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LIST OF ARTICLES

FOREIGN DIRECT INVESTMENT (FDI) AND INDUSTRIAL DEVELOPMENT IN NIGERIA: 1990-2005

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Abstract

The paper discusses the impact of foreign investment on Nigeria's industrial development between 1990 and 2005. It considers the various economic programmes of successive governments in Nigeria especially the Structural Adjustment Programme (SAP) as well as global economc intervention like NEPAD. Finally, it discusses the various factors determining inflow of FDI into the country and make suggestion for public private partnership as a means to achieve desired industrial development in Nigeria.

Keywords: Investment; Industrial Development; Economy; Government Policies.

Introduction

A large body of empirical researches have acknowledged and supported the fact that the inflows of foreign Direct Investment (FDI) remains one of the key ingredients economy requires towards achieving desirable rate of economic growth. Nurkse (1983) noticed however, that capital in developing countries was too low to kick-start the economy. Thus, it appears that to achieve development and economic growth, there must be a massive flow of capital in order to break the vicious cycle of poverty.

More importantly, the perceptibly "break through" of the ASIAN TIGERS through dismantling of capital controls during the 1990s which eventually paved the way for the inflows of foreign money amounting to 5-10% of Gross Domestic Product (GDP) which went hand-in-hand with fast growth, further confirmed the positive impact of foreign direct investment. In Nigeria however, prior to the adoption of Structural Adjustment Programme in 1986 most of the policies adopted were anti-foreign investments, example of such policies include among others indigenization Decree of 1972. Exchange Control Act of 1962, Nigeria Enterprises Promotion Decree of 1977 etc. Added to these were other macro-economic factors such as destabilizing debt burden as well as socio-economic and political development, which militated against the inflow of FDI. In addition, the regulatory and institutional framework required before the approval and incorporation of foreign investors companies contributed in no small ways to discouraging FDI in Nigeria.

The adoption of structural adjustment programmes which was predicated upon the private sector as the engine of growth and the creator of wealth while reducing the role of government to that of enabler continually placed a very high premium on FDI. FDI is viewed as a major stimulus to economic growth. Its ability to deal with two major obstacles, namely shortages of financial resources, technology, and skills has made it the centre of attention for policy makers in Nigeria. Generally, it is agreed that FDI is the most favourable form of capital flow for several reasons. First, it is long term in nature and hence it tends to be more costly to reverse and less sensitive to global shocks than foreign portfolio investment (FPI). Second it is characterized by significant positive externalities desired from the transfer to the recipient country of advanced technology and managerial capacity (Oyejide, 2005).

It was on these notes that Nigeria government adopted and implemented investment-friendly policies and programmes such as tax incentives, export promotion and macro economic adjustments. In this regard, laws which had hitherto hindered private sector investments have been amended or repealed; examples include Exchange Control Act of 1962 and Nigeria Enterprises Promotion Decree of 1972 and 1977. De-regulation and liberalization policies adopted under the SAP opened up new windows of opportunity to all investors wishing to invest in the country's economy because sustaining private capital in the long run requires maintaining a stable economy and an investor friendly environment and in order to give all effect to its policies, the government promulgated the Nigeria investment Promotion Decree No 16 of 1995 and the foreign exchange (monitoring and miscellaneous provision) Decree No 17 of 1995 and the establishment of the Industrial Development and Coordinating Committee (IDCC) of 1988.

The need to accelerate the pace of economic growth and development by many countries, especially the less developed countries (LDC) has propelled them to make deliberate effort to attract Foreign Direct Investments. FDI has also been acknowledged as a potent source of improving efficiency of the productive sector through competition, stimulation of economic progress, creation of jobs and fostering growth in the host economies. However, in spite of the genuine desire and efforts by the LDCs to attract the much-needed foreign investment, a number of factors render their economies unattractive. Some of the factor include heavy debt burden, which has eroded confidence in developing countries as well as low credit worthiness. Others are recession, persistent macro-economic and political instabilities, which have further worsened the perception of foreign investors.

However, these measures are observed not to have yielded the desired results in terms of attracting FDI inflows. Statistics have shown that aggregate FDI inflows into Nigeria through foreign/jointly owned companies during the 1970s averaged N562.3 million yearly in nominal terms. As a proportion of the Gross Domestic (GDP) it accounted for 3.6 percent during the period. Before the introduction of the Structural Adjustment Programme (SAP) in 1986, total foreign investment inflow for 1980s averaged N8178.2 million annually and represented 4.3 percent of GDP. During the period 1987-1990, average foreign investment inflow raised to N8183.6 million representing 3.0 percent of GDP, while the average inflow was N5402.5 million or 1.4 percent of GDP during 1991-1998. (Compiled from CBN annual report various issues).

From the foregoing, it is clear that resource flows to Nigeria have followed an uneven path. The fluctuating nature of private capital flows has played a key role in this. The questions, which easily come to mind, are:

- Are government policies effective enough to attract FDI to the country?
- Are there other impediments, which have militated against foreign direct investment beneficial efforts?
- Why are these policies not yielding the necessary developmental benefits expected?
- What can be done if these benefits are to be realized?

Literature Review

Nature of FDI

The FDI investors (MNCs) are normally large firms, vertically and or horizontally integrated across nation states and act according to global strategies. Like most business enterprises, multinational corporations (MNCs) are in business primarily to make profit. MNCs, therefore, in their choice of FDI in countries outside their home country tend to engage in those economic activities that would guarantee a reasonable return on capital and skill invested taking into cognizance the peculiar risks that are confronted with.

Foreign multinationals according to Onoh (1983) operate in developing countries in various forms: as direct investors owing 100 percent of equity capital in an enterprise or in partnership with the government of the host country, or with the nationals of host country. Others operate in the area of contract finance or suppliers credit.

Apart from providing the much needed capital funds for economic development, MNCs are said to provide the technical and managerial skills that make for efficient running of their affiliates in LDCs. In fact, distinguishing FDI from other forms of capital funds provided by the advanced countries of the world to the less developed nations, Paul Streeton (1979) stated that "particular combination of private foreign investment may lie not so much in transfer of foreign capital as helping to lay the foundation for further growth in the economy and in strengthening the base from which domestic savings and foreign exchange are generated. Rather it also bestows substantial benefits as the host country where domestic management skills and entrepreneurship are still at embryonic stage and where there is no other way of organizing large scale manufacturing and resources". However it is important to note that this said transformation is not automatic, instead a lot depends on the attitude of host nation's government and her people in appropriating these gains of FDI.

FDI is one of the long-term sources of finance for a nation. Unlike portfolio investment, or official loans and gifts, direct investment does not create any productive problem for the recipient country. In most cases, FDI comes in a 'self-sufficient package" almost immediately adding to the national output. According to Meier (1966) a foreign direct investment necessarily entails the identification of an economic opportunity, the formation of a productive project and its efficient implementation. FDI is said to supply the developing countries not just with often-needed capital funds but also the means of putting those resources in productive use. Thus FDI is especially suitable for developing countries where technological and entrepreneurial know-how is in short supply. Some of the already highlighted benefits of FDI and others are not without some costs, which act as offset against the benefits.

Determinants of Foreign Direct Investment (FDI)

FDI is viewed as a major stimulus to economic growth in developing. Its ability to deal with two major obstacles, namely, shortages of financial resources and technology and skills, has made it the centre of attention for policy makers in low-income countries in particular. There is also the general opinion that any developing country that is serious about raising the standard of living of her citizens must open its economy and avail itself of opportunities inherent in trade and investment elsewhere in the world. These therefore necessitated increasing need to pay adequate attention to its attractiveness to any economy.

The importance of FDI has actually propelled many research minds to probe into its major determinants. Though in the literature, many factors have been adduced to be responsible for the inflow of FDI ranging from market factors, official policies to political factors; these key factors vary from one economy to another. The unpredictability of autonomous FDI flows, in both scale and direction, has also generated a substantial research effort to identify their major determinants. An extensive literature based generally on three approaches-aggregate econometric analyses, survey appraisal of foreign investors' opinion and econometric study at the industry level-has failed to arrive at a consensus. This can be partly attributed to the lack of reliable data, particularly at the sectoral level, and to the fact that most empirical work has analyzed FDI determinants by pooling of countries that may be structurally diverse.

In the case of Nigeria, a plethora of researches carried out give the determinants of FDI inflow as follows:

Size of the Market:

Obadan (1982) confirm the importance of market size as a major determinant of FDI inflow to Nigeria. This was further supported by Anyanwu (1998). There is little doubt that the size of Nigeria's market explains in large part, the massive FDI flows it has attracted since the early 1990s. Nigeria is West Africa's most populous country and one of the most developed (according to UNCTAD's benchmark of $36 billion GNP).

Openness

Whilst access to specific markets-judged by their size and growth is important, domestic factors are predictably much less relevant in export oriented foreign firms. A range of surveys suggest a widespread of perception that 'open' economies encourage more foreign investment. One indicator of openness is the relative size of the export sector (Marr, 1997). Morisset (2001) using FDI climate as the dependent variable showed empirically that GDP growth and trade openness are significant and positively related to the investment climate in SSA. Trade openness being significant, confirm and supports the policy of trade liberalization now being pursued by majority of SSA countries. Anyanwu's (1998) study indicates that openness of the economy represent significant short-run and long run determinant of FDI. The policies of structural adjustment programme (SAP) of 1986 have also resulted in opening up many viable investment opportunities in the agriculture and manufacturing sectors.

Political Risk

The sensitivity of foreign investors to the level of security of lives and properties in a nation, rate of return on investment, political stability expressed in terms of crime level, riots, labour disputes and corruption have been established to play determining factors in the flows of FDI into a country. A strand of literature tends to suggest that the impact of risk and uncertainty may be large enough to discourage (or lead to postponement of) investment decisions with its attendant depressing impact on economic growth.

The ranking of political risk among FDI determinants however remain somewhat unclear. Louis (1998) was of the opinion that coups d'etat and the civil war experienced in Nigeria have tended to scare away potential investors. The conclusion of Marr (1997) is that where the host country possess abundant natural resources, no further incentive may be required, as it is seen in politically instable countries such as Nigeria and Angola, where high returns in the extractive industries seem to compensate for political instability. She also opined that, in general so long as the foreign company is confident of being able to operate profitably without undue risk to its capital and personnel, it would continue to invest.

Exchange Rate

The literature is growing in recent times on the examination of the distributional properties of exchange rates and its links to the behaviour of foreign direct investment. Many studies have stressed the importance of exchange rate levels in the determination of FDI volume (Salako and Adebusuyi 2000; Anyanwu 1998; and Essien and Onwioduokit, 1999 etc). As Froot and Stein (1991) have noted, if domestic firms are more cash-constrained then foreign firms, the depreciation of the domestic currency may lead to an increase in inward FDI as foreigners outbid domestic firm. If this were the case for Nigeria as posited by Anyanwu (1997), then more investment ought to flow in when the value of the Nigerian naira is relatively low. Branson (1977) suggests that for a developing country, which is a price taker, an exogenous inflow of capital will lead to exchange rate appreciation or depreciation, depending on whether foreign exchange is used to finance domestic spending or capital accumulation in the traded and non-traded sector. Alaba (2003) estimated the relationship between the behaviour of exchange rate as one of the most important anchor of recent global economic process and foreign direct investment (FDI) with respect to Nigeria. He found that parallel market exchange rate is an important driver of real economic process in Nigeria.

Incentives and Operating Conditions

Removing restrictions and providing good business operating conditions are generally believed to have a positive effect on FDI flows.

In Nigeria the 'open-door' policy and enhanced incentives for investing in the special economic zones (free trade zones) contributed to the initial influx of FDI in 1986 and 1992. Further incentives, such as the new visa policy to enable genuine foreign investors to procure entry visa to Nigeria within forty-eight (48) hours of submission of required documentation and the opening up of new market (e.g. air transport, mergers and acquisition in the banking sector and introduction of global system mobile in the telecommunication sector) have been reported as important factors in encouraging FDI flows in recent years.

Government Policies

Policy and incentive packages are a veritable tool in shaping the magnitude and composition of capital inflows. Regularly policies, sustainable and credible macroeconomic policies implemented by a recipient country may result in less volatility of capital flows to the extent that they encourage foreign investors to make relatively irreversible commitment to the economy. Authorities in Nigeria have at various times articulated a plethora of incentives aimed at attracting foreign investment. For instance, the new industrial policy published in 1988 embodies some FDI provisions that represent a dramatic departure from the previous policy. The adoption of Structural Adjustment Programme (SAP) in 1986, which place the private sector as the engine of growth and the creator of wealth, made government to churn out policies to attract investors (Magbagbeola, 1998).

Also, the Nigerian Enterprises Promotion Decree was amended resulting in the creation of only one schedule to replace the previous three. The intent was to remove confusion and allow a wider scope for new foreign investment. Further, the privatization and Commercialization Decree of 1988 removed restrictions or limits on foreign ownership of the state economic enterprises earmarked for complete or partial privatization. Reports by the UNCTAD, 1995 and president Obasanjo (1999) claim that privatization programme has contributed to making the country attractive to foreign investors.

Nexus Between FDI and Development

Foreign direct investment (FDI) is welcomed and indeed, actively sought by all African countries. The contribution FDI can make to economic development and to the integration of countries into the world economy is widely recognized. The new partnership for African Development (NEPAD) perceives FDI as a key resource for the translation of NEPAD's vision for growth and development into reality. Also, development economists have identified a strong correlation between investment and economic growth. Nigeria like many developing countries of the world, need a substantial inflow of external resources in order to fill savings and foreign exchange gaps and leapfrog itself into sustainable growth in order to eliminate its current level of poverty.

In the less developed countries (LDCs) policies and strategies towards foreign investments are shaped by two principal objectives; namely, the desire for economic independence (economic nationalism) and the demand for economic development. In general, the greater the emphasis on economic nationalism the less generous the government will be in its system of incentives designed to promote private foreign capital investment. While emphasis on accelerated economic development would dictate a wider opening of the door for foreign investors to come in. The simultaneous pursuit of rapid economic independence calls for a careful resolution of a great deal of conflicts.

A report by the United Nations conference on trade and development in year 2000 revealed that countries do not seem to attract FDI inflows to out perform other countries in term of the size of inflows but to achieve various desirable effects in their own economies such as more rapid growth as a result of the increased rate of investment or the increased production efficiency stimulated by foreign affiliates.

Te Veide (2001) posits that there is macro-evidence that FDI is associated with faster economic growth in developing countries but noted however that FDI is not a solution to all development problems. He concluded that depending on a country's factor endowments (skill natural resources, capital) and its development objectives (poverty reduction, growth, job creation, financing a current amount deficit etc) a government should determine what type of FDI is needed and how the positive and negative, long-run and short run characteristics of the various types of FDI fit in.

Analytical Review of FDI Policies in Nigeria (1970-2005)

The appropriateness and adequacy of the foreign investment attracted to a country depend largely on the regulatory policies adopted; Nigeria in the past three decades had churned out a plethora of policies directed at FDI. Anti-FDI policies first implemented because of the belief that direct foreign investment are made by MNCs with a view of controlling the enterprises in a country's structure of industries and the fear of possible loss of autonomy in the control of the economy by the government, led to the promulgation, first in 1972 and then in 1977, the Nigerian Enterprises Promotion Decree (NEPD). The aim of the Decree is to prevent foreigners from controlling the "commanding heights" of the Nigerian economy.

The NEPD focuses narrowly on limiting foreign interest in the Nigerian economy to the detriment of other laudable developmental objectives. The following alternatives could have been adopted: increasing the proportion Nigerian enterprises producing for exports, making foreign investors employ a given number of indigenous personnel spread over a range of professional cadres and ensuring that foreign investment projects attain a given level of value added within stated periods. Foreign participation could be related to any of the above variables in order to maximize the country's net benefits from foreign investment rather than pursuing a policy that restricts the capital and investment resources, which the country lacks. This approach may provide greater flexibility and eliminate misgiving in the minds of investors.

The growing indebtedness of countries as a result of economic recession in the 1980s, coupled with low foreign exchange earnings has caused investors to speculate that the debt service burden of the countries could have adverse consequences on their balance of payments which may lead them to take measures that could jeopardizes profit and dividend repatriation. If Nigeria is to compete effectively among the group of developing countries for foreign investment, it must review any regulation considered to be an obstacle to their inflows.

Evaluation of Foreign Direct Investment (FDI) In Nigeria

From data available, foreign private investment flows originate from four regions. They are United Kingdom (UK), United States of America (USA), Western Europe (excluding the UK), and other unspecified regions capital flow under the regional division resulted in net-inflows in most of the four regions into which foreign companies were grouped over the periods under study.

In 1970, the aggregate flow of foreign capital was N2510.0 million into the economy. While in 1971, the capital inflow stood at N489.6 million representing an increase of 95% over the previous year. In 1972, the figure for inflow was N432.8 million, with outflow of N184.5 million, and net flow of N248.3 million. Between the period 1973 and 1980, the inflow of foreign capital maintained a 9-digit figure (i.e. under N1 billion with the inflow fluctuating, but increasing never the less.

By the year 1981, the inflow of foreign private capital had dropped to N548.9 million from N786.4 million in 1980. The net flow also dropped to N137.8 million from N467.0 million in the previous year. Foreign private capital inflow attained a 10 digit figure (over N1 billion) in the year 1982 with a value of N2, 193.4 million and reaching the peak in 1986 with a value of N4,024.0 million and a net flow worth N2499.6 million implying that outflow was N1,524.4 million.

The sharp difference between the values of 1985 and 1986 signifies an increase in the confidence of foreign investors in the Nigerian economy. The year 1986 also marked the period of the implementation of the Structural Adjustment Programme (SAP), which had, among its objectives, the liberalization of the market, and adoption of flexible exchange rate policy. This perhaps may be responsible, for such high net capital inflow. The increase in net-flow could also be traced to the devaluation of the Naira exchange rate, which was one of the SAP policies. The United Kingdom (UK) owned the highest percentage of these net inflows of foreign capital with 59.19% of the total net flow while the United States of America, Western Europe and other unspecified countries shared the remaining 40.80

percent. The high percentage of UK reflected their confirmation of the trade that exists between the UK and its former colonies reflecting the confidence of UK investors in their former colonies.

However, between 1987 and 1990 though there was an increase in the inflow of foreign private capital, the outflow was also on the increase such that the net foreign private capital flow was negative in 1989 and 1990 i.e. N - 439.4 million in 1989, and N – 464.3 million respectively in 1990. However, the foreign private capital inflow which amounted to N10, 450.2 million naira (the highest as at that time), represented 5.51% of GDP and had achieved a growth of rate of 112.6% from its values in the previous year. The high increase in inflow recorded in 1990 was as a result of the new Enterprises Decree promulgated in December 1989. The Decree permitted foreign ownership in any venture except those in banking, oil, insurance and mining. The government uses an open tender system for awarding government contracts. However, government scandal, political instability and endemic corruption (Nigeria is regularly ranked among the most corrupt countries in the world, often at the top of the list have often inhibited foreign investment). The massive outflow during these periods (1987-1990), and the periods beyond merely reflected the relaxation of Nigeria foreign exchange regulation.

By the year 1991, the value of inflow had reduced to N5610.2 million, but by 1992 and 1993, the value maintained an upward movement, attaining the value of N42, 624.0 million in 1993 with a net flow of N32, 994.4 million its highest value ever. This is because in 1992, the Nigerian Free Zone Act was passed establishing the Nigerian export Processing Zone Authority (NEPZA). Free Trade Zones (FTZ), so renamed in 2001, are expanses of land with improved ports and/or transportation, warehousing facilities, uninterrupted electricity and water supplies, advanced telecommunications services and other amenities to accommodate business operations. Under the free zone system, as long as end products are exported (although 25% can be sold in the domestic market), enterprises are exempt from custom duties, local taxes, and foreign exchange restrictions and quality for incentives – tax holiday, rent-free land, no strikes or lockouts, no quotas in EU and US markets, and, under the 2000 African Growth and Opportunity Act (AGOA), preferential tariffs in the US market until 2008.

The political crises that erupted in 1993 with the annulment of the result of the presidential elections plunged the country into unrest and widespread uncertainty. There was crises and pervasive tension in the law. The country had become unsafe and risky for business. The value of FDI inflow plummeted from N42, 624.9 million in 1993 to a ridiculous N7, 825.5 in 1994. The growth rate seeing – 59.3%. The military government braced up to the challenge and decreed the establishment of the Nigerian Investment Promotion Commission (NIPC) as well as the liberalization of the foreign exchange market in 1995.

The value of net flow of foreign private capital was to reach its peak in Nigerian history in 1995 when it amounted to N48, 677.0 million. The value of inflow of foreign private capital was also at its peak in this year with a value of N55, 999.3 million. The largest capital inflow in 1995 came from Western Europe, while UK, USA and other countries shared the remaining value. During that year, Western Europe recorded N41, 541.0 million out of total N55, 999.3 million. By the following year i.e. (1996) inflow of foreign capital dropped/reduced drastically to N5, 672.9 million and later rose to N10, 004.0 million in 1997 in 1997, with a net flow of N5, 731.0.

Since the return to an elected government in May, 1999, the value of inflow of foreign private capital fluctuated between high values of N32, 434.5 million in 1998, N16, 453.6 million in 2000 and low values of N4, 035. million and N4, 937.0 million in 1999 and 2001 respectively, only to rise to N8, 988.5 million in 2002.

This rise in inflow was maintained through the years 2003 and 2004 with values N13, 531.2 million in 2003 and N20, 064 million in 2004. FDI inflows into Nigeria's economy rose by 161 percent from $1.3 billion in 2004 to $8.4 billion in 2005 in line with the global trend of rising FDI inflows a report by the UNCTAD has said. The report showed inflows into Africa also hit a historic high level of $31 billion. According to the Geneva based UNCTAD in the report titled World Investment Report 2006; FDI from, Developing and Transition Economies: Implications for Development - the FDI into Africa are largely on account of a sharp rise in commodity prices and corporate profitability. FDI inflows into Nigeria which ranked third in Africa, after South Africa and Egypt was largely on account of new investment by major oil majors including Total, Chevron Texaco and British Petroleum, in off share oil fields. Although the FDI inflows into Africa, which grew by 78% in the last two years, was mostly concentrated on a few countries and industries UNCTAD said, "Prospect are good for another increase in 2006, given high project commitments, large number of investors eager to gain access to resources, and a generally favourable policy stance for FDI in the region. It also pointed out that FDI continued to be major source of investment for Africa as its share in gross fixed capital formation increased to 19% in 2005, though the region's share of global FDI remained at a dismal 3% in 2005. Top of the list of FDI recipients in 2005 was South Africa with $6.4 billion or 21%, up from $800 million in 2004, mainly due to the acquisition of Amalgamated Bank of South Africa by Barclays Bank for $5.5 billion. Egypt followed with $53 billion.

UNCTAD attributed the growth in part to strong economic growth in some countries and by high corporate profitability, which increased the number, and volume of cross border mergers and acquisition to the second largest recorded since 1987. The surge in (Merger and Acquisition) activity, spurred by increased support from collective investment funds mainly private equity-included a no of large deals valued at mainly private equity-included a no of large deals valued at more than $1 billion, particularly in the service sector, the report said. (Punch Newspaper Wednesday October 18, 2006 vol 17 No 19, 713) www.punchontheweb.com

Conclusion and Recommendations

For Nigeria to continue to attract and realize maximum benefits from FDI that would make for a sustainable growth there is the need for a conscientious effort at repositioning the country. It is imperative for the federal government to form a partnership with the private sector on how to form a partnership with the private sector on how to effectively lauder Nigeria's image before the change of government in 2007. Perception of a country by other numbers of the international community determine how well a country can attract FDI It is a fact that Nigeria had over the years been unfairly stigmatized and associated with negative attributes by the international community.

Nigeria, which is rated as the sixth largest producer and exporter of crude oil, has not been very lucky with the management of its vast resources. Experience has shown that a large chunk of the proceeds from the sales of the natural resources only sponsors the corrupt and lavish lifestyles of successive regimes in the country. These regimes had consistently failed to reinvest such proceeds in the country and had also failed to improve existing social systems and infrastructure-factors necessary to attract foreign investors.

In 2004, the United Nations Conference on Trade and Development, at a public forum in Lagos, concluded that Nigeria's poor external image was denying it much needed foreign investment to accelerate its economic growth. However, for Nigeria to compete effectively in the global market and also attract FDI, there is no doubt that it may have to employ branding and marketing techniques to launder her image.

Policy makers must brace up to the challenge and articulate their vision on how to reverse the challenges undermining the progress of the nation's brands. Te Velde (2001) discusses the challenges faced by Sub-Saharan Policy makers in a bid to make FDI work for development. Policy makers in Nigeria need to focus on the following issues as suggested by Te Velde:-

- Determine whether and how FDI fits in with developmental objectives:- the country's factor endowment (skills, natural resources, capital) and its development objectives (poverty reduction, growth, job creation etc) should determine what type of FDI is needed and how the positive and negative, long run and short run characteristics of the various types of FDI fit in. For example, FDI attracted by privatization of state utilities may enhance efficiency but does not guarantee affordability of services for all. In this regards, there is the need for proper regulation or competitive policy in order for the developmental objective of government be achieved. Quality not quantity of FDI should matter to policy makes; as what FDI can do for a country should be their top priority.
- Preparing well for FDI is important. Competition, education or technology policy is required to raise the capacity of the local economy to absorb positive spillovers and mitigate negative aspects. While the provision of good quality and appropriate basic education is important, attention should be focused at high level specialized training in technical subjects to meet the needs of the industry. However, the encouragement of training is more effective when basic skills are already available.
- Active and consistent implementation of FDI policies: - A simple change in the law to allow foreign ownership in certain industries may do little to attract foreign investors. A targeted and long term focus in required to attract investors. In addition to a consistent implementation of FDI promotion efforts, it is also important that the policies are implemented consistently without engaging in policy reversal. Policy reversals often create an uncertain and business-unfriendly world. It is important for policy makers to define an FDI strategy and stand by the implementation of policies to achieve this strategy until better strategies arise.

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