DIRECT FOREIGN INVESTMENT AND PERFORMANCE OF MANUFACTURING FIRMS IN RIVERS STATE

OBASSE, VICTOR JOES

UNIVERSITY OF PORT HARCOURT BUSINESS SCHOOL, PORT HARCOURT,

RIVERS STATE, NIGERIA

&

B. CHIMA ONUOHA

DEPARTMENT OF MANAGEMENT, UNIVERSITY OF PORT HARCOURT CHOBA,

RIVERS STATE, NIGERIA

Abstract

This study is an empirical inquiry into the impact of Direct Foreign Investment (DFI) of other countries into the manufacturing sector in River State, Nigeria. It would lead to a better understanding of the economic mechanism and the behavior of economic agents, both at micro and macro cadre allowing the opening of new areas of study in economic growths. This study would also look through the advantages and disadvantages which foreign direct investment has on Nigeria economy, thereby, reveal if there is a correlation between the direct foreign investment and the Nigerian economy. As a cross section survey, data for this study was generated using well and articulately structured survey from 50 respondents across 10 manufacturing firms in Rivers State. A total of three hypotheses were proposed with analysis revealing the relationship between direct foreign investments and manufacturing sector, it was revealed that direct foreign investment had a positive and significant relationship with manufacturing sector. The researcher believes that if appropriate actions are taken and necessary structures erected, the Nigerian manufacturing sector will be a healthier place to access the benefits that foreign direct investment conveys. This will lead to growth in Nigeria manufacturing sector. It was revealed that in spite of the acknowledged remuneration foreign direct investment conveys. It is nonetheless, criticized on grounds, of the defective activities that foreign investors indulge in. In conclusion, the study showed that the expansion of the manufacturing sector and direct foreign investment in Nigeria is based on a number of problems which may be reason for the positive but insignificant impact on DFI when the variables was regressed against manufacturing sector. It was at that point recommended that, Government needs to do a few needful in order to motivate foreign investors, this is by providing good and right social infrastructure and also a pool of relevant workforce, a safe working environment against militancy and a potentially strong market for their product and services can be sold.

Keywords: Direct, Foreign investment, manufacturing sector, Economic development, economic growth, investment

INTRODUCTION

Direct Foreign Investment (DFI), for the recent times in many nations across the world, had long been a subject of many concerns. This concern for DFI has been renewed in recent years due to the strong development of the world's DFI flows recorded since the 1980s, a development that has made DFI even more important than trade as an improvement tool for international economic integration. Based on this accession, it would not be a thing of surprise to say that a large number of theoretical explanations as to the very existence of DFI have been advanced over the years, with many studies focusing on the investigation of the determinants of such investment. Moreover, despite so many researches across the globe, there is at present no universally accepted model of DFI, there are also, lots of concerns as regards what key factors could explain better a country's tendency to attract investment by multinational enterprises (MNEs) and it is however not clear how globalization is likely to influence the determinants of and motivations for DFI. These very issues that are yet to be resolved are of great importance to developing countries that very much seek to attract DFI to fuel economic relevance and growth. Krosstrup and Matar (2005) defined direct foreign investment (DFI) as a means to achieve economic development in its own rights, with expected spillovers and above those associated with domestically finished investments. In view of the development in Nigeria's economy today, coupled with the incessant political, social and economic crisis, Nigeria which has degenerated itself in the perpetual underdevelopment and structural backwardness of the economy (Odozi, 1997). Nigeria's need direct foreign investment to augment their development strategy. Thus, this work will focus on the economic influence of direct foreign investment on the manufacturing sector in Rivers State.

Assessing the views made by various authors, it can be said that direct foreign investment in Nigerian economy, it is seen that people do not really understand the implications of direct foreign investment on Nigeria economy which is as follows:

i. Did direct foreign investment make up with the financial requirement of the economy?
ii. What is the level of direct foreign investments contributions to the economy?
iii. What factors contain the contributing foreign direct investment to economy?
iv. Apart from funding, what other roles do direct foreign investment play in Nigeria?

In its overall context, this study is to identify the growth of direct foreign investment in Nigeria. Thus, the specific aims of this study are:

i. To investigate whether increasing direct foreign investment impacts on Nigeria economy.
ii. To carry out a review into Nigeria economy with a view of assessing its contributions in the entire economy.
iii. This study will also examine the advantages and disadvantages which foreign direct investment has on Nigeria economy.

Research questions

For the purpose of this research work, the researcher will bear the following questions in mind:

CHAPTER 1: Is there a correlation between the direct foreign investment and the Nigerian economy?

CHAPTER 2: Does the investment carried out by foreigners in Nigeria economy create any impact on the Nigerian economy?

CHAPTER 3: To what extent does direct foreign investment promote manufacturing activity, thereby promoting even development in the country?

The following hypothesis will be experimented in order to validate the degree of relationship between these research variables: There is no significant influence between increasing direct foreign investment and the Nigerian economy, there is a significance influence between increasing direct foreign investment and the Nigerian economy.

This study will help to elucidate how foreign direct investments have contributed to the growth of the Nigeria economy and the obstacles they have encountered in doing so. This study will provide the opportunity to update our knowledge about foreign direct investment and their role in Nigeria economy. In fact, wit economic down turn this study will be useful to the government of Nigeria which economy, foreign investors and other parties involved in Nigeria economy will also benefit. This would make them understand that, they have gotten an important role to play in the economy of Nigeria, since they are investing on the Nigerian economy. The general public also stands to benefit as this study will provide enlightenment to them.

This study adopts the impact of direct foreign investment on Nigerian economy. The study covers 1996-2020.

Definition of terms

Foreign investment:

This is described as the involvement of foreigners in the economic development of a country in terms of participation in any of the sector of such economy according to Obadan, (1992).

Foreign investment is said to mean capital flows from one country to another, it involves granting the foreign investors a great amount of ownership stakes in domestic companies and assets within another country. It therefore means that, foreigners and the indigenenous country have active and dynamic roles in management as a part of their investment or an equity stake large enough to enable the foreign investor to influence business strategy.

Multinational firms have investments in a variety of countries as a means of making their services accessible to many other countries across the globe. This modern trend leans toward globalization. In many ways, we can rightly say that: Foreign investment here refers to the investment in domestic companies and assets of another country by a foreign investor, most multinational organizations will search for new opportunities for economic growth by opening branches and expanding their investments in other countries, direct foreign investments include long-term physical investments made by a company in a foreign country, such as opening plants or purchasing buildings.

Economic development:

This is the process of increasing real per capita income and engineering substantial positive transformation in the various sectors of the economy (Anyanwuocha, 2004).

Economic development is defined as “the process by which a nation improves the economic, political, and social well-being of its people – (Wikipedia).

Manufacturing sector:

This term is used in this work to man the sector of the Nigerian economy, usually factories, and industries etc that used raw materials to produce goods in large quantities at its finished form. In broad terms, Manufacturing is referred to as the process of transforming materials or components into finished products that can be sold in the marketplace.

Investment:

This is the process of making funds available to those who can use them in exchange for a fixed return of expected profit (Udo, 2005). On a broad sense, an investment is an asset or item accrued with the goal of generating income or recognition. In an economic outlook, an investment is the purchase of goods that are not consumed today but are used in the future to generate wealth.

Manufacturing financing:

is referred to as the process of providing funding for a manufacturing business in order to help acquire equipment or fund working capital needs. This can also be called the disbursement of funds to foreign investors to enhance manufacturing productivities (Akinifesi, 1981).

Economic growth:

in this context we will refer to economic growth as the increase in the market value of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product, or real GDP**.** Secondly, a long term rises in the capacity to supply increasing decrease economic goods to its populations. Thus growing capacity based on advancing technology and the institutional and ideological adjustment that it demands (Iyoha, et al, 2002).

Literature

Introduction

This chapter is concerned on relevant areas of direct foreign investment. It provides a background to the study; this section draws our attention to the contributions made by various authors and scholars in current literature on foreign direct investment and manufacturing sector in Nigeria. Direct foreign investment is seen to be subjective to market capacity or size for the product of such investment and is expected to increase where there exist higher profit rates so as to follow the direction of marginal productivity of capital.

Manufacturing sector and the Nigerian economy

The capacity of a country to manufacture products domestically is very much necessary to its economic growth through the process of learning by doing, it will in turn encourage the opportunities for technological ideas and skills needed for sustained development.

According to Bradly, (2001), the manufacturing sector is saddled with sub-sectors; these subsectors use mechanical or chemical processes to transform material or substances into new produce. The subsectors are most times situated in particular locations and are often called plant, factory or mill. It ordinarily uses power drivers' machines and equipment for handling materials. Its products may be the final products that consumers will purchase, such as automobile or a chair, or they may be good for use by other manufacture, such as automobile engines or rolls of upholstery fabric.

Manufacturers are in the business of producing physical units of outputs for consumption by end users or other manufacturers. The national industrial policy that is currently in practice advocates export-substitution in rear total disregard for domestic-based manufacturing.

According to Anyanwuoch (2004), economic development in its popular understanding talks about a continuous process by which a society is transformed structurally from one that is primarily agrarian or agricultural to that which is predominantly industrial and urban with the attendant characteristics of rising collective heath, meaningful diversity of choices, and stability of social and institutions. This process of transformation is achieved in four progressive stages according to historical precedence.

Bromley (1995) also stated that the first, a major institutional shift occurs in such a way that it requires investment in recent technology, founding or establishment of fresh industries, creation of new markets, and strengthening of existing infrastructures. Secondly, resultant expertise from newly created industries is made readily available to agricultural sector, thus mechanizing and engendering economies of goods.

Local and regional factor markets are encouraged using means of bonuses made possible by increasing or emerging product market in the economy. Thirdly, the growing industrial base on the other hand leads to increased efficiency in the manufacturing products and the citizens now spend more on manufacturer's goods and services. In the fourth and final stage, industrial productivity and tertiary services rise in importance. This has been the customary path taken by Western European economies to economic development, and the rest of the industrialized world.

Taking count from the year 2000, Nigeria's economic growth has not recorded any significant reduction in poverty and unemployment. Meanwhile, the Gross Domestic Product (GDP) growth had increased from 6.7% in 2006 to 9.5% in 2010, the unemployment rate moved from 12.3% to 21.4% within the shortest period of time. As at the year 2015 before the advent of economic recession, unemployment and under-employment rate had reached a peak of 29%. During the same year, life expectancy was 53.1, lower than those of Brazil (74.7) and Ghana (61.5). to add to that, it was recorded that, 46% of the country's population lived below the national poverty line, according to the World Bank's Human Development Indicators (HDI) Report. The inability to achieve completeness is largely as a result of the fact that economic growth has not been broad-based. One of the main reasons why GDP growth has not translated into improved living standards is seen in the outline and dynamics of economic growth over the last two decades. The Nigeria's economic growth pattern can be simply explained using the borrowed phrase "service-led growth." Starting from the year 2000 to 2015, the services sector had been able to contribute 61% to real GDP growth to the economy. This growth was assumed to be as a result of a few key subsectors such as trade, telecoms, real estate and financial services. The main productive sectors such as manufacturing, construction and agro-processing had on the long run accounted for only 15% of overall growth during the same period. The developing services sector and rising unemployment rate suggests that value addition by the service sector is low, which is very relative to the productive sector, the growing services sector and rising unemployment rate suggests that value addition in the service sector is low, relative to the productive sector. This, therefore, brings to the core three key policy considerations:

Firstly, in other to achieve meaningful economic growth that would deliver unemployment and poverty reduction, they would be an urgent need to alter the GDP. To do this, adequate efforts would be required to change the pattern of GDP growth by developing the productive sectors. Nigeria needs to implement meaningful reforms that will would be capable of opening up and attracting investments into key subsectors within the manufacturing and agro-processing sector, by so doing; it would create opportunities along value chains. Macroeconomic stability, good governance and provision of infrastructure are supporting factors that will improve productivity and output across sectors.

Secondly, in other to address issue of unemployment and poverty, GDP growth of the country must be led by the productive sectors. The growth pattern in 2020 and beyond must be very different from that of the previous nonproductive era that gave birth to recession. Inclusive growth embraces the need for a strong industry-led economy. That being said, industrial sectors such as manufacturing, agro-processing, and construction should be the engine of economic transformation. Emphasis on reforms of the manufacturing and agro-processing sectors will lead to massive job creation, diversification of export earnings and reduction in importation of foods and other items that can easily be produced locally.

Thirdly, development of the productive sectors must be widespread and include major subsectors. This emphasizes the need for diversification within manufacturing, agriculture, construction and other key sectors. In manufacturing, only 3 subsectors (food & beverage, cement and textile) account for 77% of manufacturing output. Similarly, in agriculture, crop production accounts for 91% of agricultural output, leaving the remaining 9% for fishery, forestry and livestock. To move a step closer to achieving inclusiveness, deliberate policy interventions are required to open up these subsectors. A conscious effort should be made to review the manufacturing sector and identify key structural bottlenecks, highlight their implications, explore recent government interventions and proffer workable policy interventions.

Direct foreign investment is a two-way process; it could be inward or outward. Just as foreigners invest in Nigeria, citizens of Nigeria also engage in foreign direct investment.

Chang (2008), suggests that, a firm that will want to establish an oversea subsidiary company should do so if it enjoys a firm-specific competitive advantage over its local rivals and that advantage is most profitably exploited through managerial control over operations in foreign countries. In this vein, it is advised that those who makes the policy of Nigeria should not regard direct foreign investment as a cause of economic growth, they policy makers should see that DFI has the potential to contribute to economic expansion only after such expansion has begun.

The reason for foreign direct investment can be as follows;

1. Direct foreign investment could serve as a strategy by a firm to reduce the political risk of over-concentration of operations in a particular region.
2. DFI in services may lead to service quality improvements. These may result from increased competition and the superior technological, organizational and management know-how of foreign-owned service providers.
3. Direct foreign investment could serve as an integral part of firms overall strategy for global production and sales. This is because international diversification is reducing a company's risk in relation to expected return. The economic cycles of various countries do not tend to be completely synchronized, so it is possible to minimize risk relative to

expected return by investing across frontiers.

4. DFI in services may result in better variety of services being provided, including new and technologically advanced service. Evidence of an increased number of innovative financial products available and of electronic banking technique as a result of DFI in the banking sector. Cardenas et al (2003).

Direct foreign investment as posited by Oyetunji (2003), benefits the global economy, as well as investors and recipients. Capital goes to the businesses with the best growth prospects, anywhere in the world.

According to Reinert (2007), manufacturing sector provides adequate products necessary for economic development. Increased manufacturing productivity is a vital condition for rapid economic development. Manufacturing sector makes the supply of raw materials needed for product possible which constitute the major source of employment. It also improve the quality of life of the people through the provision of social amenities such as portable water and improved health and education facilities. Foreign exchange earnings through commodities exports are made possible through manufacturing sector.

Direct Foreign Investment and the functioning of manufacturing firms in Nigeria

An important reason why developing countries economy attracts FOI into their economy is in order to achieve various desirable effects within their own economies, such as more rapid growth as a result of the increased rate of investment. According to Flores (2000), many host countries find this very difficult to accept because when foreigners take over control of any of the sectors in an economy, profits which should have been retained are eventually repatriated.

The oil boom era witnessed relative neglect of natural resources based on manufacturing such as food processing and textiles to relatively low value-added durable goods such as assembly industries.

Oresofu, (1999) opined that prior to this time; policies and actions pursued during the oil boom era provided a weak base and unhealthy pattern for future growth in the manufacturing sector in Nigeria. The decline in the manufacturing sector has been attributed, among others, to low investment due to low savings in the domestic economy and poor enabling environment, deficient infrastructural facilities, weak raw material base, high cost of energy, poor technological base and unsettled past private cost.

Failures of manufacturing sector in Nigeria

Aremu, (1998), opined that what has led to collapse of Nigeria manufacturing sector to include weak industrial capabilities, technological stagnation of domestic companies, and lack of foreign investment on the manufacturing sector as well as weak ICT infrastructure. Other significant factors are; galloping inflation, epileptic power supply, multiple taxation and severe flows in the education system, among other reasons. Unido (2000) states that between 1990 and 2000 total manufacturing value added (MVA) and manufactured exports declined dramatically in Nigeria. With oil boom exports, Nigeria has become dangerously dependent on petroleum as the only means to obtain foreign exchange. As in 2000 to 2008, Nigeria was clearly losing its competitive edge in the manufacturing sector.

Nigeria has plentiful natural resources, the largest domestic market on Africa and an abundant and cheap labor force. When then so has Nigeria's manufacturing sector been so dissipating? Is there any prospect of increasing Nigeria's industrial capacity to reverse its slide into manufacturing marginalization?

Importance of foreign direct investment in Nigeria's manufacturing sector

Odozi (1995) opined that the role of foreign direct investment in capital formation in Nigeria has been increasing over the years. Apart from its direct contribution to capital formation, foreign direct investment may also influence investment by domestic firms and by other foreign affiliation.

However, the Nigerian currency depreciated during the 2000-2003 period. This was partly due to the strength of the US dollar in the global market. Despite high oil earnings, the naira experienced a sharp depreciation in 2000. This could be due to large outflow of short-form capital to finance imports.

The growth of manufacturing sector and foreign direct investment in Nigeria from 1996-2020

Obadan (1992) identifies positive effects of foreign direct investment on the growth of the manufacturing sector. FDI increases the level of economic activities in the manufacturing sector, and thereby facilitating the rate of economic development in Nigeria.

Akinfesi (1991) summarized the benefits of FDI under four contributions the followings First, FDI fills the resources gap bureau targeted or desire investment and locally mobilized savings. Second, it fills the gap between target foreign exchange requirements and those derived from net profit earnings plus net public foreign aid.

Year	Manufacturing	Trading	Agriculture
2000	60.7	10.5	5.4
2010	71.0	11.6	5.7
2012	47.5	31.3	7.2
2016	19.9	37.7	3.2
2020	23.5	38.2	7.1

Source: CBN (Statistical bulletin) 2000

Foreign direct investment and the economic growth of the Nigerian manufacturing sector

According to Castellani et al (2001), foreign direct investment on gross domestic problem (GDP) of the host country improves the allocation of resources in the country with several manufacturing firms operating in the market profits of the local procedures. Economic growth rises from improvements in technology. It is obvious that the flow of foreign direct investment in the Nigerian manufacturing sector is not only a source of finance of employment. It is certainly a medium for acquiring skills, technology, organizational and organizational practices and access to market.

According to Soderten (1980) an essential aspect of the criticism raised against foreign direct investment has been that of control. If direct investment is taken in a country, it means that part of its industry will be controlled by foreigners. Many host countries find this difficult to accept. This has led to counter measures in many countries. This problem is most acute in Canada where 59 of the total capital in manufacturing is controlled by foreigners. This could make their operations to diverge from the developmental goals of the host country. If foreign firms take over the control of the key sector in the industry, they will tend to shift research to their own country. The tendency inherent in direct investment to lead reallocation of research activities could induce scientist and technician to leave their home countries.

Summary, Findings, Conclusion and Recommendations

Summary and findings

This study was designed to determine the impact of Direct Foreign Investment on manufacturing sector from 1996-2020. Over the years, various administrators in Nigeria have employed several policies in pursuing growth in the manufacturing sector. It was revealed that in spite of the acknowledged benefits Direct Foreign Investment conveys. It is nonetheless, criticized on grounds, of the defective activities that foreign investors indulge in through a statistical analysis of the relationship between Direct Foreign Investment and manufacturing sector, it was revealed that direct foreign investment had a positive and significant correlation with manufacturing sector. The researcher believes that if appropriate actions are taken and necessary structures erected, the Nigerian manufacturing sector will be better place to access the benefits that foreign direct investment conveys. This will lead to growth in Nigeria manufacturing sector

Conclusion

This study was aimed at examining the growth of DFI on manufacturing sector in Nigeria. The adoption of appropriate and effective policies will immensely assist in emancipating manufacturing sector from the cankerworm of backwardness.

The study showed that the growth of the manufacturing sector and direct foreign investment in Nigeria is based on a number of problems which may be reason for the positive but insignificant impact on DFI when the variables was regressed against manufacturing sector.

Nigeria, being a developing country, should adopt and rely on policies which prove effective and adequate in achieving and maintaining suitable development, expansion and growth in Nigeria.

Recommendations

The following recommendations are put by the researcher;

- In the result, it was discovered that direct foreign investment has a positive and significant relationship with manufacturing sector.
- In order to bring about rapid growth in the manufacturing sector and expansion of DFI, the authorities should implement sound macroeconomic policies in order to bring out low inflation, moderate tax incentive, and viable balance of payment, information and communication technology, industries power supply and also limiting to the lowest level, militancy in Nigeria.
- The government should ensure an amicable resolution of political impasses and violence that had destabilized the country. This will go a long way in reducing perceived uncertainty in the Nigerian investment climate and it will also enhance foreign participation and a

reasonable increase in foreign direct investment in the country.

- The government should stem measures to effect reinvestment of profit by foreigners and government should use their powers to legitimize or specify as positive way in which foreign capital should be integrated into the economy and also fit into the overall priorities of the economy.
- Government should motivate foreign investors by putting in place the proper social infrastructure a pool of relevant workforce, a safe environment and a potentially strong market for their product and services.

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