am the owner and manager. I sometimes manage the workers but I have a full time supervisor for that role. What I do mostly is meet and negotiate with buyers of my products and enter into supply contracts with business customers.

Q2. Do have a previous experience somewhere else before working in the current company?
Not related to this specific job I’m doing now but I used to be a middle man supplier where I was the connecting link between farmers and big buyers of agricultural products like tomatoes and onions.

Q3. Who are your customers?
My customers are market men and women who buy from me and then they sell to people in the market. Recently we got contracted by a foreign company to supply them tomatoes for their factory.

Q4. What business activity does your client do?

Our client is a foreign company who manufactures culinary products. They make tomato mix and different spices including thyme and curry. They are a company with over 40 years of experience in the tomato processing business and other products.

Q5. What business activity does your company do for your client?

We serve as out-growers and supply them with fresh tomatoes for their production factory. As out-growers we are contracted by the company to help them meet up the demand capacity in their factory but we are not the only ones, as the demand is well above our own capacity.

Q6. How did you meet your client?

We were contacted by the state ministry of agriculture and were told by the ministry that the company was looking for farmer suppliers of tomatoes. The ministry asked if we were interested and able to do the job. Though at that moment we did not have enough tomatoes to supply, but we had the capacity to expand. So we accepted.

Q7. Have you received any request in terms of the product standard from your client? And if yes, explain these requests?

Yes we have. For example they asked us to use a specific fertilizer which they provided to us. To prevent damages to the tomatoes they also requested we put them in crates which they provided too.

Q8. Has your client contributed to your company in any way besides the specific business transaction? In what ways have this contribution taken place if any?

Yes they have contributed in a positive way to my business. As suppliers, our income has increase due to their demand a lot of tomatoes. They supplied us with tomatoes seedlings and agrochemicals like fertilizer. As a result, we have better production yield with little damage of out product. They also gave us water pumps and hose pipes, so that we could have access to water during the dry season. We have also been trained on good agricultural practices that we didn't have knowledge of, and this has helped us in increasing our yield with little losses compared to before. The company provided us with free plastic crates to keep out tomatoes as we delivered to them. We have learnt a lot.

Appendix

Interview excerpt with LF3

Q1. What is your responsibility in the company?
As the general manager, I am also the farm supervisor. I manage and supervise the workers on the farm. I am in charge of poultry sales to customers.

Q2. Do have a previous experience somewhere else before working in the current company?
Before working here I worked as a self-employed poultry farmer selling live birds. I was also a poultry farm consultant where I advised people on how to start their own poultry business. I was also a contractor managing poultry farms for people.
Q3. Who are your customers?
Our customers are basically individuals and market women, small shops and restaurants, hotels and frozen chicken companies.

Q4. What business activity does your client do?
We have two international customers. The first one is in the hospitality industry and are an international hotel chain. Our second customer are a frozen food company who supplies frozen poultry products.

Q5. What business activity does your company do?
We are one of the biggest producers of poultry products and sell them to several type of customers. What we do is that we buy our birds as chicks and grow them, which we then supply to our customers at maturity.

Q6. How did you meet your client?
Our CEO has a well-connected network and is aware of the business activities in the city. He knows a lot of people and has some access to top business people.

Q7. Have you received any request in terms of the product standard from your client?
Yes we changed how we feed our birds and how we process them to meet their standard as there is a lot of quality control. We are required to package our products with a special bag that prevents contamination.

Q8. Have your client contributed to your company in any way besides the specific business transaction?

We have to say that both of our international customers are one of our most regular and consistent buyers. They have also bought more of our poultry products and more regularly. As a result, we had to buy more layers and broilers from our own suppliers.

We are happy with our business relationship with them and they have help us to improve our standard of operations and management. We upgraded the equipment that we use and now produce better product than we used to. We now produce the same quality of products and sell to not only our foreign customers but also our local customers as well. As a result of our business with them, we employed more workers to help meet up their demand, and in the process created more jobs.

Appendix

Example of applied thematic analysis

Data familiarization	Yes they have contributed in a positive way to my business. As suppliers, our income has increase due to their demand a lot of tomatoes. They supplied us with tomatoes seedlings and agrochemicals like fertilizer. As a result, we have better production yield with little damage of out product. They also gave us water pumps and hose pipes, so that we could have access to water during the dry season. We have also been trained on good agricultural practices that we didn't have knowledge of, and this has helped us in increasing our yield with little losses compared to before. The company provided us with free plastic crates to keep out tomatoes as we delivered to them. We have learnt a lot. We have to say that both of our international customers are one of our most regular and consistent buyers. They have also bought more of

	our poultry products and more regularly. As a result, we had to buy more layers and broilers from our own suppliers. We are happy with our business relationship with them and they have help us to improve our standard of operations and management. We upgraded the equipment that we use and now produce better product than we used to. We now produce the same quality of products and sell to not only our foreign customers but also our local customers as well. As a result of our business with them, we employed more workers to help meet up their demand, and in the process created more jobs. ‘’Yes they have helped us a lot in terms of improving the overall quality of our milk productions. We have come to learn new things very quickly from our every daily experience. We have come to know through their supports on how to keep our livestocks more healthier by adhering to simple hygiene practices.’’
Generation of initial codes	Codes identified from the excerpts **Increase in income**: As suppliers, our income has increase due to their demand a lot of tomatoes. **Donation of tomato seedlings and agrochemicals**: They supplied us with tomatoes seedlings and agrochemicals like fertilizer. **Better production yield**: As a result, we have better production yield with little damage of out product.

	Less damage of the products: As a result, we have better production yield with little damage of out product. **Donation of water pumps and hose pipes**: They also gave us water pumps and hose pipes, so that we could have access to water during the dry season. **Training on good agricultural practices**: We have also been trained on good agricultural practices that we didn't have knowledge of, and this has helped us in increasing our yield with little losses compared to before. **Increase in yield**: We have also been trained on good agricultural practices that we didn't have knowledge of, and this has helped us in increasing our yield with little losses compared to before. **Donation of free plastic crates**: The company provided us with free plastic crates to keep out tomatoes as we delivered to them. We have learnt a lot. **Bought more poultry products**: They have also bought more of our poultry products and more regularly. **Upgrade of equipment**: We upgraded the equipment that we use and now produce better product than we used to. **Production of better product**: We upgraded the equipment that we use and now produce better product than we used to. **Produce quality products**: We now produce the same quality of products and sell to not only our foreign customers but also our local customers as well.

	Creation of jobs: As a result of our business with them, we employed more workers to help meet up their demand, and in the process created more jobs. **Improving the overall quality of our milk productions**: Yes they have helped us a lot in terms of improving the overall quality of our milk productions. **Healthier livestocks**: We have come to know through their supports on how to keep our livestocks more healthier by adhering to simple hygiene practices.'' **Hygiene practices**: We have come to know through their supports on how to keep our livestocks more healthier by adhering to simple hygiene practices.''
Searching for themes	The author noticed an increase in yield was mentioned frequently as one of the benefits or outcomes from relationship the interviewed firms had with their multinational partners. However, this code was observed to have been existing due to several other codes identified (Training on good agricultural practices, Donation of tomato seedlings and agrochemicals). Another frequently mentioned code was product quality which was observed to link with other codes (Upgrade of equipment, hygiene practices). Several participants identified increase in yield and product quality but the ways these codes were facilitated are diverse and different. For example, one of the excerpts explains that increase in yield was due to the training on good agricultural practices, while another credits the yield increases to the donation of

	tomato seedlings and agrochemicals. The author developed some themes to address the relationships among the codes within the contexts they are discussed by the participants. Learning from the multinationals was a common theme among the participants.
Review of themes	Under this step, the author included additional codes from several portions of the transcripts into the themes and the sub-themes. This include codes like supply requirements that was not captured in the excerpts but is highly important. This code was observed to have also facilitated improved product quality and will belong to the other previously identified categories (Upgrade of equipment, hygiene practices)
Define and name themes	The final themes were named and defined based on the influence from previous review of literature, the study findings, the research questions and the purpose of the study. After studying the data multiple times to understand the context of the themes, the author named the themes. For example, the theme learning is closely related to knowledge, and learning from the multinationals indicates that knowledge transfer has taken place. Recommendation, just like training was finalized as a theme are identified as means for knowledge transfer and were both recognized as spillover mechanisms. Through recommendation of best practices

	and suggestions from the multinationals, local firms received valuable knowledge according to findings.
Produce report	After the themes were named and finalized from the previous stage, they were used as a basis for the final report. Spillover mechanisms During the analysis of the findings, the study found that some of the spillovers experienced by local firms were transferred through several mechanisms. The theme spillover mechanism represents the process or means by which the spillover takes place. Evidence from the study shows that one of the ways through which knowledge was diffused from the multinationals to their local firm partners is in the form of training. Training involves the act of teaching a specific skill and developing such skills up to a required to meet certain goals by practice and instruction. The evidence of training and technical support to local suppliers agrees with the findings of Reganati and Sica (2007) who explained that in the event of linkage externalities, multinationals usually assist in management, and also provide training and technical assistance to local suppliers.