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Measuring Globalisation through Foreign Direct Investment Inflows or Outflows: A Basis for Economic Development in West Africa

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Abstract
The study examined empirically the challenges encountered by foreign investors for direct foreign investment in Nigeria, ascertain the nature of the relationship between the foreign investors and the host nation, ascertain the extent of the relationship between foreign direct investment and economic growth. The study was carried out primarily through descriptive survey design and interview of employees from central bank of Nigeria, National bureau of statistics and Cadbury Plc. Secondary data were obtained through books, journals, and internet. Pearson product – moment correlation coefficient and Chi square were used to test the hypotheses using SPSS.
Findings indicated that Foreign exchange risk, political risk and increased agency cost are challenges encountered by foreign investors for foreign direct investments in Nigeria, there is a positive relationship between the foreign investors and the host nation, and there is a significant relationship between foreign direct investment and economic growth.Foreign direct investment (FDI) plays an extra ordinary and growing role in international business. It can provide a firm with new markets and marketing channels, cheaper production facilities, access to new technology, products, skills, and financing.
Keywords: Globalisation, Foreign Direct Investment, Portfolio Investment, and Economic Growth

1.0 Introduction

Globalisation is the process of international integration arising from the interchange of world views, products, ideas, and other aspects of culture (http://www. Wikipedia.org/wiki/Globalisation

Globalisation is the process enabling financial and investment markets to operate internationally, largely as a result of deregulation and improved communications (Jeffery (2002).

In 2000, the International Monetary Fund (IMF) identified four basic aspects of globalization: trade and transactions, capital and investment movements, migration and movement of people, and the dissemination of knowledge (IMF, 2000).

A foreign direct investment (FDI) is a controlling ownership in a business enterprise in one country by an entity based in another country. Foreign direct investment is distinguished from portfolio foreign investment: a passive investment in the securities of another country such as public stocks and bonds, by the element of control. Generally, FDI includes mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans (www.wikipedia/foreign direct investment).

FDI is a key element in international economic integration. FDI creates direct, stable and long- lasting links between economies. It encourages the transfer of technology and know – how between countries, and allows the host economy to promote its products more widely in international markets. FDI is also additional source of funding for investment and under the right policy environment, it can be an important vehicle for development. FDI is defined as cross – border investment by a resident entity in one economy with objective of obtaining a lasting interest in an enterprise resident in another economy. The lasting interest implies the existence of a long – term relationship between the direct investor and the enterprise and a significant degree of influence by the direct investor on the management of the enterprise. Ownership of atleast 10% of the voting power, representing the influence by the investor, is the basic criterion used (www.oecd.org/ investment).

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

The investing company may make its overseas investment in a number of ways – either by setting up a subsidiary or associate company in the foreign country, by acquiring shares of an overseas company or through a merger or joint venture.

The accepted threshold for a foreign direct investment relationship as defined by the OECD, is 10% : that is, the foreign investor must own at least 10% or more of the voting stock or ordinary shares of the investee company.

An example of foreign direct investment would be an American company taking a majority stake in a company in China, or a Canadian company setting up a joint venture to develop a mineral deposit in Chile (Investopedia.htm).

Foreign direct investments are the net inflows of investment to acquire a lasting management interest (10% or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long – term capital, and short – capital as shown in the balance of payments.

1.1 Objectives

The study has the following specific objectives

(1)To identify the challenges encountered by foreign investors for foreign direct investments in Nigeria.
(2) To ascertain the nature of the relationship between the foreign investors and the host nation.
(3) To ascertain the extent of the relationship between foreign direct investment and economic growth.

1.2 Hypotheses

These hypotheses were postulated for the study

(1) Foreign exchange risk, political risk and increased agency cost are challenges encountered by foreign investors for foreign direct investments in Nigeria.
(2) There is a positive relationship between the foreign investors and the host nation.
(3) There is a significant relationship between foreign direct investment and economic growth.

1.3 Methodology

The study was carried out primarily through descriptive survey design and interview of employees from Central bank of Nigeria, Cadbury plc and National Bureau of Statistics. This research design was considered appropriate because it allows collection of quantitative data which can be analyzed quantitatively using descriptive and inferential statistics. Secondary data were obtained through books, journals and internet. Non probability sampling method was used to select 50 senior staff from the three organizations: Central bank of Nigeria, 15, Cadbury Plc, 15 and National Bureau of Statistics, 20. The questionnaire was designed in likert scale format. Data collected were presented in frequency tables. Pearson product moment correlation coefficient was used to test hypotheses 2 and 3 while chi- square was used to test hypothesis 1 using SPSS. The study covers the period of 2005 – 2015. The study covers West African Region, which involves Nigeria.

2.0 Literature Review

2.1 Measuring Globalisation

Steger (2009) identifies four main empirical dimensions of globalization: economic, political, cultural, and ecological. Measuring globalization include indicators on capital movements and foreign direct investments, international trade, the economic activity of multinational firms and the internationalization of technology (www.oecd.org).

Looking specifically at economic globalization, it can be measured in different ways.

(i) Goods and Services – exports and imports as a proportion of national income.
(ii) Labour/People – net migration rates: inward or outward migration flows, weighted by population.
(iii) Capital – inward or outward direct investment as a proportion of national income.
(iv) Technology – International research and development flows, proportion of populations (www.globalisation-index.org).

2.2: Theoretical Review on Foreign Direct Investment

According to Grazia Letto – Gillies (2012) prior to Stephen Hymer's theory regarding direct investment in 1960, the reasons behind Foreign Direct Investment and Multinational Corporation were explained by neoclassical economics based on macroeconomic principles. These theories were based on the classical theory of trade in which the motive behind trade was a result of the difference in the costs of production of goods between two countries, focusing on the low cost of production as a motive for firm's foreign activity.

For example, Joe S. Bain only explained the internationalization challenge through three main principles, which are: Absolute cost advantage, product differentiation advantages, and economies of scale.

Furthermore, the neo classical theories were created under the assumption of the existence of a perfect competition. Hymer developed a framework that explained beyond the existing theories, why this phenomenon occurred, since he considered that the previously mentioned theories could not explain foreign investment and its motivations.

Facing the challenges of his predecessors, Hymer focused his theory on filling the gap regarding international investment. The theory proposed by the author approaches international investment from a different and more firm specific point of view. As opposed to traditional macroeconomic – based theories of investment.

Hymer states that there is a difference between mere capital investment, else known as portfolio investment, and direct investment. The difference between these two, which will become the corner stone of his whole theoretical framework, is the issue of control, meaning that with direct investment, firms are able to obtain a greater level of control than with portfolio investment.

Furthermore, Hymer proceeds to criticize the neoclassical theories, stating that the theory of capital movements cannot explain international production. Yes that is fact, moreover, he clarifies that FDI is not necessarily a movement of funds from a home country to a host country, nor and that it is concentrated on particular industries within many countries and not vice versa(as would be the case if interest rates were the main motive for international investment).

Another interesting observation made by Hymer in his theory, was that opposite of what was sustained by the neoclassical theories, foreign direct investment is not limited to investment of excess profits abroad. In fact, foreign direct investment can be financed through loans obtained in the host country, payments in exchange for equity (patents, technology, machinery, etc) among others.

The previous criticisms lead Hymer to propose the three main determinants of foreign direct investment, taking into account imperfections in the market as a key assumption: Existence of firm specific advantages, their link to market imperfections, Removal of conflicts with rivals in foreign markets and propensity to formulate an internationalization strategy to mitigate risk.

2.3: Nigeria Foreign Direct Investment Net Outflows (% of GDP)

Foreign direct investment (FDI), net outflows (% of GDP) in Nigeria was 0.33 as of 2012. Its highest value was 0.90 in 2009 while its lowest value was 0.01 in 2005.

This series shows net outflows of investment from the reporting economy (Nigeria) to the rest of the world and is divided by GDP (data.worldbank.org).

Year	Value	Year	Value
2005	0.01	2009	0.90
2006	0.22	2010	0.25
2007	0.52	2011	0.20
2008	0.51	2012	0.33

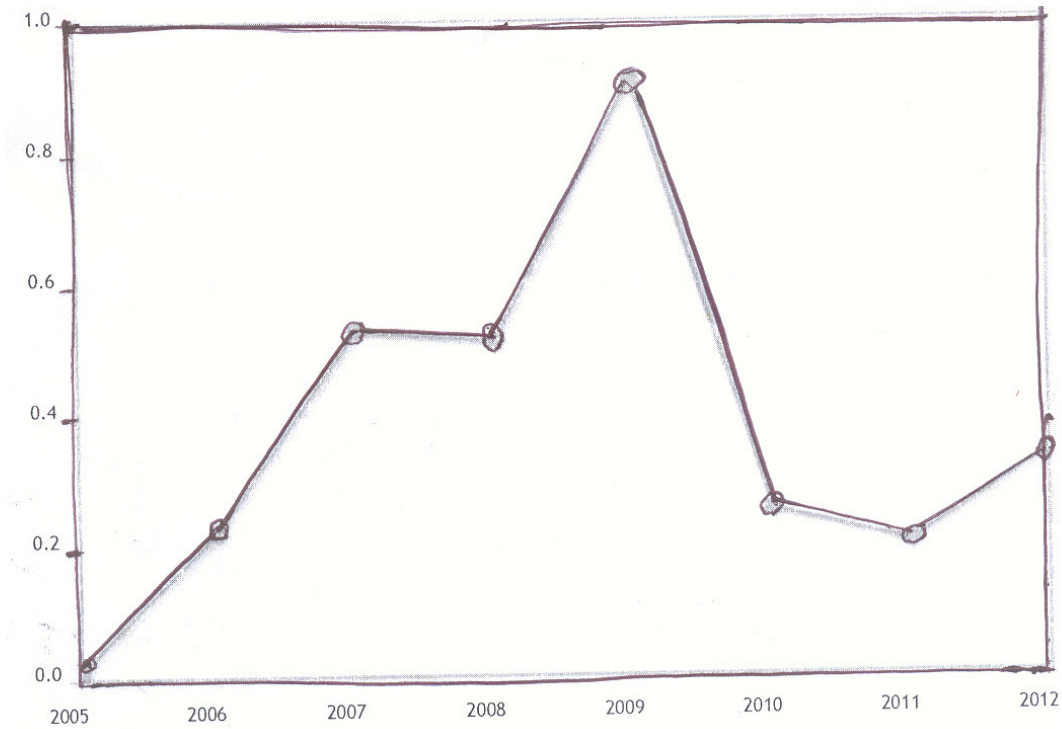

Fig 2.1: Foreign Direct Investment Net Outflows (% of GDP)
Source: (data.worldbank.org).

2:4: Foreign Direct Investment Net Inflows in Nigeria

Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10% or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long term capital, and short – term capital as shown in the balance of payments.

The latest capital importation report released by National Bureau of Statistics (NBS) has shown that Nigeria's foreign direct investment (FDI) declined by 48.7 percent in Q1 of 2015 in relation to the preceding quarter (Q4) 2014.

Foreign direct investment in Nigeria decreased to 723.49 USD Million in the first quarter of 2015 from 1030.06 USD Million in the fourth quarter of 2014. Foreign direct investment in Nigeria averaged 1434.26USD Million from 2007 until 2015, reaching an all time high of 3084.90 USD Million in the fourth quarter of 2012 and a record of low of 667.88 USD Million in the first quarter of 2007. Foreign direct investment in Nigeria is reported by the Central bank of Nigeria (http://www.tradingeconomics.com).

Nigeria Trade	Last	Previous	Highest	Lowest	Unit	
Balance of Trade	463500.20	410598.9	2177553.08	-592200.72	NGN Millions	{+}
Exports	1028194.30	875690.50	2648881.76	322.93	NGN Millions	{+}
Imports	564694.20	465091.0	1554732.90	167.88	NGN Millions	{+}
Current Account	3607.08	-3978.22	9455.37	-4410.00	USD Million	{+}
Current Account to GDP	2.6	3.90	37.90	-18.70	Percent	{+}
Terms of Trade	104.41	107.05	160.25	49.48	Index Points	{+}
Foreign Direct Investment	723.49	1030.06	3084.90	667.88	USD Million	{+}
Gold Reserves	21.37	21.37	21.37	21.37	Tonnes	{+}
Crude Oil Production	2220.00	2520.00	2695.00	675.00	BBL/D/IK	{+}
Capital Flows	-1.18	8.45	20.30	-15.44	USD Billion	{+}
External Debt	10316.82	9464.11	10316.82	3627.50	USD Million	{+}

Source: http://www.tradingeconomics.com

The National Bureau of Statistics report states that the largest source of capital imported into the country continues to be the United Kingdom, with $1, 759 million imported in the first quarter of 2015, representing 65.9 percent of the total.

The report stated that a sharp decline was observed in the United States, which is Nigeria's second largest source of capital declining by $725.9 or 67.6 percent to $348.7 million in quarter one of 2015.

For portfolio investment, the report stated that it made up the largest portion of the total capital imported totaling $1, 860.7 million in Q1 of 2015.

According to the report, decline in portfolio investment inflows were primarily driven by declines in equity capital, which were lower by $1, 120.98 million or 49.59 percent year - on –year, and by $402.69 million or 26.11 percent relative to Q4 of 2014 (www.businessdayonline.com).

2.5: Foreign Direct Investment and Economic Growth

The rapid growth of world population since 1950 has occurred in the developing countries. This growth has been matched by more rapid increases in gross domestic product, and thus income per capita has increased in most countries around the world since 1950. While the quality of the data from 1950 may be of question, taking the average across a range of estimates confirms this. Only war – turn and countries with other serious external problems, such as Haiti, Somalia, and Niger have not registered substantial increases in GDP per capita (http://www.pop.comhealthmetrics).

An increase in FDI may be associated with improved economic growth due to the influx of capital and increased tax revenues for the host country. Host countries often try to channel FDI investment into new infrastructure and other projects to boost development. Greater competition from new companies can lead to productivity gains and greater efficiency in the host country and it has been suggested that the application of a foreign entity's policies to a domestic subsidiary may improve corporate governance standards.

Furthermore, foreign investment can result in the transfer of soft skills through training and job creation, the availability of more advanced technology for the domestic market and access to research and development of resources (UNCTAD, 2010).

The local population may benefit from the employment opportunities created by new businesses (Slaughter and May, 2012).

Foreign investment is desired not only for its ability to bring about resource reallocation and improved productivity but it has effect on a country's balance of payments. If foreign investment is import substitute, then expenditure is diverted from importing goods produced from other countries to goods made at home. This then will affect the balance of payments for the host country positively. Moreover, if foreign investment provides goods for export, more foreign exchange can be earned (Ezigbo, 2000).

Kreinin (1991) states that despite the criticisms on foreign direct investment, the host country benefited considerably from foreign investment, not only does its real product rise because of the contribution of new capital, but foreign direct investment brings with it managerial and technological knowhow as well as access to inventions and innovation and to well developed capital market.

2.6: Result and Discussion

This section presents the analysis of data collected in the course of this study. Data were presented in tables for analysis. Hypothesis 1 was tested by Chi – square test statistics. Hypotheses 2 and 3 were tested by Pearson product – moment correlation coefficient using SPSS.

Table (1): The Challenges Encountered by Foreign Investors for Foreign direct Investment

S/N		AGREEMENT	DISAGREEMENT	TOTAL
1	Foreign Exchange Risk	45(40)	5(10)	50
2	Political Risk	35(40)	15(10)	50
3	Increased Agency Cost	40(40)	10(10)	50
	Total	120	30	150

Source: Field Survey, 2015.

Table(2) Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	56.811[a]	4	.000
Likelihood Ratio	69.470	4	.000
Linear-by-Linear Association	42.350	1	.000
N of Valid Cases	150		

Table (2) is the output of the computed Chi-Square values from the cross tabulation statistics of observed and expected frequencies with the response options of agree and disagree based on the responses of the research subjects. Pearson. Chi-Square computed value (X^2_c= 56.811) is greater than the Chi – Square tabulated value (X^2_t = 9.49) with 4 degrees of freedom (df) at 0.05 level of alpha (X^2_c = 56.811, p, < .05)

Decision Rule

The decision rule is to accept the alternate hypothesis if the computed Chi- Square value is greater than the tabulated Chi-Square value otherwise accept the null hypothesis.

Decision

Since the Pearson Chi - Square computed X^2_c = 56.811 is greater than Chi- Square table value X^2_t = 9.49, the null hypothesis is rejected and the alternate hypothesis is accepted. Thus, we conclude that foreign exchange risk, political risks and increased agency costs are challenges encountered by foreign investors for direct foreign investments in Nigeria.

Table (3): The Nature of the Relationship between Foreign Investors and the Host Nation

S/N		AGREEMENT	DISAGREEMENT	TOTAL
1	There is a positive relationship between foreign investors and the host nation	36(40.25)	14(9.75)	50
2	Foreign investors offer both equity and debt financing in the host nation	44(40.25)	06(9.75)	50
3	A good number of foreign direct investments in Nigeria are joint venture	38(40.25)	12(9.75)	50
4	If foreign investment is import substitute, then expenditure is diverted from importing goods produced from other countries to goods made at home.	43(40.25	07(9.75)	50
	Total	161	39	200

Source: Field Survey, 2015.

Table (4) Descriptive Statistics

	Mean	Std. Deviation	N
Foreign Investors	1.8900	1.13614	50
Host Nation	1.4500	.79614	50

Table (5) Correlations

		Foreign Investors	Host Nation
Foreign Investors	Pearson Correlation	1	.837**
	Sig. (2-tailed)		.000
	N	50	50
Host Nation	Pearson Correlation	.837**	1
	Sig. (2-tailed)	.000	
	N	50	50

**. Correlation is significant at the 0.01 level (2-tailed).

Table (4) shows the descriptive statistics of the foreign investors and the Host nation with a mean response of 1.8900 and std. deviation of 1.13614 for foreign investors and a mean response of 1.4500 and std. deviation of .79614 for host nation and the number of respondents (50). By careful observation of standard deviation values, there is not much difference in terms of the standard deviation scores. This implies that there is about the same variability of data points between the dependent and independent variables.

Table (5) is the Pearson correlation coefficient for foreign investors and host nation. The correlation coefficient shows 0.837. This value indicates that correlation is significant at 0.05 level (2tailed) and implies that there is a positive relationship between foreign investors and the host nation ($r = .837$). The computed correlation coefficient is greater than the table value of $r = .195$ with 98 degrees of freedom (df. = n-2) at alpha level for a two-tailed test ($r = .837$, $p < .05$). However, since the computed $r = .837$, is greater than the table value of .195 we reject the null hypothesis and conclude that there is a positive relationship between the foreign investors and the host nation ($r =. 837$, $P < .05$).

Table (6): The Extent of the Relationship between Foreign Direct Investment and Economic Growth

S/N		AGREEMENT	DISAGREEMENT	TOTAL
1	There is a significant relationship between foreign direct investment and economic growth.	41(44)	09(06)	50
2	Foreign direct investment affects the host nation's economic growth through technology transfer, managerial and market expertise.	46(44)	04(06)	50
3	Foreign direct investment can affect labour and capital market, trade patterns and economic growth.	45(44)	05(06)	50
	Total	132	18	150

Source: Field Survey, 2015.

Table (7) Descriptive Statistics

	Mean	Std. Deviation	N
Foreign Direct investment	1.6400	.92051	50
Economic Growth	1.4000	.75593	50

Table (8) Correlations

		Foreign Direct Investment	Economic Growth
Foreign Direct Investment	Pearson Correlation	1	.886**
	Sig. (2-tailed)		.000
	N	50	50
Economic Growth	Pearson Correlation	.886**	1
	Sig. (2-tailed)	.000	
	N	50	50

**. Correlation is significant at the 0.01 level (2-tailed).

Table (7) shows the descriptive statistics of foreign direct investment and economic growth with a mean response of 1.6400 and std. deviation of .92051 for foreign direct investment and a mean response of 1.4000 and std. deviation of .75593 for economic growth and the number of respondents (50). By careful observation of standard deviation values, there is not much difference in terms of the standard deviation scores. This implies that there is about the same variability of data points between the dependent and independent variables.

Table (8) is the Pearson correlation coefficient for foreign direct investment and economic growth. The correlation coefficient shows 0.886. This value indicates that correlation is significant at 0.05 level (2tailed) and implies that there is a significant relationship between foreign direct investment and economic growth ($r = .886$). The computed correlation coefficient is greater than the table value of $r = .195$ with 48 degrees of freedom (df. = n-2) at alpha level for a two-tailed test ($r = .886$, $p < .05$). However, since the computed $r = .886$, is greater than the table value of .195, we reject the null hypothesis and conclude that there is a significant relationship between foreign direct investment and economic growth ($r = .886$, $P < .05$).

Conclusion

Foreign direct investment (FDI) plays an extra ordinary and growing role in international business. It can provide a firm with new markets and marketing channels, cheaper production facilities, access to new technology, products, skills, and financing.

To the host country which receives the investment, it can provide a source of new technologies, capital, processes, products, organizational technologies and management skills, and as such can provide a strong impetus to economic development.

Recommendation

The CBN noted that in the fourth quarter of 2013, Nigeria's external sector remained vulnerable to global shocks evidenced by increased exposure to short term capital, rising external debt and high demand pressure that resulted in the depletion of external reserves by 2.9 percent.

In order to reduce vulnerability in the sector, policy redress should be directed towards sustained macroeconomic stability, reduced infrastructural deficit by up – scaling the power sector output to increase domestic production and curtail the relatively high level of importation. The renewed pressure in the foreign exchange market with the premium exceeding the benchmark level remained worrisome, thus, market dynamics should be adequately situated.

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