PERCEPTIONS OF THE IMPACT OF POLITICAL INSTABILITY ON FOREIGN DIRECT INVESTMENT IN NIGERIA FROM 1980-1993

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INTERNATIONAL AFFAIRS AND DEVELOPMENT PROGRAM

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ABSTRACT

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PERCEPTIONS OF THE IMPACT OF POLITICAL INSTABILITY ON FOREIGN DIRECT INVESTMENT IN NIGERIA FROM 1980-1993

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Dissertation dated May, 1998

The objective of this study was to determine the perceptions of the impact of political instability on Foreign Direct Investment (FDI) in Nigeria.

In conducting this research, 350 questionnaires were distributed to some selected Foreign Direct Investors, Nigerians, and chief executive officers (CEOs) of indigenous companies. Out of the 350, 280 questionnaires were completed, returned and analyzed for this research. Chi-square statistics and frequency distribution were used for the evaluation of the perceptions of the impact of political instability on foreign direct investment in Nigeria. Two hypotheses were also developed on the same subject.

The results of the tests conducted showed that foreign investment is negatively affected by political instability in Nigeria. The results of the study suggest that it would be good public policy for the Nigerian Government to strike a balance between the nation's developmental objectives and the interest of foreign investors.

The study makes some recommendations to help improve the climate for foreign investments.
ACKNOWLEDGMENTS

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I am also grateful to Dr. Obinna Ubani, Dr. Hudson Nwakanma, Dr. Fikru Bogohissian, Dr. Dennis Agboh, Dr. Mba Eke Mba, Mr. Joseph James, Jr., Barrister Ik Izuwegbunam, and Chief Clement Chukwukwa, for their support and advice during this struggle.

I am also indebted to my former colleagues (classmates at Alabama A&M University, U.S.A.) who are now working in the companies of my sample population, as well as former Central Bank of Nigeria co-workers. With their help, I was able to collect enough data on Foreign Direct Investment (FDI) in Nigeria.

I must thank my family: my father, the late Chief Frank Okechukwu and my late mother, Egonekwu; my brothers, Godwin, Edwin, Joseph and Frank, Jr.; and my sister, Chinwe. They all paid a steep price for my success.

Finally, I am grateful for the support given to me by my wife Justina Nkechi Okechukwu. Also, my children: Chioma (JoAnn, now 7), Azubuike (Innocent Jr., now 6), and Nnepapa-ya (Jennifer, now 5) must be thanked for they have endured the agony of being locked up and shut out from their father many a day.
## CONTENTS

ACKNOWLEDGMENTS ........................................................................................................ ii
FIGURES ........................................................................................................................... vi
TABLES ............................................................................................................................. viii

Chapter

I. INTRODUCTION ........................................................................................................... 1
   The Background of the Problem ................................................................. 5
   Statement of the Problem ........................................................................ 8
   The Purpose of the Study .......................................................................... 8
   Research Questions .................................................................................... 9
   Research Objectives .................................................................................. 10
   Theoretical Framework ........................................................................... 10
   Statement of Hypotheses ........................................................................ 11
   The Importance of Study .......................................................................... 12
   Limitations of the Study .......................................................................... 12

II. DESIGN OF THE STUDY AND METHODOLOGY .................................................. 14
   Methodology .............................................................................................. 14
   Sources of Data Collection ...................................................................... 14
   Primary Sources ...................................................................................... 14
   Validity of the Research Instrument .................................................... 15
   Secondary Sources .................................................................................. 15
   The Sample .............................................................................................. 16
   Description of Test Statistics ................................................................. 18
   Levels of Significance ............................................................................. 19
## FIGURES

<table>
<thead>
<tr>
<th>Figure</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Map of Nigeria</td>
<td>2</td>
</tr>
<tr>
<td>2. Typical Chi-Square Sketch</td>
<td>19</td>
</tr>
<tr>
<td>3. Number of Years Respondents Have Been with Their Organization</td>
<td>85</td>
</tr>
<tr>
<td>4. Number of People Who Work for Respondents' Firm</td>
<td>87</td>
</tr>
<tr>
<td>5. Number of Aliens Employed by Respondents' Firm</td>
<td>89</td>
</tr>
<tr>
<td>7. Perception of Political Unrest/Military Take Overs in Nigeria</td>
<td>93</td>
</tr>
<tr>
<td>8. Respondents' Perceptions of Nigerian Control of Foreign Business when There is Political Instability</td>
<td>95</td>
</tr>
<tr>
<td>9. Respondents' Perceptions of Changes in Nigerian Governmental Control of Foreign Businesses</td>
<td>97</td>
</tr>
<tr>
<td>11. Respondents' Perception of the Nigerian Foreign Investment Climate</td>
<td>101</td>
</tr>
<tr>
<td>12. The Degree Each Successive Government Has Been Supportive in Creating a Conducive Climate for Foreign Investment in Nigeria</td>
<td>103</td>
</tr>
<tr>
<td>13. Effect of Indigenization on FDI in Nigeria</td>
<td>105</td>
</tr>
<tr>
<td>15. Assessment of Nigerian Tax Rate</td>
<td>109</td>
</tr>
<tr>
<td>16. Respondents' Perceptions Regarding Whether Nigeria Would Have Attracted More Foreign Direct Investment if She was Politically Stable</td>
<td>111</td>
</tr>
<tr>
<td>17. Respondents' Perceptions Regarding Whether Nigeria Would Have Attracted More Foreign Investment if Laws Limiting Repatriation of Profits Had Not Been Imposed</td>
<td>113</td>
</tr>
</tbody>
</table>
18. Respondents' Perceptions Regarding Whether Nigeria Would Have Attracted More Foreign Investment if Certain Industries Had Not Been Exclusively Reserved for Nigerians .......................................................... 115

19. Respondents' Reaction to Nigerian Investment Climate Under Instability..... 119

20. Respondents' Reaction to Effectiveness of Some Nigerian Government Policies on Foreign Direct Investment .................................................. 120

21. External Financing Source with Highest Promising Development Capacity.... 121
<table>
<thead>
<tr>
<th>Table</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Distribution Pattern of Questionnaires</td>
<td>17</td>
</tr>
<tr>
<td>2. Return Rate of Questionnaires</td>
<td>18</td>
</tr>
<tr>
<td>3. Possible Areas of Conflict Between Host Countries and Foreign Direct Investment</td>
<td>39</td>
</tr>
<tr>
<td>4. Nigeria's Balance of Payments - Summary Reports (N Millions)</td>
<td>44</td>
</tr>
<tr>
<td>5. Number of Persons Employed in the Manufacturing Industry in Nigeria</td>
<td>45</td>
</tr>
<tr>
<td>6. Nigerian Exports of Major Commodities By Economic Sector</td>
<td>46</td>
</tr>
<tr>
<td>7. Nigerian Imports by Major Group (N Millions)</td>
<td>48</td>
</tr>
<tr>
<td>9. Source Countries - Completed Cases - 1996</td>
<td>66</td>
</tr>
<tr>
<td>10. Number of Identified Completed Transactions by Principal Source Country 1991-1996</td>
<td>69</td>
</tr>
<tr>
<td>11. Average Exchange Rate</td>
<td>79</td>
</tr>
<tr>
<td>12. Nigeria's Principal Trading Partners (US $ '000)</td>
<td>80</td>
</tr>
<tr>
<td>13. Balance of Payments (US $ MILLION)</td>
<td>82</td>
</tr>
<tr>
<td>14. External Trade - Principal Commodities</td>
<td>83</td>
</tr>
<tr>
<td>15. Number of Years Respondents Have Been with Their Organization</td>
<td>85</td>
</tr>
<tr>
<td>16. Number of People Who Work for Respondents' Firm</td>
<td>87</td>
</tr>
<tr>
<td>17. Number of Aliens Employed by Respondents' Firm</td>
<td>89</td>
</tr>
<tr>
<td>18. What Motivates You to Establish Your Business in Nigeria?</td>
<td>91</td>
</tr>
<tr>
<td>19. Perception of Political Unrest/Military Take Overs in Nigeria</td>
<td>93</td>
</tr>
</tbody>
</table>
### III. LITERATURE REVIEW

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Historical Perspective</td>
<td>20</td>
</tr>
<tr>
<td>Evolution of Political Unrest in Nigeria</td>
<td>24</td>
</tr>
<tr>
<td>Critical Evaluation of Foreign Direct Investment (FDI) in Nigeria the Opponents Against the Proponents</td>
<td>28</td>
</tr>
<tr>
<td>Transfer of Technology</td>
<td>29</td>
</tr>
<tr>
<td>Supporting Local Producers</td>
<td>33</td>
</tr>
<tr>
<td>Capital Infusion</td>
<td>35</td>
</tr>
<tr>
<td>Foreign Direct Investment (FDI) and Nigerian Government Policies</td>
<td>37</td>
</tr>
<tr>
<td>Self-Sufficiency</td>
<td>40</td>
</tr>
<tr>
<td>Increase In Local Resource Content of Manufactured Products</td>
<td>41</td>
</tr>
<tr>
<td>Generation of Employment Opportunities for Nigerians</td>
<td>44</td>
</tr>
<tr>
<td>Increase in Nigeria's Technological Capabilities</td>
<td>46</td>
</tr>
<tr>
<td>Production of Industrial Raw Materials Locally</td>
<td>48</td>
</tr>
<tr>
<td>Export of Final Product</td>
<td>49</td>
</tr>
<tr>
<td>Summary</td>
<td>49</td>
</tr>
<tr>
<td>Foreign Direct Investment (FDI) and Nigerian Government Intervention</td>
<td>50</td>
</tr>
<tr>
<td>Types and Level of Host Government Intervention in Foreign Investment</td>
<td>53</td>
</tr>
<tr>
<td>Changes Made by Foreign Direct Investors as a Result of Host Government Interventions</td>
<td>57</td>
</tr>
<tr>
<td>Nigerian Government Expropriation and Confiscation of Foreign Direct Investment (FDI)</td>
<td>58</td>
</tr>
</tbody>
</table>

### IV. THE ROLE OF FOREIGN DIRECT INVESTMENT (FDI) IN NIGERIA

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth and Contribution of FDI in Nigeria</td>
<td>60</td>
</tr>
<tr>
<td>Foreign Direct Investment as Source of Finance in Nigeria</td>
<td>62</td>
</tr>
</tbody>
</table>
CHAPTER I
INTRODUCTION

The Federal Republic of Nigeria, which became a sovereign nation in October 1960, is politically, economically and population wise, one of the greatest countries in the continent of Africa. In fact, its importance in Africa gives it automatic recognition as one of the countries with the greatest political and economic potential in the “Third World.”

Nigeria, with its capital in Abuja, is divided into states which are governed by the state governors or administrators. Nigeria also has at least 250 distinct ethnic groups, the principal ones being: Hausa, Ibo, and Yoruba. Figure 1 depicts a map of Nigeria and a location of its states.

Nigeria is a tropical country. The climatic condition along the coastal areas in the south is more stable than the rest of the country. There are two main seasons in the year, the wet season and the dry season.

Over the last two decades, industrial growth has become a crucial factor in the pace and pattern of Nigeria’s economic development. Foreign trade has expanded consistently and trade with the western world has increased considerably.

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Fig. 1. Map of Nigeria

Fig. 1. Map of Nigeria

According to Adamu Ciroma, Nigeria, with a current population estimated to be nearing 100 million, is by far the largest single market within a political unit in the continent of Africa.\(^2\) Nigerian market potential is further enhanced by its membership in the Economic Community of West African States (ECOWAS)\(^3\) since 1975.

Previously, agriculture was the mainstay of the Nigerian economy because of the vast acres of land and the good climate with which it is endowed. However, the country is sustained by its crude oil, with noticeable growth in the manufacturing, commerce and construction of industrial bases.

Nonetheless, Nigeria still remains an importer of food. Ciroma maintained that the present objective of the Government of Nigeria, as stated in the fourth development plan (1981-1985) and in the previous three plans, is to make the economy not only self-reliant, but also to export consumer and capital goods within the shortest possible time with its recently acquired wealth,\(^4\) from the sale of crude oil.

In spite of all these potentials and resources, Nigeria is beset by frequent political changes. The Federal Republic of Nigeria has undergone a number of political changes in the past couple of decades.

The first political change was the British political interference in 1951, when the British Military acted against Lagos in an effort to force the King of Lagos (Kosoko) to abandon the slave trade.\(^5\) Since that time, there has been political upheaval.

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\(^3\)Economic Community of West African States (ECOWAS) is an economic grouping of 16 West African Countries Founded in 1975 to facilitate trade and promote joint development efforts among the member States.

\(^4\)Ciroma, 43.

During the ‘60s and ‘70s, the central feature of the national policy for industrial development was the tactic of import substitution. Apparently, this strategy was designed to help the country reduce its dependency on finished imported goods.

This policy created investment opportunities in industries such as textiles, food and beverages, beer and soft drinks, livestock feeds, car assembly plants, footwear, tobacco, ceramics, wood products, batteries, enamelware, carpets, cements, soap and detergents, tires, metal goods, dairy products, and household furniture.\(^6\) This policy, however, while appearing to be achieving its objective, tremendously increased the country’s import bills for the supply of machinery, equipment and spare parts. It also led to an over-dependence on imported raw materials because of exclusive reliance on imported inputs for the local operations.

In the recent years, the government has presented significant industrial policy objectives that led to decreasing dependence on imported inputs. The strategies for achieving this policy objective include the following:

i. Divestment of Government holdings in certain industrial enterprises and concentration of government effort on supportive and catalytic functions through the provision of infrastructure facilities that would stimulate private sector investments;

ii. Self reliance through maximizing local value added;

iii. Local raw material development and utilization;

iv. Promotion of export-oriented industries;

v. Acquisition of industrial technological know-how;

vi. Development and utilization of domestic technology;

vii. Research and development;

\(^6\)Ibid., 3.
viii. Employment generation;
ix. Industrial dispersal;
x. Development of small and medium size industries, and the
xi. Liberalization of control in order to facilitate greater indigenous and foreign
investments.

Therefore, the objective of this study was to investigate the following:

(1) The Perceptions of the Impact of Political Instability on Foreign Direct
Investments (FDI) in Nigeria and

(2) The relationship between the political changes and the perceived policy

The Background of the Problem

The growing importance of Foreign Direct Investment (FDI) in Nigeria, which the
government attaches to its economic development programs, has generated some interest
among multinational corporations (MNCs). Specifically, factors which prompt MNCs to
increase or decrease FDI in individual countries have intrigued and evaded researchers for
many years. The findings of survey-based studies, according to K. Fatehi-Sedeh and
M.H. Safizadeh, indicated that MNCs consider the socio-political stability of their host
country as one of the most important considerations in allocating funds to foreign
projects. That concern is due to the belief that the absence of socio-political stability in a
country is likely to subject foreign investments to the vagaries of forces beyond the
investor’s control. 7

7 Kamal Fatehi-Sedeh and M.H. Safizadeh, “The Association Between Political
Instability and Flow of Foreign Direct Investment,” Management International Review
In Fatehi-Sedeh and Safizadeh’s investigation, they added that political instability is not the only factor that can impair the interest of MNCs. They also suggest that there is an increase in the perceived level of political risk of investing in a country when symptoms of social political instability such as riots, demonstrations, strikes, assassinations, and the like emerge. Today, Nigeria cannot be described as a politically stable country. Since gaining independence from Britain in 1960 and becoming a Federal Republic within the commonwealth of nations in October 1963, Nigeria has never been politically stable.

Among the problems of this political disturbance are the awesome diversity in culture, religion, ethnicity, and language background. Other problems advanced by Eguaroji range from lack of patriotism and national identity, to poor constitutional arrangements. He further adds that ethnicity and corruption may have contributed to the collapse of the first and second republics, “but this does not suggest Nigeria’s rejection of a democratic system of government but instead a clear rejection of those in government whose ineptitude, incompetence and bad faith pushed them to flaunt the rules of democratic governance.”

Since independence in 1960, Nigeria has been regarded as an unstable country with a number of documented military coups and counter-coups. There has also been a number of intertribal civil wars and what may be described as country political unrest. Since the 1960s, Nigeria has been able to hold two brief civilian governments. It started with a parliamentary system in October 1960 which failed in 1966. Differences between the North and South resulted in a 3-year civil war between the Federal Republic of Nigeria and the defunct Biafra (1966-1970). The second government, which began in

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1979, was designed to take after the American Presidential System. This second civilian government, under the leadership of former President Shehu Shagari, lasted for only four years and was also toppled in December 1983. Finally, the last attempt, which tried to reintroduce the democratic system, was aborted in June 1993, followed by the seizure of power again in November 1993 by General Sani Abacha from the interim civilian government.

So far, what has been established is that Nigeria has undergone a series of political changes. These changes have been followed by similar changes in fiscal policies. For example, during the 1994 budget speech given on January 11, 1994, the Head of State, General Sani Abacha, announced that the Nigerian Government would actively monitor the decision to peg the Foreign Exchange rate (value) of the Naira (₦)\(^9\) from ₦40 : $1, to ₦22 : $1.\(^{10}\)

Three months later, the Federal Government fixed the Foreign Exchange rate of the Naira at ₦22 : $1, to strengthen the value of the beleaguered national currency; the Foreign Exchange rate has now increased to ₦50 : $1. This, therefore, means that the fluctuation in foreign exchange will negatively affect foreign investors because the perceived risk is high.\(^{11}\)

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\(^9\)Naira is the unit of Nigerian currency.

\(^{10}\)Sani Abacha, “Budget Speech” Daily Sketch, January 11, 1994, 1.

\(^{11}\)Ibid., 3.
Statement of the Problem

Some economists have questioned the wisdom of Foreign Direct Investment (FDI) in underdeveloped economies. The proponents of FDI have made claims concerning the viability of foreign private investment in the economic development of the Third World.

In West Africa, however, the studies that were conducted on this subject are insufficient. According to the Central Bank of Nigeria, “Although 22 percent (22%) of all foreign investments in Black Africa are in Nigeria, very few studies have been undertaken to measure the impact of foreign investors on the Nigerian economy.” According to Ronald Findly, international direct investment of foreign entrepreneurs helps to alleviate the economic woes of the Third World countries.

In developing countries, particularly in Nigeria, the problems confronting foreign direct investment as a result of government’s policy intervention and political instability have long been recognized by FDI. This study focused on countries (mainly Western countries) that invested their capital in Nigeria between 1980 and 1993.

The Purpose of the Study

The purpose of this study was to investigate the perceptions of the impact of political instability on Foreign Direct Investment (FDI) in Nigeria and the relationships

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between the political changes and the perceived policy intervention between 1980 and 1993. In other words, this study assessed the degree to which political instability in Nigeria has impacted FDI in the country.

Policy makers and political activists alike have expressed dissatisfaction with the attitude of governments toward foreign investors. Speaking on the subject, the former Nigerian Commissioner for External Affairs stated:

Although our policy is now sixty percent participation in certain enterprises the government still wants, and indeed expects full involvement of foreign partners in these enterprises. No country can forever leave its economy solely in the hands of foreigners and no self-respecting government can afford to ignore its responsibility in this regards. Our policy on participation is not “Right or Left,” “Capitalist or Communist;” it is purely and simply designed to benefit Nigeria and friends of Nigeria.\(^\text{16}\)

**Research Questions**

In trying to assess the perceptions of the impact created by the political instability in Nigeria towards FDI, it was appropriate to note the series of political changes which have successively produced new leaders who attempt to develop their new individual political styles. It is observed that these leaders, in an attempt to develop their individual political portfolios, have either upheld, eliminated and/or moderated some existing policies which they did not consider productive. Therefore, in this research work, the research questionnaire (see Appendix II, III, & IV) addressed the main questions which included, but were not limited to, questions such as:

1. What effects have the frequent political changes in Nigeria had on the foreign direct investment?

(2) To what degree have successive governments been supportive in attracting foreign direct investors to Nigeria?

(3) What strategies can be positively adopted to guarantee foreign investors of political stability and a stable investment climate in Nigeria?

(4) What is the level of morale in doing business in Nigeria when there is political instability?

(5) What are some of the current Nigerian Government policies that negatively affect foreign investment in Nigeria?

Research Objectives

The objectives of this study were:

(1) To evaluate the perceptions of the impact of political instability on Foreign Direct Investment in Nigeria, and

(2) To evaluate Nigerian Government policy intervention on Foreign Direct Investment between 1980 and 1993.

Theoretical Framework

The theoretical framework which will assist in the better understanding of this study is the theory of “spatial preference” developed by Richardson. According to his theory, economic factors are necessary but not sufficient enough for firms to determine going abroad. He maintained that subjective factors should also be taken into consideration. In his model, these subjective factors are given in the form of a “spatial preference,” analogously to the “time preference in the theory of consumption. The economic principle of “time preference” infers that the household prefers present consumption over future consumption and must be paid a premium to induce it to forego
a given amount of current consumption in exchange for the same amount of consumption in a future period of time, such premiums increasing with time.\textsuperscript{17}

Similarly, the concept of spatial preference infers that the firm prefers operations in the location where it is already situated, even in the absence of risk. There is aversion to a new location or market which stems not only from physical distance but also from differences in language, political system, ideological and economic environment, and in laws and customs. To induce the firm to build a new plant in a new location, a premium (a higher rate of return) must be assured, to cover the firm's aversion to a new location. The rate of aversion is called the rate of "spatial preference," and this increases with "distance," i.e., the more "distance" the new market, the greater the rate of spatial preference and the greater the premium (return) that must accrue to the firm to break its "spatial resistance."

In summary, the firm evaluates the investment opportunities in each market from both economic factors which define the profitability of the investment and on subjective factors which reflect the management's spatial preference, before it takes off.

\textit{Statement of Hypotheses}

Two null hypotheses and two alternative hypotheses were developed to address this research problem.

\textbf{HYPOTHESIS}

1. \textit{H}$_0$ Some Nigerian Government economic policies discourage Foreign Direct Investment (FDI) in Nigeria.

H₁ Some Nigerian Government economic policies do not discourage Foreign Direct Investment (FDI) in Nigeria.

HYPOTHESIS

2. H₀ Nigerian political instability discourages Foreign Direct Investment (FDI) in Nigeria.

H₁ Nigerian political instability does not discourage Foreign Direct Investment (FDI) in Nigeria.

The Importance of the Study

This study seeks to determine the perceptions of the impact of political instability on FDI in Nigeria. Basic to this study is the detailed review of the strategies needed for attracting Foreign Direct Investment (FDI) to Nigeria.

The importance of the study lies in the fact that not much work has been done on the subject matter. This study will also recommend the possible strategies that Nigeria could adopt to attract FDI to Nigeria.

Limitations of the Study

Several factors constituted limitations in the course of carrying out this research study.

Limitations range from the attitude of the respondents to financial inadequacy.

(1) The major limitation of this study was financial inadequacy. The wave of present economic hardship affected the researcher a great deal due to the high cost of fuel.

(2) Some of the respondents, mostly chief executive officers (CEOs), could not be reached; and some executives of foreign companies were reluctant to give information on the activities of their companies.
Another limitation was the unavailability of data. At the time of conducting this research, data on the stock of foreign investment in Nigeria as at 1980 to 1993 could hardly be found.
CHAPTER II
DESIGN OF THE STUDY AND METHODOLOGY

Methodology

In order to carry out this research, the researcher adopted two broad methods: Personal interviews and fully designed questionnaires. Due to the nature of the research study, the major industrial cities in Nigeria where the foreign direct investors account for a greater proportion of foreign investments were selected for the research site.

Questionnaires were designed and distributed through stratified random sampling of population as follows:

1. Foreign direct investors in Nigeria.
2. Chief executive officers (CEOs) of indigenous companies.
3. Well informed Nigerians (Nationals).

Sources of Data Collection

Primary and secondary sources constituted the source of information for this research study. The primary sources included personal interviews and structured questionnaires, while secondary sources included information from books, journals, newspapers and current affairs.

Primary Sources

Much of the information embodied in this research study was obtained through the application of questionnaires administered in Nigeria to some selected respondents comprising foreign direct investors, executives of some Nigerian firms, and well
informed nationals involved in the area of economic planning in Nigeria. Supplementary information was also obtained through chief executive officers (CEOs) of indigenous companies and some oral interviews.

**Validity of the Research Instrument**

The questionnaires were designed in a multiple choice and open-ended pattern. This approach was adopted so that the respondent could easily respond, thereby enhancing the chances of a favorable return. Also, an open-ended pattern was adopted to avoid a biased response. The questions were designed to reflect the problem and objective of the study. To validate the research instruments, questionnaires designed for this study were given to three faculty members and forty-five graduate students (Ph.D. students) at Howard University African Studies Center for comments.

The researcher had to do so to account for high quality and non-biased kind of responses. Out of this sample population, 80 percent maintained that the quality of the questionnaires was sound and reflected the objectives of the study. Comments given by the rest of the 20 percent of the population were also taken into consideration when the researcher constructed the final questionnaires for the study.

However, the final copies of the questionnaires were reviewed and approved by the three faculty members selected. In this regard, consistency and coherence were maintained.

**Secondary Sources**

Secondary data necessary for this study were obtained from textbooks, current journals (journals of business, magazines and articles), articles which were obtained from The Central Bank of Nigeria, Lagos; the Bank’s Quarterly Economic and Financial
Review. Annual Report statements of various accounts were highly invaluable for the research study.

The Sample

A total of three industrial cities out of the thirty states of the federation were selected for this study. The cities selected include Lagos, Onitsha, and Kaduna. These areas were chosen due to the overwhelming concentration of foreign industrial establishments and their true representative potential of other cities. Companies involved in finance, manufacturing, and service industries were selected. To ensure an accurate representation of our sample, a stratified random sampling method and convenience were employed.

A total of 25 companies were selected from each sub-group (finance, manufacturing, commercial and service), and a stratified random sampling was taken from each sub-group of several companies. In this regard, each selected company also covers the major industry group viz, investment companies, banking, computers and office equipment, food, beverages, tobacco, footwear, pharmaceutical/animal feeds, publishing, packaging machinery (marketing), textiles, petroleum, marketing and industrial/domestic products. This selection was done to avoid any industrial bias.

Questionnaires were distributed according to the size of each city of the sample population. They were also distributed among the following:

1. Executives of foreign direct investment (FDI) in Nigeria;
2. Chief executive officers (CEOs) of indigenous companies;
3. Well informed nationals (Nigerian).

The distribution pattern of the questionnaires was as follows. (See Table 1)
In Lagos state, out of 210 questionnaires, 90 were distributed to the executives of FDI in Nigeria, and 60 questionnaires were also distributed to the Chief Executive Officers of Indigenous Companies and well informed Nigerian (nationals) respectively.

In Anambra State, Onitsha, out of 70 questionnaires, 30 were distributed to the Executives of Foreign Direct Investment (FDI) in Nigeria, and 20 questionnaires were distributed to the Chief Executive Officers of indigenous companies and well informed Nigerians respectively.

The same pattern was used to distribute the 70 questionnaires allocated to Kaduna State. That is the ratio of 3:2:2, to Executives of (FDI) in Nigeria, Chief Executives of indigenous companies and well informed Nigerians respectively.

<table>
<thead>
<tr>
<th>TABLE 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>DISTRIBUTION PATTERN OF QUESTIONNAIRES</td>
</tr>
</tbody>
</table>

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<tr>
<th>STATE/INDUSTRIAL CITIES</th>
<th>NUMBER OF QUESTIONNAIRES</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANAMBRA/ONITSHA</td>
<td>70</td>
</tr>
<tr>
<td>LAGOS/LAGOS</td>
<td>210</td>
</tr>
<tr>
<td>KADUNA/KADUNA</td>
<td>70</td>
</tr>
<tr>
<td>TOTAL</td>
<td>350</td>
</tr>
</tbody>
</table>

Out of the 350 questionnaires distributed, 285 were returned or duly collected. Of the 285 collected, 280 were analyzed, and 5 copies were discarded due to incorrect completion. Copies of questionnaires were coded as follows from the states/industrial cities. (See Table 2)
TABLE 2

RETURN RATE OF QUESTIONNAIRES

<table>
<thead>
<tr>
<th>INDUSTRIAL CITIES/STATES</th>
<th>NUMBER OF COPIES DISTRIBUTED</th>
<th>NUMBER OF COPIES DULY COMPLETED RETURNED AND ANALYZED</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANAMBRA/ONITSHA</td>
<td>70</td>
<td>55</td>
</tr>
<tr>
<td>LAGOS/LAGOS</td>
<td>210</td>
<td>180</td>
</tr>
<tr>
<td>KADUNA/KADUNA</td>
<td>70</td>
<td>45</td>
</tr>
<tr>
<td>TOTAL</td>
<td>350</td>
<td>280</td>
</tr>
</tbody>
</table>

Description of Test Statistics

The statistical tool used in testing the hypotheses of the research work is the chi-square ($X^2$) test. The chi-squares, denoted by the Greek letter $X^2$, is frequently used in testing a hypothesis concerning the difference between a set of observed frequencies of a sample and a corresponding set of expected frequencies.

Chi-square is a sample statistics, which is computed as follows:

$$X^2 = \frac{\Sigma (O-E)^2}{E}$$

Where $O$ = observed frequency

$E$ = expected or theoretical frequency

Chi-square test is usually associated with the degrees of freedom, and it is one tail test. A typical chi-square sketch is usually divided into two distinct regions, namely the acceptance region and rejection region as follows: (See Figure 1)
Where the computed Chi-square value falls into the rejection region (i.e. greater than the critical values), the hypothesis is accepted and the alternative rejected.¹

*Levels Of Significance*

The levels of significance for all the tests in the study were at 5 percent and 10 percent respectively.

CHAPTER III
LITERATURE REVIEW

Available literature on the subject of “political instability and foreign direct investment in Nigeria” seems scanty, unorganized and often contradictory. It is therefore the task of this chapter to carry out a scholarly review of some selected literature on this subject, starting with the review of literature relating to the historical perspective of foreign direct investment (FDI) in Nigeria.

A Historical Perspective

The purpose of this study was to determine the perceptions of the impact of political instability on Foreign FDI in Nigeria. It is obvious that since the independence of Nigeria in 1960, the country has not been politically stable. This instability may have caused a lot of foreign owned corporations to close up completely and some to cut down on their sizes; however, although return on investments has been the possible reason for foreign investors to continue business. According to LeCraw, "government policies toward foreign owned companies in less-developed countries have often relied on generalizations based upon fragmented evidence, the preconceptions of the policymakers, and short term political and economic pressures."1 It was stressed that there is narration in the impact of governmental role from country to country, and in the same country, from policy makers to policy makers. Sethi identified host-country government

as one of the components of foreign investment company's non-market external environment intervening in its market activities.\(^2\)

Also, Buckley pointed out that in most countries, governments intervene in their national economies and that this intervention increases the political risk that foreign direct investors face.\(^3\) Other schools of thought that have explored the influence of political instability on FDI fall into two categories. The first one focuses on interviews with foreign investment decision makers. This approach employs correlation and regression analysis and surveying methods. The second category of this study is based on a cross-national statistical test. Here, a discriminate analysis is utilized. It attempts to identify the determinant of the manufacturing FDI in Nigeria.

In the first category, Basi concluded that political risk is a major determinant in foreign investment decisions. Basi's study, based on a mail survey of more than 300 international executives in Nigeria, found that the nation's level of political instability and the extent of its market potential are the two most important factors in foreign investment decision-making.\(^4\)

Aharoni, in support of Basi's standpoint, noted, however, that the association of political risk is usually based not on hard evaluation data, but rather on impressionistic generalizations.\(^5\) Piper, in contrast to Basi's study, concludes that with very few


exceptions, political and social variables "...tend in general, to be treated with the same lack of concern in the foreign context as they are in domestic."  

The association between political stability and FDI was also reported by Agodu. In his investigation, which was based on a sample of 33 United States firms having 46 manufacturing investments in 20 African nations, he demonstrated that no single factor alone determined the U.S. private manufacturing investment in Africa. He pointed out, however, that political stability is one of the many factors that depict strong correlation with the level of U.S. manufacturing investment in that continent.  

In the same fashion, Cunningham and Green applied regressive analysis, using the data of 25 developed and less developed countries, to determine the variables that influence the fluctuations of the U.S. manufacturing and total foreign investment closely related to market potential proxied by GNP and population. Their findings depict that marketing potential areas are the most important determinants of all the allocations of U.S. foreign investments, while political stability was found not to be significantly related to foreign investment. The validity of the research sampling may be questionable because both developed and developing countries are studied. 

In his study, Kobrin, in contrast to Green and Cunningham, supported the presence of a negative relationship between political instability and FDI. Kobrin used the data of 48 nations to see whether the number of U.S. manufacturing subsidiaries

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established in each country over the years 1974-1977 can be explained by two levels (high & low) of the severest forms of political conflict labeled conspiracy.  

The statistical results supported Kobrin’s proposition that the association between political stability and FDI is more likely to be conspicuous when there is an economically rooted conflict and the government has sufficient administrative capability to indirectly respond to it. Levis, using regressional analysis on his studies, collected the data of 25 developing countries. Based on his studies, he concluded that economic conditions are the prime determinants of the flow of foreign investment whereas political factors are the second order determinants. According to Schollhammer and Nigh, FDI is not only influenced by political instability (internal conflicts), but it is also the result of other factors such as the stability of the political system of the host country (internal cooperation) and an inter-governmental relationship that could be cooperative or conflictive in nature and market size.  

Schollhammer and Nigh employed a conflict and peace Data Bank in distinguishing between German Foreign Direct Investment (GFDI) in developed and less developed countries. The conflict and peace Data Bank was utilized to measure internal

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political stability and inter-governmental relationship. Their findings indicated that GFDI in less developed countries was affected:

(a) positively by cooperative political development between the host country and the German Government;

(b) positively by market size of the host country; and

(c) negatively by internal political conflict of the host country.

In the second category, most of the studies based on cross-national data tried to test empirically the conclusions drawn from the above cited survey studies. Robock observed that while "discontinuities" in the political environment may occur, these may not be sufficient to constitute political risk.\(^\text{13}\) A coup, for instance, may increase or decrease risk, depending upon who is removed from and who comes into power. He also explained that while a high level of mass political violence makes the companies decrease their investment relatively fast, a low level of political unrest is not enough for them to increase their investment.

This brief review shows that executives' attitudes play a major role in their evaluation of risk and profitability of the investment opportunities in these countries.

\textit{Evolution of Political Unrest in Nigeria}

Brought under British control during the nineteenth century, Nigeria was organized as a British Colony and Protectorate in 1914. It became a self-governing federation in 1954 and achieved independence within the Commonwealth on October 1, 1960. Under the guidance of its first prime minister, Sir Abubakar Tafawa Balewa, it

\(^{13}\text{S. T. Robock, \textit{Political Risk, Identification and Assessment} (New York: Praeger 1977), 60.}\)
became a republic three years later, with the former governor general, Dr. Nnamdi Azikiwe as president.\textsuperscript{14}

Though initially regarded as one of the most potentially viable of the new African States, independent Nigeria was beset by underlying tensions and political unrest resulting from ethnic, religious, and regional leverages. Weakened by strife and tainted by corruption, the federal government was overthrown on January 15, 1966, in a military coup that cost the lives of Prime Minister Balewa and other Northern political leaders and resulted in the establishment of a Supreme Military Council (SMC), headed by Major General Johnson T. U. Aguiyi Ironsi, from the Eastern region of Nigeria. Resentment by Northern (Hausa-Fulani tribes) Muslims of the predominantly Igbo leadership and its subsequent attempt to establish a unitary state resulted, on July 29, in a second military coup, led by a northerner, Col. (later General) Yakubu Gowon. Events surrounding the first coup had already raised ethnic hostility to the boiling point. Thousands of Igbo who had settled in the North were massacred before and after the second coup, while hundreds of thousands began a mass flight back to their homeland at the urging of Eastern leaders.\textsuperscript{15}

Attempts at conciliation with the Eastern Region led by Lt. Colonel Odumegwu Ojukwu having failed, Colonel Yakubu Gowon, as head of the federal military government, announced on May 28, 1967, the assumption of emergency powers and the reorganization of Nigeria’s four regions into twelve states. Intended to equalize treatment of various areas and ethnic groups throughout the country, the move was also designed to increase the influence of the Eastern Region’s non-Igbo inhabitants.\textsuperscript{16}


\textsuperscript{15} Ibid., 698.

\textsuperscript{16} Ibid.
The Eastern Region responded on May 30, 1967, by declaring independence as the Republic of Biafra, with Ojukwu as head of state. Refusing to recognize the secession, the federal government initiated hostilities against Biafra on July 6. Peace proposals were reportedly rejected by Ojukwu on the ground that they failed to guarantee Biafra's future as a "sovereign and independent state." Biafra sustained the civil war longer than generally expected, despite the loss of most non-Igbo territories, high casualties and a growing threat of mass starvation. A series of military defeats in late 1969 and early 1970 finally resulted in the surrender of the rebel forces on January 15, 1970.  

Although the war was over, normal political life remained suspended. However, on July 29, 1975, while Gowon was attending an Organization of African Unity (OAU) meeting at Kampala, Uganda, his government was overthrown in a bloodless military coup led by Brigadier (later General) Murtala Ramat Muhammad. Muhammad was soon assassinated on February 13, 1976, during an abortive military coup led by Buka Suka Dimka. Muhammad was succeeded by Lt. General (later General) Olusegun Obasanjo, who arrested and executed Dimka and others involved in the failed coup.  

On September 21, 1978, Nigeria's twelve-year-old state of emergency was terminated and the ban on political parties lifted. Elections were contested in mid-1979 by five political parties, and Alhaji Shehu Shagari and Alex Ekwueme of the National Party of Nigeria (NPN) were elected the president and vice president of Nigeria, respectively. But on December 31, 1983, another military coup led by Major. General Muhammadu Buhari toppled the civilian government of Shagari, accusing leading politicians of embezzlement and other offenses. But again, another military coup led by Major General
(later General) Ibrahim Babangida seized power from Buhari on August 27, 1985. There was, again, a counter-coup attempt late in the same year by a group of disgruntled military officers, several of whom were executed in March 1986.\(^{20}\)

Local non-party elections were held in Nigeria on December 12, 1987, only to be invalidated by the Babangida administration on March 26, 1988. In May 1989, Babangida lifted the ban on party politics and 13 parties secured recognition. However, on October 7, 1989, Babangida, again, dissolved all 13 parties, substituting them with a regime-sponsored two-party system of government—Social Democratic Party (SDP) and National Republican Convention (NRC). In January 1990, General Babangida canceled State visits to Italy and the United States in the wake of widespread unrest, provoked by a December 29 reshuffle of senior military and civilian officials. The political instability and tension culminated in a coup attempt at Lagos by mid-ranked Army officers on April 22, which was reported to be the bloodiest in Nigerian history, with at least 30 persons killed in heavy fighting.\(^{21}\)

Meanwhile, the long delayed presidential balloting went ahead on June 12, 1993, with the SDP candidate, reputed billionaire Moshood Kashimawo Olawale ("MKO") Abiola, the apparent winner over the NRC’s Basir Othma Tofa. However, on June 16, the Babangida administration withheld the result of the election. The two parties thereupon agreed to form an interim coalition government if Babangida would authorize a return to civilian rule by the previously agreed upon date of August 27. The General’s response being negative, serious rioting erupted at Lagos on July 5, followed by the announcement that a new election from which the earlier candidates would be excluded, would take place on July 31. Not surprisingly, this plan, too, was scuttled, with

\(^{20}\)Ibid., 699.

\(^{21}\)Ibid., 700.
Babangida naming Chief Ernest Shonekan head of an Interim National Government (ING) prior to resigning as president on August 26, 1993.\textsuperscript{22}

On November 10, 1993, the Federal High Court unexpectedly pronounced the ING unconstitutional, and on November 17 Shoekan resigned in favor of a new military administration headed by Gen. Sani Abacha. Subsequently, Abacha formally dissolved the ING and banned the SDP and NRC.\textsuperscript{23} On June 22, 1994, Moshood Abiola, who, based on the 1993 poll, had declared himself president eleven days earlier, emerged from hiding to address a rally at Lagos and was arrested the following day on charges of treason. Subsequently, a large number of strikes erupted to protest Abiola’s arrest. The most serious of the stoppages was by the oil unions, whose resistance crumbled in late August after Abacha replaced their leaders with military-appointed administrators. In the interim, Abiola remains in prison, Abacha remains Nigeria’s military dictator and the saga of the evolution of political unrest in Nigeria continues!\textsuperscript{24}

\textit{Critical Evaluation of Foreign Direct Investment (FDI) in Nigeria the Opponents Against the Proponents}

For clarification and illumination, many antagonists of FDI in Nigeria contradict virtually every theoretical advantage outlined by the neo-classical economists. These antagonists argue critically to discredit the favorable propositions enumerated in favor of the foreign direct investors in the following areas: transfer of technology, supporting of local producers, and capital infusion.

\textsuperscript{22}Ibid.  
\textsuperscript{23}Ibid.  
\textsuperscript{24}Ibid.
Transfer of Technology

Opponents of FDI in Nigeria argue that "far less technology" is transferred by foreign investors than they claim. Therefore, foreign investors maintain a monopoly over the transfer of technology. According to Johnson, "the investor . . . has no commercial interest in transferring her knowledge to potential native competitors." 26

In response to the argument advanced by critics of FDI that foreign subsidiaries transfer inappropriate capital-intensive related technologies to Nigeria, proponent Raymond Vernon stresses that "there is a strong case to be made that detailed industrial information and ways of producing things are more readily transmitted by way of Foreign Investment than by any of the other channels of communication." 27 Furthermore, other proponents contend that foreign enterprises contribute to the Third World development because they provide a variety of training programs for the latter's technical and managerial development. 28

Spero reflects the position of the critics by stressing that:

Foreign Direct Investment (FDI) often create highly developed enclaves which do not contribute to the development of the latter's economy. These enclaves use capital-intensive technology which employs few local citizens; acquire supplies from abroad, not locally; use transfer prices and technology agreements to avoid taxes; and send earnings back home. In


28 Ibid.
welfare terms the benefits of the enclaves accrue to the home country and to a small part of the host population allied with the corporation.  

Additionally, opponents of FDI maintain that importation of capital-intensive technologies help to worsen unemployment woes in third world economies. For instance, Sunkel estimates that the widespread use of capital-intensive methods of production in Latin America has increased the unemployment rate by over 25 percent.  

Although some proponents may concur with critics that foreign establishments transfer capital-intensive technologies developed in industrialized countries, they added that some third world country policies encourage such transfers. For instance, Vernon asserts that:

Tax exemption schemes that are based on the amount of capital invested, provisions permitting the duty-free importation of capital goods and provisions that elevate the cost of local labor beyond its marginal yield all create environments that favor the uneconomic use of capital.  

Opponents contend that the employment of capital intensive methods of production in developing countries retard economic development because they reduce the growth of the local market and exacerbate third world balance of payment difficulties.

It was also alleged that:

The capital-intensive production of multinationals creates a restricted, limited, and upper-class market and society, favors skilled over unskilled labor and allows for growing incomes for a small, and in relative terms, constant or contracting section of the working population ultimately giving rise to growth without development. Finally, the importation of inappropriate technologies may exacerbate the existing tendencies toward technological dependence on FDI and further enhance the firms' hegemonial

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29 Akinsanya, 217.


31 Vernon, 217.

dominance. In other words, rather than simply providing a better product at a lower price, FDI transmits to underdeveloped countries a profile of preference and desires unsuited to their economic and social needs.\textsuperscript{33}

However, according to Biersteker, many of these arguments have their intellectual origins in the work of Marx on the class nature of ideas. Marx contends that those who have the means of production at their disposal, control that means of mental production and, in turn, the ideas of those who lack the means of mental production.\textsuperscript{34} Proponents insist that foreign subsidiaries do not import capital-intensive technology into developing countries with harmful intention; rather, they pursue economically rational objectives.\textsuperscript{35}

Wells asserted that the transfer of capital-intensive technologies to third world countries "can occur when the private cost of developing a new production process is higher than the expected private yield, it can also occur on occasion out of sheer inertia or ignorance of local condition on the part of foreign-owned enterprises."\textsuperscript{36}

Proponents also argue that foreign subsidiaries adapt their production method to local conditions, particularly in the area of cost and supply. According to Vernon, "a considerable amount of adaptation [of production techniques] actually does take place in enterprises as they move their products and processes across international boundaries into less developed area."\textsuperscript{37} Vernon also stated that a significant percentage of the value added


\textsuperscript{34}Ibid.

\textsuperscript{35}Ibid., 37.


by foreign enterprises in third world countries come from local rather than foreign sources.\textsuperscript{38}

The studies made by Wells and Vernon acknowledged certain aspects of the assertion made by critics that foreign subsidiaries employ capital-intensive production techniques and avoid the use of local raw materials. However, they pointed out that because of the persistence of host government, coupled with changing market forces, foreign enterprises are beginning to adapt their production method.

Finally, Akinsanya concluded that FDI subsidiaries, especially those in distribution trade, have performed creditably in terms of turnover and profit. These include Leventis Motors, and Leventis Technical, UTC (Nig.), UAC of Nigeria and FAO (Nig). Also, those in the manufacturing sector, including Nigerian Breweries, Nigerian Bottling Co., Nigerian Tobacco Co., Lever Brothers Ltd, Vono Products, Thomas Whyatt (Nig.) Berger Paints, Beecham and Bata (Nig.) have not done badly at all. Not only have they recorded huge net profits, but they also import the raw materials used in their factories, and because their products are manufactured under license held by their parent companies, the FDI subsidiaries, invariably are vehicles through which scarce foreign exchange earnings are transferred from Nigeria to the home-state of such FDI subsidiaries Akinsanya concluded.\textsuperscript{39}

\textsuperscript{38}Ibid.

\textsuperscript{39}Akinsanya, 	extit{Economic Independence and Indigenization of Private Foreign Investment}, 22.
Supporting Local Producers

Opponents assert that foreign corporations affect indigenous producers negatively, rather than help to buttress competition in local markets and terminate regional monopolies. This negative effect is believed to contribute to the displacement of entrepreneurs in the third world countries. As an example, Schmidt reported that between 1958 and 1967, 42 percent of U.S. foreign subsidiaries were established by buying out local companies. The proponents, though, may acquiesce in the displacement of a host country's indigenous producers but disagree that its ramifications are necessarily harmful to developing countries. They contend, for example, that "the areas of concentration of the foreigners and that of local businessmen are quite distinct."  

Opponent Pinelo, maintained that subsidiaries of foreign corporations:  

Co-opt whatever local entrepreneurial talent is available, thus transforming the national bourgeoisie into a "transitional technocracy" . . . . The middle class is also affected: part is incorporated into the new economic structure and part is left out effectively barred from upward mobility and terrified by the prospect of proletarianization. The working class is simply divided. Those few who find employment with the American subsidiary companies become a privileged elite within the working class. The balance of the labor force is left to endure the problems of unemployment and marginal economic existence.

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41Benicio Vlero Schmidt, "Dependency and the Foreign Direct Investment" in Frank Bonilla and Robert Girling (eds.), *Structure of Dependency* (Stamford University: Institute of Political Studies, 1973), 27.

42Vernon, *Foreign Direct Investment in Developing Countries*, 20.

Foreign investors are said to replace local producers by purchasing controlling interests in indigenous firms that were originally established as import-substitution ventures. Adherents assert, too, that the consequences of displacement hinge on how the replaced indigenous businesses reinvest the proceeds from their transaction. Additionally, the theory stressed that the impact of displacement differs in relation to the industry in question, the age of the foreign company, its adaptability and particularly the stage of its product life cycle.

Finally, protagonists of FDI in developing countries conclude that the positive or negative effect of displacement depends on how third world economies would have fared in the absence of foreign investors. As Biersteker stated:

If the local entrepreneur can use local capital, labor, and available technology in ways that are of greater benefit to the host country's economy than can a multinational subsidiary, and/or if the local business elite is more concerned than foreign elites with conforming to important national economic goals (on growth inflation, income distribution, government revenues, modifications of technology), their displacement may be harmful. But based on an examination of existing studies, there is no empirical basis for those assumptions.

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44Biersteker, *Distortions or Development*, 7.


47Biersteker, *Distortion or Development*, 33.
The opponents' view on capital infusion is that "foreign enterprises perpetuate a negative outflow of capital from developing to developed countries." Opponents disagree with the thesis that the activities of foreign investors result in a positive infusion of foreign capital into host economies. A report released by the United Nations’ ECOSOC concludes that: "If the earnings generated by past investment which accrue to the foreign affiliates are deducted from that flow (the inflow from direct investment), the net flow is generally negative of host countries." Proponents disagree with critics who argue that foreign establishments promote the flow of capital from third world countries to industrialized countries, charging that the critics fail to gauge the consequences of changes in domestic output.

They contend that the critical argument would have been more compelling if third world countries' domestic production "would have occurred in the absence of foreign investment." Therefore, they conclude that payment of profit to foreign corporations cannot be considered an "economic drain" on developing countries. Opponents assert that the resultant deterioration in the terms of trade between third world and developed countries partially contributed to the former's capital flight. Furthermore, since local and

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49 Biersteker, Distortion or Development, 4.


51 Biersteker, Distortion or Development, 29.

52 Vernon, The Operations of Multinationals, 20.
international banks traditionally grant loans to the most credit worthy applicants, foreign investors generally benefit more from such arrangements. Some opponents also maintain that by remitting “excessive” profits, through dividends, interest, and royalties payment, foreign investors contribute to a net out flow of capital from the third world countries. Others charge that foreign corporations overprice imports as a mechanism for transferring capital from developing countries to their parent companies in developed countries.

Proponents contend that foreign enterprises substantially contribute to the economic development of developing countries, because they are able to secure a large pool of production resources such as manpower, working capital and advanced production methods. In addition, proponents assert that when foreign firms secure their capital from host countries' financial markets, there is always the possibility that it will consist of funds which would not otherwise have been used productively in the local economy. Finally, proponents of FDI in developing countries argue that the third world countries' economic development can be improved because:

First, Foreign Direct Investments (FDIs) are likely to increase the "productivity factor" of underdeveloped countries, whether through scale and conglomeration effect, capital accumulation, or upgrading of labor.

53 Biersteker, *Distortions or Development*, 29.

54 Ibid., 4.

55 Ibid.


57 Vernon, *Foreign Direct Investment Enterprises in Developing Countries*, 20-21.
Second, this factor could in time express itself in a lower price level in the underdeveloped countries than would have otherwise provided. Third, this could mean a higher volume of export. Fourth, this level of exports could easily swamp other balance of payments effects.\textsuperscript{58}

**Foreign Direct Investment (FDI) and Nigerian Government Policies**

Host government (Nigeria) policies towards FDI are usually designed to control foreign investors and make their activities more consistent with the developmental goals of the country. At the same time, policy makers must be careful not to alienate foreign investors. For instance, in an effort to explicate its manufacturing objectives to foreign investors, the Nigerian government published a pamphlet in 1980 entitled *Nigerian Industrial Policy and Strategy: Guideline to Investors*. In the booklet, the government outlined its industrial objectives as follows:

(1) Self-sufficiency.
(2) Increase in local resource content of manufactured products.
(3) Generation of employment opportunities for Nigerians.
(4) Increase in Nigeria’s technological capabilities.
(5) Local production of industrial raw materials and
(6) Exportation of final products.\textsuperscript{59}

These six industrial objective will be explained in detail.

The Government often offers incentives in the form of tariff protection and concessions, generous depreciation allowances, and tax holidays as a way of attracting external capital. These incentives may make it possible for foreign establishments to earn monopoly rents

\textsuperscript{58}Ibid.

on their capital. However, such rents have become a source of conflict between foreign investors and host governments. Furthermore, since the primary objective of a business entity is to maximize profit, it is not surprising that critics of foreign corporations suggest that the objectives of third world countries and foreign corporations are mutually exclusive.\textsuperscript{60} For the foreign investor, above normal profits on capital imparting a compensation for risk is a major incentive for investing in developing countries. Kolde maintained that one should not expect a harmonious relationship between the two (host government and foreign investors) parties.\textsuperscript{61} In Table 3, Kolde identifies the possible area of conflict between host countries and FDI. Host governments, therefore, try to extract the monopoly rents of foreign firms. However, policy makers must be careful not to take away the main incentive of the foreign investors.

\textsuperscript{60}Elbert V. Bowden, \textit{Principles of Economics: Theory, Problem and Policies} (Cincinnati, Ohio: SouthWestern, 1980), 386.

\textsuperscript{61}Endel-Jakob Kolde, \textit{Environment of International Business} (Boston: Kent, 1982), 293.
### TABLE 3
POSSIBLE AREAS OF CONFLICT BETWEEN HOST COUNTRIES AND FOREIGN DIRECT INVESTMENT

<table>
<thead>
<tr>
<th>HOST GOVERNMENTS</th>
<th>FOREIGN INVESTMENT COMPANIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase of national income</td>
<td>Return on investment and increase of corporate assets</td>
</tr>
<tr>
<td>Economic modernization</td>
<td>Efficient, low-cost production</td>
</tr>
<tr>
<td>Broadly based development and dissemination of industrial skills</td>
<td>Selective hiring and training of employees</td>
</tr>
<tr>
<td>Avoidance of foreign takeovers of domestic firms</td>
<td>Acquisition of indigenous capacity</td>
</tr>
<tr>
<td>Development of domestic research capability</td>
<td>Location of research and development facilities in countries with best universities and other scientific institutions</td>
</tr>
<tr>
<td>Stimulation of investment in backward regions and rural areas</td>
<td>Location in large cities where infrastructure and labor supply are most developed</td>
</tr>
<tr>
<td>Balance of payments equilibrium</td>
<td>Free convertibility of currencies</td>
</tr>
<tr>
<td>Control over the pattern of economic development</td>
<td>Freedom of trade and investment</td>
</tr>
<tr>
<td>Maximization of public revenues</td>
<td>Minimization of tax burdens</td>
</tr>
</tbody>
</table>


Host country governments may reduce the foreign exchange cost of servicing foreign capital by limiting the rate of profit of foreign establishments.\(^2\) Foreign firms may respond to such restrictions by withdrawing their capital or by finding alternative means of taking their excess profit from the economy. As a counter measure to such practices as overpricing of imports or inflation of the price of technology, some governments may restrict the percentage of sales or profit that is taken as royalties and

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management fees. They may also restrict the sources and prices of certain raw materials or encourage the development of local sources.63

Self-Sufficiency

Self-sufficiency had become a central issue that concerned most African countries. For instance, former Tanzanian President, Kenneth Kaunda, commented that "independence means self-reliance." He added that independence cannot be real if a nation depends upon gifts and loans from another for its development.64

Ali Mazrui observed that developing countries were preoccupied with the constant struggle to catch up with the West, becoming excessively preoccupied with attempting to emulate western methods of production, western techniques of analysis, western approaches to organization, and western styles of behavior.

To narrow the gap in per capita income, in a manner that widens the gap in power, is to pursue affluence at the expense of autonomy. To narrow the gap in the utilization of computers, while increasing western technological control, is to prefer gadgetry to independence. . . . Somehow each African society must strike a balance between the pursuit of modernization and the pursuit of self reliance.65

However, the Nigerian government endeavors to develop an industrial economy that is capable of supporting its population with minimal reliance on foreign countries. In a January 1994 Federal Budget Speech, the new Head of State, General Sani Abacha,

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pointed out the need for self reliance in Nigeria and the impact of the world bank/IMF conditionally package in the Nigerian economy. He said:

The government would endeavor to reach an agreement with foreign creditors with a view to securing more favorable terms of loan repayment and servicing. It is our hope that the creditors would appreciate the particularly delicate phase through which Nigeria is now passing and exercise restraint in making impossible demands that only serve to further worsen the tenuous economic and political situation of these times.66

According to him, the government has adopted policy measures that would lead the country to self-reliance. In the Nigerian industrial policy guideline, the operational definition of self-reliance is that no clear cut nation is said to be completely self-reliant. All nations exist in an interdependent world. However, the objective of the policy guideline is closely linked to the need to increase the percentage of local resource content of manufactured goods.67

*Increase in Local Resource Content of Manufactured Products*

It has been evidenced that in order to achieve "self reliance" at any level, there must be an increase in the percentage of locally available raw materials in the production process. At present, the Nigerian manufacturing sector is heavily dependent on supplies from industrial countries.68 Dependency on foreign sources of inputs has a number of obvious consequences. First, it can neither control their qualities nor quantities. Second, it will hamper the host country’s foreign exchange. Third, the importing nation can neither control costs of inputs nor regular supply. Finally, it cannot integrate backwards.


67Ibid.

In an effort to encourage high percentage increases in the production of local raw materials, General Abacha pointed out that importation of raw materials must be controlled through the Central Bank. He stated that:

1. All imports are henceforth to be done on the basis of letters of credit supported by Import Duty Report (IDR) and Clean Report Finding (CRF) except for imports that cost $1,000 dollars or less.

2. Imports on Open Account including "bills on collection," except on specific approval for the manufacturing and agricultural sector, are abolished.

3. All importers are to complete form “M.”

4. Finally all imports of foreign exchange into Nigeria must henceforth be through the Central Bank of Nigeria which shall guarantee free and unimpeded access to such for import of goods and services.

Moreover, dependency on imported raw materials for production causes a drain in the balance of payments. Thus, the reason for this objective is to make the effects of FDI widespread in order to stimulate all sectors of the economy.

Table 4 shows that dependency may lead to a drain on a country's balance of payments. However, achievement of this objective could contribute to the alleviation of Nigeria's economic dependence on foreign made raw materials for manufacturing.

---

69 Abacha, 7.
### TABLE 4

**NIGERIA’S BALANCE OF PAYMENTS - SUMMARY REPORTS (N Millions)**

<table>
<thead>
<tr>
<th>Category</th>
<th>1990</th>
<th>1991</th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Oil</td>
<td>Non-Oil</td>
<td>Total</td>
</tr>
<tr>
<td><strong>CURRENT ACCOUNT</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Merchandise</td>
<td>+8,123.4</td>
<td>-8,108.2</td>
<td>+44.1</td>
</tr>
<tr>
<td>Exports (f.o.b.)</td>
<td>+8,558.2</td>
<td>-6,258.4</td>
<td>+2,299.8</td>
</tr>
<tr>
<td>Imports (f.o.b.)</td>
<td>+8,840.6</td>
<td>+247.4</td>
<td>+9,088.0</td>
</tr>
<tr>
<td>Services and Income (Net)</td>
<td>-282.4</td>
<td>-6,505.8</td>
<td>-6,788.2</td>
</tr>
<tr>
<td>Unrequited Transfers (Net)</td>
<td>-317.5</td>
<td>-1,684.4</td>
<td>-2,001.9</td>
</tr>
<tr>
<td>Direct Investment (Net)</td>
<td>+137.3</td>
<td>+24.2</td>
<td>+161.5</td>
</tr>
<tr>
<td>Traditional Investments</td>
<td>+89.7</td>
<td>+270.7</td>
<td>+360.4</td>
</tr>
<tr>
<td>Other Capital (Long Term)</td>
<td>-246.5</td>
<td>-198.9</td>
<td>-445.4</td>
</tr>
<tr>
<td>Official</td>
<td>-432.2</td>
<td>-432.2</td>
<td>-864.4</td>
</tr>
<tr>
<td>Other</td>
<td>+185.7</td>
<td>+233.3</td>
<td>+419.0</td>
</tr>
<tr>
<td>Balance of Current Account and Long-Term Capital</td>
<td>+8,289.6</td>
<td>-8,084.0</td>
<td>+205.6</td>
</tr>
<tr>
<td>(Basic Balance)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Capital</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Short Term) Net</td>
<td>-539.5</td>
<td>+549.9</td>
<td>+10.4</td>
</tr>
<tr>
<td>Balance on current and Capital Accounts</td>
<td>-7,750.1</td>
<td>-7534.1</td>
<td>-216.0</td>
</tr>
<tr>
<td>Balancing Item</td>
<td>-138.9</td>
<td>-138.9</td>
<td>-138.9</td>
</tr>
<tr>
<td>Overall Balance</td>
<td>+354.1</td>
<td>+354.1</td>
<td>+354.1</td>
</tr>
<tr>
<td>Reserves Movement</td>
<td>-345.9</td>
<td>-345.9</td>
<td>-345.9</td>
</tr>
</tbody>
</table>

Generation of Employment Opportunities for Nigerians

Most countries expect Foreign Direct Investments (FDI) in their territories to increase employment opportunities. The manufacturing sector is usually the main vein as the employer of labor, although critics of foreign corporations maintained that foreign firms are employing capital-intensive technologies in third world economies, because such production methods require a competitively limited labor input. For instance, Sabolo reported that FDI had created only two million jobs, or 0.2 percent for a developing country’s labor force, by the end of 1979. As a strategy for achieving this objective, the Nigerian government explains that labor-intensive technologies will be encouraged so that over 50 million unemployed people will be given opportunities for employment. Table 5 shows that the Nigerian manufacturing sector employed 322,396 people in 1993, a statistic that Nigerian policy makers would like to improve. It would definitely be encouraging if foreign enterprises would employ labor-intensive methods of production in order to generate more employment opportunities for Nigerians.

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## TABLE 5

NUMBER OF PERSONS EMPLOYED IN THE MANUFACTURING INDUSTRY IN NIGERIA

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>57,872</td>
<td>46,035</td>
<td>52,296</td>
<td>40,209</td>
</tr>
<tr>
<td>Beverages and Tobacco</td>
<td>32,169</td>
<td>24,872</td>
<td>16,682</td>
<td>19,284</td>
</tr>
<tr>
<td>Textiles</td>
<td>88,757</td>
<td>85,604</td>
<td>61,583</td>
<td>62,270</td>
</tr>
<tr>
<td>Leather and Leather Products</td>
<td>7,157</td>
<td>23,538</td>
<td>14,108</td>
<td>7,837</td>
</tr>
<tr>
<td>Wood and Wood Products</td>
<td>53,966</td>
<td>34,504</td>
<td>24,490</td>
<td>31,228</td>
</tr>
<tr>
<td>Paper and Paper Products</td>
<td>30,243</td>
<td>26,967</td>
<td>32,459</td>
<td>26,351</td>
</tr>
<tr>
<td>Medicine and Drugs; Cosmetic and Toiletries</td>
<td>20,712</td>
<td>18,950</td>
<td>10,662</td>
<td>14,450</td>
</tr>
<tr>
<td>Other Chemical Products</td>
<td>12,024</td>
<td>14,061</td>
<td>8,385</td>
<td>8,999</td>
</tr>
<tr>
<td>Rubber and Plastic Products</td>
<td>44,896</td>
<td>39,988</td>
<td>14,659</td>
<td>15,184</td>
</tr>
<tr>
<td>Electrical Products</td>
<td>9,752</td>
<td>12,071</td>
<td>10,773</td>
<td>8,001</td>
</tr>
<tr>
<td>Others</td>
<td>96,084</td>
<td>122,503</td>
<td>83,607</td>
<td>88,583</td>
</tr>
<tr>
<td>Total</td>
<td>453,632</td>
<td>449,093</td>
<td>329,704</td>
<td>322,396</td>
</tr>
</tbody>
</table>

For many years, FDIs have been looked upon as agents of development, especially in terms of resources transferred from developed countries to the less developed countries. The classical economists thought that international movement of capital would benefit both home and host countries because capital would flow from countries with low marginal productivity to countries with high marginal productivity. But today, this theory is being challenged on several grounds.

Accordingly, Nigerian policy makers have called on foreign firms to assist in the transfer of appropriate skills and knowledge that will be beneficial in domestic production in Nigeria. Bade Onimode comments:

The transnational corporation, which is restricted to a foreign-dominated enclave of the Nigerian economy and is relevant to the overall input endowment of the country, has led to technological distortions and technical discontinuities and has constituted a potent imperialist barrier against the emergence of a truly national technological culture. As the sedate foreign technology affects less than 10 percent of the national population and is monopolized even within that minority by large racist-inclined expatriates, the imported technology has no real chance of being internalized by the masses.

Table 6 shows that Nigeria's major exports, excluding oil, consist primarily of forest products and a few low-technology products. Also, Table 6 shows that Nigeria's imports during the same period consisted mainly of finished products (consumer and capital goods).

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# TABLE 6

**NIGERIAN EXPORTS OF MAJOR COMMODITIES BY ECONOMIC SECTOR**

<table>
<thead>
<tr>
<th>COMMODITY</th>
<th>Quantity (thousands of tons unless otherwise stated)</th>
<th>Value (N million)</th>
<th>Percentage of Total Export Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1991¹ 1992¹ 1993¹</td>
<td>1991¹ 1992¹ 1993¹</td>
<td>1991 1992 1993</td>
</tr>
<tr>
<td>Major Agricultural (including forest products)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cocoa</td>
<td>103.4 103.1 49.2</td>
<td>182.8 230.0 149.7</td>
<td>2.0 2.1 1.8</td>
</tr>
<tr>
<td>Palm Kernel</td>
<td>26.8 30.5 37.3</td>
<td>8.4 7.9 12.4</td>
<td>0.1 0.1 0.2</td>
</tr>
<tr>
<td>Rubber (natural)</td>
<td>27.6 32.0 29.5</td>
<td>16.6 20.7 34.4</td>
<td>0.2 0.2 0.4</td>
</tr>
<tr>
<td>Timber (log and sawn)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Groundnuts</td>
<td>0.9 0.5</td>
<td>3.0 0.2 0.2 2.0</td>
<td>-- -- 0.0</td>
</tr>
<tr>
<td>Mineral Products</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Columbite</td>
<td>n.a. n.a. n.a.</td>
<td>n.a. n.a. n.a.</td>
<td>n.a. n.a. n.a.</td>
</tr>
<tr>
<td>Petroleum²</td>
<td>401.0 454.8 453.8</td>
<td>8,840.6 10,890.6 8,273.3</td>
<td>87.2 97.1 97.2</td>
</tr>
<tr>
<td>Others</td>
<td>n.a. n.a. n.a.</td>
<td>n.a. n.a. n.a.</td>
<td>n.a. n.a. n.a.</td>
</tr>
<tr>
<td>Manufacturers and Semi-Manufacturers of Agricultural Products</td>
<td>35.9 69.8 39.1</td>
<td>39.4 65.4 41.7</td>
<td>0.5 0.5 0.4</td>
</tr>
<tr>
<td>Cocoa Butter</td>
<td>7.2 13.2 4.6</td>
<td>23.6 46.4 31.9</td>
<td>0.3 0.4 0.4</td>
</tr>
<tr>
<td>Cocoa Liquor</td>
<td>0.9 1.3 1.2</td>
<td>2.1 3.8 3.8</td>
<td>0.0 0.0 0.0</td>
</tr>
<tr>
<td>Cocoa Kernel</td>
<td>3.3 11.1</td>
<td>5.8 10.1</td>
<td>0.1 0.01</td>
</tr>
<tr>
<td>Expeller</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Palm Kernel Expeller</td>
<td>6.8 7.0</td>
<td>-- 0.5 3.6 2.9</td>
<td>0.1 0.1 0.0</td>
</tr>
<tr>
<td>Palm Kernel Oil</td>
<td>8.5 8.8 4.4</td>
<td>6.7 3.6 1.9</td>
<td></td>
</tr>
<tr>
<td>Palm Kernel Pellets</td>
<td>9.2 28.4 6.1</td>
<td>0.7 1.1 1.7</td>
<td></td>
</tr>
<tr>
<td>Other Exports</td>
<td>n.a. n.a. n.a.</td>
<td>n.a. n.a. n.a.</td>
<td>n.a. n.a. n.a.</td>
</tr>
<tr>
<td>Total Domestic Exports</td>
<td>-- --</td>
<td>9,088.0 11,214.8</td>
<td>-- 100.0 100.0 100.0</td>
</tr>
<tr>
<td>Re-export</td>
<td>n.a. n.a. n.a.</td>
<td>n.a. n.a. n.a.</td>
<td>n.a. n.a. n.a.</td>
</tr>
<tr>
<td>Total Exports</td>
<td>595.6 690.7 631.9</td>
<td>9,088.0 11,214 8,513.5</td>
<td>100.0 100.0 100.0</td>
</tr>
</tbody>
</table>


¹Provisional
²Estimates
³In millions of barrels
### TABLE 7

**NIGERIAN IMPORTS BY MAJOR GROUP (₦ Millions)**

<table>
<thead>
<tr>
<th>Sections</th>
<th>1991&lt;sup&gt;1&lt;/sup&gt;</th>
<th>1992&lt;sup&gt;2&lt;/sup&gt;</th>
<th>1993&lt;sup&gt;3&lt;/sup&gt;</th>
<th>Percentage Change Between (1) and (2)</th>
<th>(2) and (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 Foods and Live Animals</td>
<td>1,052.1</td>
<td>686.1</td>
<td>534.4</td>
<td>-34.8</td>
<td>-22.1</td>
</tr>
<tr>
<td>1 Beverages and Tobacco</td>
<td>7.0</td>
<td>6.3</td>
<td>13.0</td>
<td>-10.0</td>
<td>+106.3</td>
</tr>
<tr>
<td>2 Crude Materials</td>
<td>143.0</td>
<td>185.0</td>
<td>159.0</td>
<td>+28.9</td>
<td>-14.1</td>
</tr>
<tr>
<td>3 Mineral Fuels</td>
<td>111.3</td>
<td>160.1</td>
<td>35.6</td>
<td>+43.8</td>
<td>-77.8</td>
</tr>
<tr>
<td>4 Animal and Vegetable Oils and Fats</td>
<td>84.9</td>
<td>79.8</td>
<td>199.1</td>
<td>-6.0</td>
<td>+149.5</td>
</tr>
<tr>
<td>5 Chemicals</td>
<td>852.3</td>
<td>1,453.7</td>
<td>720.7</td>
<td>+70.6</td>
<td>-50.4</td>
</tr>
<tr>
<td>6 Manufactured Goods</td>
<td>1,241.7</td>
<td>1,670.4</td>
<td>1,053.6</td>
<td>+34.5</td>
<td>-36.9</td>
</tr>
<tr>
<td>7 Machinery and Transport</td>
<td>3,256.6</td>
<td>3,444.5</td>
<td>2,518.9</td>
<td>+5.8</td>
<td>-26.9</td>
</tr>
<tr>
<td>8 Miscellaneous Manufactured Articles</td>
<td>418.3</td>
<td>234.4</td>
<td>234.3</td>
<td>-44.0</td>
<td>-0.04</td>
</tr>
<tr>
<td>9 Miscellaneous Transactions Unclassified</td>
<td>10.6</td>
<td>12.6</td>
<td>1.2</td>
<td>+18.9</td>
<td>-90.5</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>7,178.3</td>
<td>7,932.9</td>
<td>5,469.7</td>
<td>+10.5</td>
<td>-31.1</td>
</tr>
</tbody>
</table>


<sup>1</sup> Provisional  
<sup>2</sup> CBN estimates

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**Production of Industrial Raw Materials Locally**

Nigeria has a lot of mineral resources that can be converted into raw materials for production purposes. The cost of importation of raw materials abroad will obviously add to the cost of production. Therefore, the Nigerian Government has called upon the manufacturing sector (both foreign and indigenous enterprises) to "integrate backward" by producing most of their industrial raw materials locally. In an attempt to monitor the importation of raw materials and other facilities, the Nigeria Head of State had cut down...
on the outflow of foreign currency and abolished some old laws that allowed business to freely use foreign exchange in and out of the country. For example, General Abacha said in his 1994 Budget Speech:

Government has decided that all foreign exchange earned by both private and public sector exporters of goods and services would henceforth be brought into the national foreign exchange account. For the avoidance of doubt, the concession formerly granted to private exporters and parastatals to keep their foreign exchange earnings outside the Central Bank is hereby abolished.\(^7\)

The call for backward integration has a lot of advantages to the host countries. Importantly, it will:

1. Preserve foreign exchange.
2. Improve and secure quality control over parts and components.
3. Assure supply, or more regular supply, of materials and components from sources which otherwise might be controlled by powerful firms in monopolistic or oligopolistic markets.

*Export of Final Product*

The main objective of this is to enable and also encourage the Nigerian industries to manufacture high-quality products that can compete effectively in the international market. Exporting quality and standardized products would help to augment Nigeria's foreign exchange reserve and buttress its balance of payments.

*Summary*

From the above points discussed, it is obvious to say that the Nigerian Government has reviewed the evils and benefits that foreign investors bring to developing countries. The Nigerian Government (as we can see from General Abacha's speech) is

\(^7\)Abacha, 7.
prepared to adopt policy measures to guard against some of the developmental woes identified by critics of Foreign Direct Investment (FDI) in Nigeria.

*Foreign Direct Investment (FDI) and Nigerian Government Intervention*

Businesses in which Foreign Direct Investments (FDIs) are involved attract government attention and intervention for several reasons. According to Prahalad and Doz, all multinational corporations, irrespective of the nature of business in which they are involved, attract host-government attention in some developing countries.⁷³

Doz’s statement was supported by Akinsanya, who commented that many leaders of developing countries are concerned not only about the economic power FDIs seem to exercise over the lives of people and government, but are also much concerned about the political consequences of the operation of these business entities.⁷⁴ He also noted that many FDIs are both more powerful and wealthier than their host countries and that they tend to create dislike, fear and uneasiness among officials of the host countries. Das pointed out that the regulations have become the most important factor, influencing FDI strategy, for survival and growth.⁷⁵ McOliver noted that U.S. based companies are criticized more than FDIs based in other countries and that the U.S. based companies are

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a source of greater concern than companies of different parentage. FDIs from different countries may follow different strategies in their operations in the host countries. As shown by Wells, FDIs based in different home countries have significantly different characteristics in size, capital, research and development imports, and exports, advertising intensities, and product quality.

Internalization, according to Poynter, occurs when local companies, entrepreneurs, or government officials feel that they have adequate resources to operate part or all of the activities of the subsidiaries without help from FDIs. However, Bergsten maintained that host governments use various policies to increase the probability that subsidiaries will respond positively to the national policies of the host country rather than to the global strategy of the company.

Managers in FDIs are concerned and frustrated by governments that force unwanted change in the way they want the companies' operations managed. Doz and Prahalad commenting on how they viewed governments intervention, noted that since the early 1970s, host governments have intervened more and more in the affairs of FDI. According to Poynter, FDIs are known to respond to host-government intervention by

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trying to negotiate changes in either intervention law or their implication by trying to bypass the law or by reducing their exposure in the countries that frequently intervene in their affairs.  

Investors in general, and U.S. corporations in particular, tend to blame government intervention in economic affairs for the majority of their woes. According to Baliga, U.S. investors blame host governments for intervening unnecessarily in their operations and making incessant and unreasonable demands. Such statements, Baliga pointed out, really signal an inability on the part of both headquarters and subsidiary executives of U.S. FDIs to develop political strategies and maintain effective external relations. Franko indicated that one of the primary causes for hostility to U.S. FDIs in a number of host countries is the lack of discretion in dealing with FDI executives.

Doz and Prahalad pointed out that the efforts of host governments in recent years to maintain control over their own national economies have increasingly restricted the freedom of multinational corporation managers in developing economic resources. A government plays four different roles when it intervenes directly or indirectly in the economic system in order to foster and control the nation’s economic development:

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82“Reindustrialization of America,” Business Week, June 30, 1980, 68.


85Doz and Prahalad, 149.
(1) It acts as a pioneer or as an innovator
(2) It acts as a guardian
(3) It acts as a supplemental agent to the system and
(4) It acts as a corrector of the economic system.  

Dymsza concluded by saying that “even though the atmosphere has become somewhat less confrontational, foreign direct investments perceive generally that developing governments impose a greater degree of regulation on their manufacturing investment than they did a decade ago.”

*Types and Level of Host Government Intervention in Foreign Investment*

Kim studied 163 U.S.-based Foreign Direct Investment (FDI) subsidiaries operating in India, the Philippines, Thailand, Malaysia, and Taiwan for the period from mid-1980 to mid-1993. Data collected were on the level of host government intervention experienced, level of industry-competition faced, degree of FDI political responsiveness toward host nation, and degree of FDI corporate economic advantage. From his findings, the study depicted that a firm’s strong economic advantage decreases the likelihood of intervention at all stages of industry competition. The results also showed that with political responsiveness held constant, all competitive stages reveal different intervention levels given different levels of corporate economic advantage. It


was revealed that with economic advantage held constant during mild competition, intervention levels do not vary significantly for different levels of political responsiveness. Behrman listed the following as included in regulations imposed by host Governments:

1. Control on entity.
2. Those relating to behavior once an affiliate is admitted
3. Those directed at reducing the control of the parent company
4. Those aimed at preventing interference by the parent government.

Poynter examined the characteristics and policies of 104 FDIs operating in four developing countries: Indonesia, Kenya, Tanzania, and Nigeria. The corporate characteristics and policies were examined in the light of government intervention experienced between mid-1970 and mid-1975. The research result showed that the 104 subsidiaries studied experienced host Government intervention ranging from expropriation, through various forms of foreign exchange harassments to “requests” for political contributions. It was reported that the more frequent forms of intervention had to do with the withholding of foreign exchange (affecting imports, repatriated profits, royalties), product prices, employment practices (wage rate, proportion of foreign employees and so on). According to the research results, 60 percent of the subsidiaries studied maintained that these forms of interventions were the major types.

It was also pointed out that two important facts were deduced from the research results. These are (1) that within each nation, the government discriminates and intervenes in some firms more than it does in others, and (2) that within the broad

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90 Poynter, 9.
business sectors, in the same nation, the government still discriminates. The research results further indicate that in each of the four host nations some subsidiaries had not experienced any government intervention during the same time. The results indicate that within the same nations, a majority of foreign-owned firms faced some form of intervention, making a significant change in their operation.

Other forms of interventions reported in decreasing order involved general civil service, harassment, ownership, control of FDI product flows, and the nature of service provided by the subsidiaries (that is, a government enforced change from, say, being an importer to being a manufacturer). Jason suggested that unless Nigeria's political system regained its stability, the country will remain locked in economic throes.  

Multinational Business No.3 reported that government intervention in FDI operation has grown in the last ten years. Foreign exchange rules, fixed level for local control or employment, even expropriation were cited as being among regulations imposed by host governments on FDI.

In two separate studies examining the types and causes of conflicts FDIs encounter with host-country governments, Negandhi and Baliga found that Foreign Direct Investment experienced conflicts with host governments over three main issues:

1. Equity participation by host nationals,
2. The Host Government's desire to place the control of foreign enterprises in the hands of local entities, and,

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93Ibid.
(3) Transfer-pricing problems.

In the study of United States FDIs operating in eight different countries, Fatemi, Pohlman and Santiaga reported that 93 percent of the respondents indicated that they experienced restrictions on repatriation of profit, currency regulation, and import control, tariffs or quotas. In another comparable study of 91 large U.S. manufacturing companies with substantial overseas activities, Root reported that out of eight restraints, restrictions on imports of raw materials was rated as the most frequently encountered government restraint. This, according to the report, was followed by the requirement for local ownership participation, restrictions on profits and capital repatriation, and restrictions on foreign personnel. In another study, Boddewyn and Cracco identified market protection, fiscal incentives, and aid and guaranties for the establishment of local production as three types of government intervention that are becoming a major factor in developing countries. As Poynter observed, the form of government intervention in the international scene has been changing since the mid 1960s. He noted that many nations have been avoiding such extreme actions like expropriation in favor of other less extreme methods designed to change the behavior of international firms. He also pointed out that intervention activities by host governments of less developed countries (LDCs) seem to


96 Boddewyn and Cracco, 45.

97 Poynter, 10.
be directed increasingly toward the partial transfer of ownership and control, greater domestic value added, and employing and promoting more host nationals.

*Changes Made by Foreign Direct Investors as a Result of Host Government Interventions*

According to Das, some FDIs have had to dissolve their operations in certain industries and in some cases, begin operations in areas where they have no expertise to satisfy government requirements. As Root observed, five companies out of ten that had experienced expropriation, responded to the question as to whether they made any changes in their policies and operations in other countries as a result of the expropriation experienced. They responded in a personal interview with executives that they made the following changes:

1. Changing in the degree of caution in investment policy;
2. Sought more control over subsidiaries, and trying to set up wholly-owned subsidiaries, and,
3. Kept copies of all foreign records because they might lose them in the host country.

Poynter also pointed out that a government's intervention behavior is designed to stimulate changes in corporate policies and characteristics. After studying 104 subsidiaries in four developing countries, he reported that some companies enjoyed a relationship with the government which did not require any change in their operation.

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98Boddewyn and Cracco, 86.

99Root, 35.

100Poynter, 12.
Furthermore, it was reported that some foreign-owned companies had to make significant changes in their operations as a result of government intervention.

*Nigerian Government Expropriation and Confiscation of Foreign Direct Investment (FDI)*

Nigeria argued that a state has an unlimited right to expropriate foreign-owned enterprises or assets located within its territory and that "there is in international law no rules universally accepted in theory nor carried in practice which makes obligatory the payment of immediate compensation or even of deferred compensation for expropriation of a general and personal character."\(^{101}\)

Bradley studied incidents of expropriation of U.S. companies that occurred in the Third World of non-communist countries between 1960 and 1976, using data from the Harvard Business School's ongoing FDI study and figures released by the U.S. Department of State.\(^{102}\) The study indicated that the threat of expropriation appeared to be more serious in the mid-1970s than at any time since the 1960 Cuban seizures.

According to Kobrin, expropriation has more recently become selective with single industries and or individual foreign companies being taken over with specific political reasons.\(^{103}\)

Poynter contradicts the findings of Bradley.\(^{104}\) According to his view, nations have been avoiding one action of expropriation in favor of other less extreme methods

\(^{101}\)Ibid., 28.


\(^{104}\)Poynter, 12.
since the mid-1960s. The study results indicated that the number of expropriations in 1975 was four times that of 1970 and fifty times that of 1961. Root alluded to the plight of American companies abroad by stating that:  

105

When an American firm invests abroad, it becomes exposed to a variety of risks that are associated with the actual and potential behavior of the government. The most severe breakdown an American firm can experience in its relationships with a host government is the arbitrary expropriation of its business properties.

CHAPTER IV
THE ROLE OF FOREIGN DIRECT INVESTMENT (FDI) IN NIGERIA

Foreign investors are believed to control enormous assets around the world. For instance, a United Nations study reveals that nearly 220-multinational corporations (MNCs) have affiliates in twenty or more countries. The study, which surveyed the world’s 650 largest industrial entities, found that 54 percent (358) of these corporations are United States based. The major home states of the other MNCs are Japan, France, Canada, Sweden, the United Kingdom, and the Federal Republic of Germany.¹

Growth and Contribution of FDI in Nigeria

It has always been fashionable for Western scholars to explain the search for colonies in Africa in terms other than economic. However, that the quest for colonies was economic was made clear by Jules Ferry in 1895, in the Chamber of Deputies, while defending French colonial policy:

The nations of Europe desire colonies for the following three purposes: (i) in order that they might have access to the raw materials of the colonies; (ii) in order to have markets for sale of manufactured goods of the home country; and (iii) as a field of the investment of surplus capital.²

For the industrialized countries of the West, FDI in the Third World is an “institutional necessity.” Although the British colonial administration in Nigeria adopted an open door policy toward FDI operations, this policy had meant that United Kingdom-based


investors had a field day in Nigeria. This explains why United Africa Company, a subsidiary of Unilever (British MNC), controlled 40 percent of Nigeria’s import-export trade in the 1930s and 34 percent of merchandise trade into Nigeria and 43 percent of Nigeria’s non-mineral exports in the late 1940s.3

Foreign direct investors were offered various incentives, which include a ten-year tax holiday for pioneer industries, generous depreciation allowances, income tax relief, some market protection, exemption from import duties and the creation of a more competitive business environment. The Nigerian constitution also guaranteed foreign direct investors adequate compensation in the event of compulsory acquisition or arbitration in cases of disputes over the quantum of compensation. In order to guarantee the safety of FDIs, the Nigerian government concluded bilateral and multilateral agreements on the protection of capital investments:

1. Investment Guarantee Agreement with the United States;
2. World Bank Convention on the Settlement of Disputes Between States and Nationals of Other States;
3. Lome Conventions I, II and III between Africa, Caribbean and Pacific (ACP) countries and member-states of the European Common Market.4

The agreement with the United States, for example, provides insurance coverage to United States’ investors in Nigeria against inconvertibility. Under the Agreement, Nigeria recognizes the subrogation rights of the United States government to claims of its nationals to “right, title or interest in assets expropriated or assets rendered useless by reasons of expropriation.”5

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4 Ibid., 90.
5 Ibid., 89.
Foreign Direct Investment as Source of Finance in Nigeria

It is generally assumed that for the fact that many LDCs are capital-deficient, the very act of FDI by a MNC results directly or indirectly in a capital transfer from a capital-rich to a capital-poor country. However, several studies on the role of MNCs as sources of finance have shown that MNCs operating in the LDCs not only make use of local loan capital and retained earnings (retained profits) to finance their operations, but also that banks prefer lending to MNC subsidiaries to domestic enterprises. The reasons are not unconnected with the credit rating and financial resources backup of the parent companies. Additionally, MNCs raise their financial capital from local sources either by permitting equity participation (by some local firms/foreign and domestic investors) or through public subscription.⁶

Foreign direct investors operating in Nigeria have also taken advantage of the Nigerian Enterprises Promotion Decrees of 1972 and 1997, in raising local finance for other operations. Foreign-owned insurance companies raise both equity and loan capital from local sources while foreign owned banks, particularly the Union Bank of Nigeria, First Bank of Nigeria and the United Bank of Africa, incidentally, the leading banks in Nigeria in terms of turnover and profits (after tax), control more than 70 percent of total deposits of all commercial banks. These deposits are made available as loans and advances largely to foreign direct investors in Nigeria. The point is that the draining of local financial markets by FDI has meant that domestic enterprises cannot adequately and effectively finance their own operations.⁷


⁷Ibid.
FDI Flows Into Nigeria

Between 1964 and 1968, the United States and the United Kingdom (representing 80% of total FDI), received about $5.8 billion from LDCs (in investment income i.e., capital outflow) and paid $3.2 billion (capital inflow). This implies that while the initial FDI may mean capital inflow, a stream of profits interests/dividends/royalty payments, and repatriation abroad through several devices (some of them illegal) cannot but have adverse effects on the balance of payments of the host-states.

TABLE 8

FDI IN NIGERIA BY COUNTRY/REGION OF ORIGIN 1972-1977 (US $ million)

<table>
<thead>
<tr>
<th>Country/Region of Origin and Year</th>
<th>Inflow (1)</th>
<th>Outflow (2)</th>
<th>Net Flow Inflow minus Outflow (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UNITED KINGDOM</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1972</td>
<td>236.0</td>
<td>58.3</td>
<td>177.7</td>
</tr>
<tr>
<td>1973</td>
<td>265.8</td>
<td>174.6</td>
<td>91.2</td>
</tr>
<tr>
<td>1974</td>
<td>119.7</td>
<td>147.8</td>
<td>(28.1)</td>
</tr>
<tr>
<td>1975</td>
<td>214.2</td>
<td>189.5</td>
<td>24.7</td>
</tr>
<tr>
<td>1976</td>
<td>205.6</td>
<td>121.1</td>
<td>84.5</td>
</tr>
<tr>
<td>1977</td>
<td>320.0</td>
<td>189.2</td>
<td>130.8</td>
</tr>
<tr>
<td>UNITED STATES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1972</td>
<td>17.1</td>
<td>67.8</td>
<td>(50.7)</td>
</tr>
<tr>
<td>1973</td>
<td>174.3</td>
<td>153.5</td>
<td>21.3</td>
</tr>
<tr>
<td>1974</td>
<td>151.1</td>
<td>159.0</td>
<td>(7.9)</td>
</tr>
<tr>
<td>1975</td>
<td>253.0</td>
<td>17.8</td>
<td>235.2</td>
</tr>
<tr>
<td>1976</td>
<td>39.0</td>
<td>198.0</td>
<td>(159.0)</td>
</tr>
<tr>
<td>1977</td>
<td>81.9</td>
<td>170.9</td>
<td>(89.0)</td>
</tr>
<tr>
<td>WESTERN EUROPE</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1972</td>
<td>150.9</td>
<td>44.9</td>
<td>106.0</td>
</tr>
<tr>
<td>1973</td>
<td>97.7</td>
<td>43.5</td>
<td>43.2</td>
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<tr>
<td>1974</td>
<td>172.6</td>
<td>128.0</td>
<td>44.6</td>
</tr>
<tr>
<td>1975</td>
<td>191.6</td>
<td>61.3</td>
<td>130.3</td>
</tr>
<tr>
<td>1976</td>
<td>195.6</td>
<td>132.9</td>
<td>62.9</td>
</tr>
<tr>
<td>1977</td>
<td>213.6</td>
<td>127.7</td>
<td>85.9</td>
</tr>
<tr>
<td>OTHERS (UNSPECIFIED)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1972</td>
<td>28.9</td>
<td>13.5</td>
<td>15.3</td>
</tr>
<tr>
<td>1973</td>
<td>46.0</td>
<td>14.1</td>
<td>31.9</td>
</tr>
<tr>
<td>1974</td>
<td>637.7</td>
<td>24.0</td>
<td>39.7</td>
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<tr>
<td>1975</td>
<td>98.7</td>
<td>13.4</td>
<td>85.2</td>
</tr>
<tr>
<td>1976</td>
<td>80.7</td>
<td>22.8</td>
<td>57.9</td>
</tr>
<tr>
<td>1977</td>
<td>101.8</td>
<td>31.9</td>
<td>69.9</td>
</tr>
</tbody>
</table>
Table 8 continued

<table>
<thead>
<tr>
<th></th>
<th>TOTAL</th>
<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>1972</td>
<td>432.8</td>
<td>184.5</td>
<td>248.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1973</td>
<td>577.8</td>
<td>385.5</td>
<td>192.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1974</td>
<td>507.1</td>
<td>458.8</td>
<td>48.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1975</td>
<td>757.4</td>
<td>282.8</td>
<td>475.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1976</td>
<td>521.1</td>
<td>474.8</td>
<td>46.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1977</td>
<td>717.3</td>
<td>518.7</td>
<td>197.6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Table 8 shows an analysis of FDI flow into Nigeria by country or region of origin between 1972 and 1977. Total inflow of FDI declined by N236.3 million from N757.4 million in 1975 to N521.1 million in 1976, but increased a year later to N717.3 million. In the same period, total outflow increased from N282.8 million in 1975 to N474.8 million and N519.7 million in 1976 and 1977, respectively. Thus, the net capital inflow amounted to N46.3 million in 1976 and N197.6 million in 1977 compared to N475.4 million in 1975. In essence, capital inflow has declined steadily over the years. In the recent years, however, net capital inflow to Nigeria from 1990 to 1994 stood at N588 million in 1990, N712 million in 1991, N897 million in 1992, N1,345 million in 1993, and N1,959 million in 1994. No statistics were available for 1995 and 1996.

*Investment by Source Country*

The major industrialized countries have traditionally been the source of most direct investment activity in Nigeria. This trend continued in 1996, as seven nations; Japan, the United Kingdom, Germany, Canada, United States, France and the Netherlands, accounted for 344 transactions of 70 percent of the total transactions, a slight decline from

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8 Ibid., 150.

the 76 percent share these countries had in 1995. The identified aggregate value of the transactions by the seven countries - $23.1 billion - represented 80 percent of the total identified value, as compared with 78 percent in 1995. The aggregate value was 97 percent greater than the reported value of N11.7 billion in 1995, which had been a 36 percent drop from the 1994 reported value of $18.2 billion.¹⁰

For the ninth consecutive year, the United States was the source country for the largest number of transactions. More than 31 percent, or 150 transactions, originated from the U.S. in 1996 with 73 identified values totaling $3.2 billion. The United Kingdom was second with 69 transactions and 37 identified values totaling $9.4 billion. Canada was third in number of transactions with 42 and 19 identified values of $3.4 billion.¹¹

Table 9 shows the number of completed transactions with identified values by country for 1996, while Table 10 shows the continuing dominance of the principal source countries (also the United States’ largest trading partners) as sources of foreign direct investment in the United States.

---


TABLE 9
SOURCE COUNTRIES - COMPLETED CASES - 1996
(Group = Principal Source Countries)

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>NUMBER OF CASES</th>
<th>NUMBER CASES/ VALUE KNOWN</th>
<th>VALUE (N MILLION)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CANADA</td>
<td>42</td>
<td>19</td>
<td>3698.8</td>
</tr>
<tr>
<td>FRANCE</td>
<td>23</td>
<td>10</td>
<td>2484.3</td>
</tr>
<tr>
<td>GERMANY</td>
<td>32</td>
<td>12</td>
<td>2133.3</td>
</tr>
<tr>
<td>UNITED STATES</td>
<td>150</td>
<td>70</td>
<td>3163.6</td>
</tr>
<tr>
<td>NETHERLANDS</td>
<td>16</td>
<td>7</td>
<td>1847.7</td>
</tr>
<tr>
<td>JAPAN</td>
<td>12</td>
<td>2</td>
<td>375.0</td>
</tr>
<tr>
<td>UNITED KINGDOM</td>
<td>69</td>
<td>37</td>
<td>9419.1</td>
</tr>
<tr>
<td><strong>GROUP</strong></td>
<td><strong>344</strong></td>
<td><strong>157</strong></td>
<td><strong>23121.8</strong></td>
</tr>
</tbody>
</table>


(Other Europe)

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>NUMBER OF CASES</th>
<th>NUMBER CASES/ VALUE KNOWN</th>
<th>VALUE (N MILLION)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUSTRIA</td>
<td>1</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>BELGIUM</td>
<td>2</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>DENMARK</td>
<td>3</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>FINLAND</td>
<td>3</td>
<td>1</td>
<td>10.0</td>
</tr>
<tr>
<td>SWITZERLAND</td>
<td>12</td>
<td>2</td>
<td>375.0</td>
</tr>
<tr>
<td>GREECE</td>
<td>1</td>
<td>1</td>
<td>49.0</td>
</tr>
<tr>
<td>IRELAND</td>
<td>2</td>
<td>1</td>
<td>0.6</td>
</tr>
<tr>
<td>ITALY</td>
<td>25</td>
<td>3</td>
<td>35.9</td>
</tr>
<tr>
<td>NORWAY</td>
<td>3</td>
<td>1</td>
<td>8.0</td>
</tr>
<tr>
<td>SPAIN</td>
<td>5</td>
<td>2</td>
<td>149.1</td>
</tr>
<tr>
<td>SWEDEN</td>
<td>3</td>
<td>1</td>
<td>163.0</td>
</tr>
<tr>
<td><strong>GROUP</strong></td>
<td><strong>60</strong></td>
<td><strong>12</strong></td>
<td><strong>790.6</strong></td>
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</table>
Table 9 continued

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>NUMBER OF CASES</th>
<th>NUMBER CASES/VALUE KNOWN</th>
<th>VALUE (N MILLION)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GHANA</td>
<td>1</td>
<td>1</td>
<td>32.0</td>
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<tr>
<td>SAUDI ARABIA</td>
<td>7</td>
<td>6</td>
<td>887.7</td>
</tr>
<tr>
<td>VENEZUELA</td>
<td>3</td>
<td>1</td>
<td>320.0</td>
</tr>
<tr>
<td><strong>GROUP</strong></td>
<td><strong>11</strong></td>
<td><strong>8</strong></td>
<td><strong>1239.7</strong></td>
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<table>
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<th>NUMBER CASES/VALUE KNOWN</th>
<th>VALUE ($ MILLION)</th>
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</thead>
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<td>ISRAEL</td>
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<td>70.0</td>
</tr>
<tr>
<td><strong>GROUP</strong></td>
<td><strong>3</strong></td>
<td><strong>1</strong></td>
<td><strong>70.0</strong></td>
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</table>

*Group = Other Asia and Pacific*

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>NUMBER OF CASES</th>
<th>NUMBER CASES/VALUE KNOWN</th>
<th>VALUE (N MILLION)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUSTRALIA</td>
<td>31</td>
<td>4</td>
<td>550.0</td>
</tr>
<tr>
<td>BRUNEI</td>
<td>1</td>
<td>1</td>
<td>203.0</td>
</tr>
<tr>
<td>CHINA</td>
<td>4</td>
<td>2</td>
<td>27.4</td>
</tr>
<tr>
<td>CHINA (TAIWAN)</td>
<td>7</td>
<td>3</td>
<td>959.3</td>
</tr>
<tr>
<td>HONG KONG</td>
<td>4</td>
<td>3</td>
<td>100.0</td>
</tr>
<tr>
<td>INDIA</td>
<td>12</td>
<td>2</td>
<td>375.0</td>
</tr>
<tr>
<td>KOREA, REPUBLIC OF</td>
<td>4</td>
<td>1</td>
<td>150.0</td>
</tr>
<tr>
<td>MALAYSIA</td>
<td>5</td>
<td>5</td>
<td>52.6</td>
</tr>
<tr>
<td>NEW ZEALAND</td>
<td>3</td>
<td>1</td>
<td>40.2</td>
</tr>
<tr>
<td>SINGAPORE</td>
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<td>1</td>
<td>11.6</td>
</tr>
<tr>
<td>THAILAND</td>
<td>2</td>
<td>1</td>
<td>10.0</td>
</tr>
<tr>
<td><strong>GROUP</strong></td>
<td><strong>75</strong></td>
<td><strong>24</strong></td>
<td><strong>2479.1</strong></td>
</tr>
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Table 9 continued

(Group = Other Western Hemisphere)

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>NUMBER OF CASES</th>
<th>NUMBER CASES/ VALUE KNOWN</th>
<th>VALUE (N MILLION)</th>
</tr>
</thead>
<tbody>
<tr>
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</tr>
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<td>BERMUDA</td>
<td>1</td>
<td>1</td>
<td>110.0</td>
</tr>
<tr>
<td>BRAZIL</td>
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<tr>
<td>MEXICO</td>
<td>6</td>
<td>5</td>
<td>1532.1</td>
</tr>
<tr>
<td>PARAGUAY</td>
<td>1</td>
<td>1</td>
<td>10.0</td>
</tr>
</tbody>
</table>

| GROUP       | 10              | 8                         | 1670.1           |

(Group = All Other Countries)

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>NUMBER OF CASES</th>
<th>NUMBER CASES/ VALUE KNOWN</th>
<th>VALUE (N MILLION)</th>
</tr>
</thead>
<tbody>
<tr>
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<td>1</td>
<td>1.0</td>
</tr>
<tr>
<td>RUSSIA</td>
<td>2</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>SOUTH AFRICA</td>
<td>1</td>
<td>1</td>
<td>21.0</td>
</tr>
<tr>
<td>TURKEY</td>
<td>1</td>
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<td></td>
</tr>
<tr>
<td>UNIDENTIFIED</td>
<td>3</td>
<td>3</td>
<td>34.1</td>
</tr>
</tbody>
</table>

| GROUP       | 8               | 5                         | 56.1             |

491 214 28691.4
### TABLE 10

**NUMBER OF IDENTIFIED COMPLETED TRANSACTIONS BY PRINCIPAL SOURCE COUNTRY 1991-1996**

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<tbody>
<tr>
<td>TOTAL</td>
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<td>#</td>
<td>#</td>
<td>#</td>
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</tr>
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<td>Canada</td>
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<td>122</td>
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<td>32</td>
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<td>Germany</td>
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<td>United States</td>
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<td>351</td>
<td>490</td>
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<td>Netherlands</td>
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<td>39</td>
<td>24</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Japan</td>
<td>36</td>
<td>39</td>
<td>37</td>
<td>22</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>U.K.</td>
<td>176</td>
<td>176</td>
<td>248</td>
<td>71</td>
<td>52</td>
<td>52</td>
</tr>
<tr>
<td>All Others</td>
<td>209</td>
<td>222</td>
<td>247</td>
<td>143</td>
<td>124</td>
<td>124</td>
</tr>
</tbody>
</table>

Overview

It is true that the economic well-being of a nation’s citizens is ultimately the hallmark of a successful government policy. It is for this reason that great attention is paid to public policy by the governments of many countries, including Nigeria.

The economic relations the United Kingdom left behind in Nigeria in 1960 were preponderantly Anglocentric. This is amply illustrated by trade statistics and foreign investment data. For example, in 1959 and 1960, 50.6 percent and 48.1 percent respectively of Nigeria’s total exports went to the United Kingdom alone, while 45.4 percent and 42.3 percent of the country’s total imports from abroad came from the United Kingdom. With respect to FDI, the United Kingdom accounted in 1959 for 74.6 percent of the total FDI in Nigeria.¹ These statistics could be explained by the fact that Sir Abubakar (the then prime minister of Nigeria) was evidently determined to preserve Nigeria’s political economy of alignment with the United Kingdom and the Western powers.

The direction of Nigeria’s external trade from 1960 to 1985 clearly indicates that while the political economy of alignment with the countries of the West has been maintained, the Anglocentric structure of her external trade has gradually but progressively been dismantled, particularly beginning in 1967. By 1973, the United

Kingdom had ceased to be the most important market for Nigerian exports and remained the leading source of Nigeria’s imports only up to 1964.2

The decline in the relative importance of the United Kingdom as Nigeria’s trading partner has been paralleled by the relative growth of the then European Economic Community (EEC) as Nigeria’s trading partner. The EEC emerged as the largest market for Nigeria’s exports in 1967 and as a source of her imports in 1965.3 The United States has, over the years, improved its relative position as Nigeria’s trading partner, particularly as a market for Nigeria’s crude oil between 1971 and 1981. But from 1983, Western Europe emerged as the largest market for Nigeria’s crude oil; and for the first time since 1971, the U.S. in 1984 ceased to be the largest single country importer of Nigeria’s crude oil, falling behind France and Italy.4

Nigeria’s African trade between 1973 and 1983, as a percentage of the value of total global trade, was very small. Two interrelated explanations are usually advanced for this phenomenon. One is that the structural pattern of external trade, which European colonialism left behind in Africa, is vertically between the metropolitan powers in Europe and the African States, which does not encourage intra-African trade. The second is that the economics of African states, particularly those in West Africa closest to Nigeria, are not complementary.5

The commodity structure of Nigeria’s external trade reflects the production profile of the country’s domestic economy. Agricultural commodity exports have historically been dominated by six major commodities, namely cocoa, groundnuts, palm-kernel,


3Ibid.

4Ibid., 55.

5Ibid.
palm-oil, rubber and cotton, but which in recent years collectively contribute less than 14 percent to the country’s foreign exchange earnings. Since 1970, crude oil has become the most important commodity and the backbone of the nation’s economy. Not surprisingly, Nigeria joined the Organization of Petroleum Exporting Countries in 1971 and began to participate in the international politics of oil.⁶

With respect to the commodity component of Nigeria’s imports, it is apparent that since 1960, manufactured goods, machinery, transport equipment and industrial raw materials have dominated the import picture. This reflects the fact that industrialization, particularly manufacturing, is still largely underdeveloped in the country. The Nigerian government, under different administrations, has continued to take seriously the conclusion of a World Bank field team in its report in 1955, that without foreign investments, neither public nor private endeavors can achieve the rate of economic growth that the Nigerian people desire.⁷ Consequently, an important goal of Nigeria’s international economic diplomacy has been to attract FDI into the country.

Nigeria’s foreign economic policy has also sought to attract foreign loans for the financing of some of the projects in the country’s various national development plans. For instance, 50 percent of the projected capital expenditure in the 1962-68 National Development Plan, 19.4 percent of that in the 1970-74 plan and 8.5 percent of the total expenditures required for financing the public programs in the 1981-85 Fourth National Development Plan was expected to come from abroad.⁸ Nigeria’s debt service ratio has become rather high, especially since 1983, when it stood at 17.5 percent and rose to 25

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⁶Ibid., 61.


percent in 1983, and to 44 percent of the country’s foreign exchange earnings in 1985.\(^9\) Nigeria has always honored her external debt obligations, preferring to reschedule their payment to their repudiation.

The Nigerian Economy

Any economic indicator, no matter how crude, will indicate unequivocally that Nigeria has been moving in the wrong direction. The problem, however, appears to have emanated from the external sector, judging from the statistics provided by the Central Bank of Nigeria. The internal sector had generated a lot of earnings, particularly from oil, between 1973 and 1981. Indeed, this period witnessed an inflow of ₦65 billion in revenues from oil exports. Determined to utilize the oil earnings, the Nigerian government invested in virtually every sector of the economy. The return from these investments were, however, not that attractive since a lot of the investments were unviable.\(^{10}\)

Thus, while there were substantial structural changes, there were substantial price distortions as well. More critical, in spite of the size of the investments, the Nigerian economy did not have deep enough roots to withstand the wind of change that started blowing from mid-1981.\(^{11}\)

The same external sector that was responsible for the ballooning of the economy between 1973 and 1981 was responsible for puncturing it by mid-1981. The oil exports dropped from $22.4 billion in 1980 to $16.7 billion in 1981 and to $12.8 billion in

---

\(^9\) Ibid.


\(^{11}\) Ibid., 26.
1982.\textsuperscript{12} The slump in the international oil market led to balance of payment problems, which in turn led to crises in public finance and in the economy in general. The increasing reliance on this sector meant increasing role of imports in the national production.

By 1980, for example, imports had reached a level equivalent to 25 percent of the Gross Domestic Product (GDP). Related to this was the declining role of agriculture in the economy in feeding the increasing population and in earning foreign exchange. The value of agricultural exports fell from more than $1.5 billion in 1973 to less than $0.31 billion in 1981, while the value of food imports increased during the period.\textsuperscript{13} The continued reliance on the external sector meant the increasing vulnerability of the economy to external shocks.

The substantial oil earnings helped in other ways to ensure further deviation from the right course. For one thing, the earnings affected the valuation of the Naira currency which affected the growth and development of the two major sectors of the economy — agriculture and manufacturing. The overvaluation of the Naira dictated, to a large extent, an unattractive financial return from agriculture. Again, it was more profitable to import, than develop or use local inputs. The generally low tariff rates assisted the trend in no small measure.\textsuperscript{14}

At the time of independence in 1960, agriculture accounted for well over half of GDP and was the main source of export earnings and public revenue, with the agricultural marketing boards playing a major role that has now been taken over by the


Nigerian National Petroleum Corporation (NNPC), the national oil company. The overwhelming importance of oil in recent years is evident from the fact that this one commodity accounts for over three-quarters of federal government revenue and more than 90 percent of export earnings. Nonetheless, its share of GDP fell from a quarter in 1980 to 12.4 percent in 1991. Agriculture is still the principal activity of the majority of Nigerians accounting for 39.3 percent of the GDP at factor cost in 1991.\(^{15}\)

The rapid increase in earning from oil production during the 1970s transformed public finance and allowed for considerable investment in the infrastructure, educational, social and industrial development. Receipts from oil exports were to prove erratic, playing havoc with development planning and leading, in the early 1980s, to a severe foreign-exchange crisis that has contributed to political and economic upheavals since 1982. Total exports dropped from a peak of $25.7 billion in 1980 to only 6 billion in 1986.\(^{16}\)

*The Devaluation of the Naira and Foreign Direct Investment (FDI)*

Prior to the structural adjustment program in 1986, Nigeria operated the fixed exchange rate system. Although the system is fixed, the exchange rate fluctuates within certain limits. Okoye, in his *Money and Banking*, explains how it operates:

The Naira like most other national currencies floats but the floating is not entirely free since the Central Bank provides adjustment procedures which involve some mechanism for the identification of the need for adjustment and appropriate action. To regulate the float, the Central Bank, in 1974, introduced a managed float in which the exchange value of the Naira was administratively determined on the basis of change in the value of selected group of currencies of different countries weighted on the value of each country’s trade with Nigeria.\(^{17}\)

\(^{15}\)Ibid.

\(^{16}\)Ibid., 25.

\(^{17}\)Okoye, 12.
The country’s economic difficulties have been magnified by the build-up of sizable trade arrears, especially between 1981 and 1983, and the bunching of principal repayment on median and long-term debt in the mid-to-late 1980s. However, in the early 1980s, liquidity problems started, and there was need for external financing. It will be recalled that Nigerian citizens had an unprecedented national debate in the last quarter of 1985 on whether or not to accept the International Monetary Fund (IMF) loan with its severe conditions package.\(^\text{18}\) The government, however, rejected the loan in December 1985. Although most Nigerians appreciated the desirability of the loan, they did not believe that it would be judiciously used and therefore rejected the proposal to take it. Such an opinion was not surprising given the financial mismanagement of the second republic when Nigeria accumulated huge debts.

Matters were complicated by Nigeria’s reluctance to accept an IMF loan package, the normal prerequisite for rescheduling by the Paris and London clubs of creditors. Agreements on debt rescheduling were finally reached by the end of 1986 during General B. Babangida’s erstwhile government, however, after arrangements were made for IMF “enhanced surveillance” without the drawing down of an IMF loan.\(^\text{19}\)

The debt-rescheduling operation covered the end of 1987 and has since been followed by a series of rescheduling agreements with both groups of creditors. However, the situation deteriorated again in 1991-92 as negotiations with the IMF reached an impasse, effectively precluding a debt-rescheduling with official creditors, and arrears began to accumulate again.

\(^\text{18}\) Ibid., 24.

\(^\text{19}\) Ibid., 26.
The need to restructure the Nigerian Economy was therefore predicated upon the enormity of these numerous problems confronting it in the last few years. A legacy of many development strategies have been pursued in the past. It was in the desperate effort to find a solution to these problems that the government in 1986 introduced the Structural Adjustment Program (SAP) in Nigeria. The purpose of SAP is the removal of the perceived distortions which for many years had prevented the economy from crossing the threshold to self-reliant growth and development. The main objectives of the SAP program were:

1. To restructure and diversify the productive base of the economy in order to reduce dependence on oil sector and on import.
2. To achieve fixed and balance of payment viability over the period.
3. To lay the basis for sustainable non-inflationary growth.
4. To lessen the dominance of unproductive investments in the public sector.
5. Improve the sectors’ efficiency, and intensify the growth potential of the private sector.

The major policy in the structural adjustment package was the removal of the perceived overvaluation of the Naira through the establishment and operation of a foreign exchange bidding scheme under a second-tier foreign exchange market.\(^\text{20}\) The market was to operate along side the first-tier market administered by the Central Bank of Nigeria. The first and second-tier merged on July 2, 1987, and the second-tier has ceased to exist while the first-tier now operates a bidding system. This mechanism for

obtaining a realistic exchange rate for the Naira is to be accompanied by several other policies.

On the commencement of the second-tier foreign exchange market on September 29, 1986, the official expectation was a massive devaluation of the Naira in relation to the major international currencies. At the beginning of the economic operation in July, 1984, the Naira was worth N1 $1: 3028 and on the eve of the second-tier foreign exchange market, it had depreciated to 62.46 percent. By the end of 1986, however, it had depreciated to 30.3 percent. It further depreciated to 24 percent by the end of 1987, 18.68 percent by the end of 1988 and 13.12 percent by the end of 1989. Using 1984 as a base year, it means that the Naira has been devalued by about 800 percent over the 1984 value.\(^{21}\)

In early 1990, the Naira held steady at close to N7.90: $1, before falling sharply in anticipation of impending changes in the foreign-exchange auction system at the end of 1990. By the end of 1990, the rate had fallen to N 9:$1 and, with allocations of foreign exchange to the auctions proving inadequate to meet demand, the decline accelerated in the first half of 1991. The Naira reached a low of N 11.9:$1 in early August of 1991 before CBN’s intervention to drain funds from the banking system prompted a partial recovery, ending the year at N9.86:$1.

In March 1992, the Nigerian government devalued the Naira to N18:$1, abandoned the auctions and floated the currency; it has since held fairly steady at a close N18.5:$1, until 1993 when it fell again to N22.1:$1. The gap between the official and parallel markets was virtually closed but to widen in late 1992. Table 11 shows the average exchange rate from 1982 through 1993.

\(^{21}\) Ibid.
TABLE 11

AVERAGE EXCHANGE RATE

(N:=$)

<table>
<thead>
<tr>
<th>Years</th>
<th>A. Rate</th>
<th>Years</th>
<th>A. Rate</th>
<th>Years</th>
<th>A. Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>0.673</td>
<td>1986</td>
<td>1.755</td>
<td>1990</td>
<td>8.038</td>
</tr>
<tr>
<td>1984</td>
<td>0.767</td>
<td>1988</td>
<td>4.537</td>
<td>1992</td>
<td>17.298</td>
</tr>
<tr>
<td>1985</td>
<td>0.894</td>
<td>1989</td>
<td>7.365</td>
<td>1993</td>
<td>22.065</td>
</tr>
</tbody>
</table>


Direction of Trade

The International Monetary Fund (IMF) data indicated that in 1991, the U.S.A. was still the largest client for Nigerian oil and total exports to the U.S.A amounted to $5.2 billion or 41 percent of the overall total. The next largest markets for Nigerian exports were Spain, accounting for 12.6 percent, Germany (8.6 percent) and the Netherlands and France (both 5 percent), respectively. UK is the eighth-largest export market for Nigerian exports. Nigeria’s main suppliers in 1991 were Germany, (13.8 percent) having supplanted the UK as the most important, the UK (13.6 percent), the U.S.A (11.8 percent) and France (8.9 percent). Table 12 shows the principal trading partners on both import and export between 1989 and 1991 in millions of U.S. dollars.
## TABLE 12

**NIGERIA'S PRINCIPAL TRADING PARTNERS (US $ '000)**

<table>
<thead>
<tr>
<th>Imports c.i.f.</th>
<th>1989</th>
<th>1990</th>
<th>1991</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium-Luxembourg</td>
<td>122,006</td>
<td>143,671</td>
<td>158,858</td>
</tr>
<tr>
<td>Brazil</td>
<td>106,404</td>
<td>175,801</td>
<td>177,761</td>
</tr>
<tr>
<td>China, People’s Republic</td>
<td>86,591</td>
<td>128,230</td>
<td>189,117</td>
</tr>
<tr>
<td>France</td>
<td>271,611</td>
<td>394,209</td>
<td>437,306</td>
</tr>
<tr>
<td>Germany</td>
<td>591,509</td>
<td>644,589</td>
<td>874,733</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>52,447</td>
<td>96,415</td>
<td>125,827</td>
</tr>
<tr>
<td>India</td>
<td>45,141</td>
<td>67,082</td>
<td>84,401</td>
</tr>
<tr>
<td>Italy</td>
<td>185,040</td>
<td>193,827</td>
<td>295,823</td>
</tr>
<tr>
<td>Japan</td>
<td>231,902</td>
<td>257,434</td>
<td>398,362</td>
</tr>
<tr>
<td>Korea, Republic</td>
<td>39,543</td>
<td>53,977</td>
<td>80,155</td>
</tr>
<tr>
<td>Netherlands</td>
<td>132,990</td>
<td>207,208</td>
<td>297,263</td>
</tr>
<tr>
<td>Spain</td>
<td>44,609</td>
<td>59,463</td>
<td>58,904</td>
</tr>
<tr>
<td>Switzerland</td>
<td>79,522</td>
<td>115,829</td>
<td>141,315</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>556,106</td>
<td>739,417</td>
<td>746,175</td>
</tr>
<tr>
<td>USA</td>
<td>420,123</td>
<td>373,963</td>
<td>559,733</td>
</tr>
<tr>
<td>Total (incl. Others)</td>
<td>3,419,079</td>
<td>4,317,921</td>
<td>5,399,004</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>82,307</td>
<td>9,423</td>
<td>125,854</td>
</tr>
<tr>
<td>Canada</td>
<td>16,275</td>
<td>117,584</td>
<td>151,108</td>
</tr>
<tr>
<td>Cote d'Ivoire</td>
<td>192,737</td>
<td>224,270</td>
<td>298,286</td>
</tr>
<tr>
<td>France</td>
<td>349,424</td>
<td>292,856</td>
<td>307,135</td>
</tr>
<tr>
<td>Germany</td>
<td>335,879</td>
<td>591,369</td>
<td>414,584</td>
</tr>
<tr>
<td>Ghana</td>
<td>171,746</td>
<td>224,694</td>
<td>190,117</td>
</tr>
<tr>
<td>Italy</td>
<td>340,367</td>
<td>298,146</td>
<td>431,857</td>
</tr>
<tr>
<td>Netherlands</td>
<td>651,942</td>
<td>933,627</td>
<td>475,348</td>
</tr>
<tr>
<td>Portugal</td>
<td>244,797</td>
<td>282,531</td>
<td>135,099</td>
</tr>
</tbody>
</table>
Spain & 862,201 & 939,451 & 1,112,893 \\
United Kingdom & 142,533 & 298,914 & 148,833 \\
USA & 4,343,233 & 5,551,527 & 3,497,670 \\
Total (Incl. Others) & 8,130,683 & 10,241,646 & 7,727,370 \\


*External Payment Debt*

The swelling debt service obligations, the enforced contraction of imports and the decline in oil exports were the three main characteristics of Nigeria’s balance-of-payment difficulties in the 1980s. However, a sharp deterioration on the invisible account primarily due to rapidly rising interests in external debt, pushed the current account back into small deficits in 1987 and 1988, although it would have been significantly higher had debt-servicing requirements been met in full. In 1991, exports fell on weaker oil prices and import spending picked up strongly, leading to the trade surplus in dollar terms. Table 13 shows the balance of payments and Table 14 shows the external trade from 1992 through 1994 respectively.
<table>
<thead>
<tr>
<th></th>
<th>1992</th>
<th>1993</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports of goods f.o.b.</td>
<td>11,791</td>
<td>9,910</td>
<td>9,459</td>
</tr>
<tr>
<td>Imports of goods f.o.b.</td>
<td>(7,181)</td>
<td>(6,662)</td>
<td>(6,511)</td>
</tr>
<tr>
<td><strong>Trade Balance</strong></td>
<td>4,61</td>
<td>3,248</td>
<td>2,948</td>
</tr>
<tr>
<td>Exports of services</td>
<td>1,053</td>
<td>1,163</td>
<td>371</td>
</tr>
<tr>
<td>Imports of services</td>
<td>(1,810)</td>
<td>(2,726)</td>
<td>(3,007)</td>
</tr>
<tr>
<td><strong>Balance on goods and services</strong></td>
<td>3,853</td>
<td>1,685</td>
<td>312</td>
</tr>
<tr>
<td>Other income received</td>
<td>156</td>
<td>58</td>
<td>49</td>
</tr>
<tr>
<td>Other income paid</td>
<td>(2,494)</td>
<td>(3,335)</td>
<td>(2,986)</td>
</tr>
<tr>
<td><strong>Balance on goods, services and income</strong></td>
<td>1,515</td>
<td>(1,593)</td>
<td>(2,626)</td>
</tr>
<tr>
<td>Current transfers received</td>
<td>817</td>
<td>857</td>
<td>550</td>
</tr>
<tr>
<td>Current transfers paid</td>
<td>(64)</td>
<td>(44)</td>
<td>(52)</td>
</tr>
<tr>
<td><strong>Current balance</strong></td>
<td>2,268</td>
<td>(780)</td>
<td>(2,128)</td>
</tr>
<tr>
<td>Direct investment from abroad</td>
<td>897</td>
<td>1,345</td>
<td>1,959</td>
</tr>
<tr>
<td>Portfolio investment liabilities</td>
<td>1,884</td>
<td>(18)</td>
<td>(27)</td>
</tr>
<tr>
<td>Other investment assets</td>
<td>(5,840)</td>
<td>(1,345)</td>
<td>(1,286)</td>
</tr>
<tr>
<td>Other investment liabilities</td>
<td>(4,725)</td>
<td>(1,026)</td>
<td>(317)</td>
</tr>
<tr>
<td>Net errors and omissions</td>
<td>(122)</td>
<td>(88)</td>
<td>(139)</td>
</tr>
<tr>
<td><strong>Overall balance</strong></td>
<td>(5,638)</td>
<td>(1,911)</td>
<td>(1,938)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and live animals</td>
<td>7,785.5</td>
<td>11,738.4</td>
<td>13,912.9</td>
</tr>
<tr>
<td>Crude materials (inedible) except fuels</td>
<td>2,147.7</td>
<td>3,578.8</td>
<td>4,306.4</td>
</tr>
<tr>
<td>Animal and vegetable oil and fats</td>
<td>715.9</td>
<td>1,002.1</td>
<td>1,325.0</td>
</tr>
<tr>
<td>Chemicals</td>
<td>15,302.5</td>
<td>25,910.4</td>
<td>28,322.6</td>
</tr>
<tr>
<td>Basic manufacturers</td>
<td>21,029.7</td>
<td>32,924.8</td>
<td>39,751.1</td>
</tr>
<tr>
<td>Machinery and transport equipment</td>
<td>37,674.5</td>
<td>59,837.2</td>
<td>70,226.9</td>
</tr>
<tr>
<td>Miscellaneous manufactured articles</td>
<td>4,116.5</td>
<td>7,014.4</td>
<td>6,293.9</td>
</tr>
<tr>
<td>Total (incl. Others)</td>
<td>89,488.2</td>
<td>143,151.2</td>
<td>165,629.4</td>
</tr>
</tbody>
</table>

CHAPTER VI

PRESENTATION AND ANALYSIS OF DATA

This chapter presents the analysis of data collected for the study. The data were presented in tabular form. The frequency-percentage technique was used in the presentation. Analysis of data collected from the survey were based on research questionnaires. For explicity, data from foreign direct investments, Nigerians and CEOs were collected independently and presented jointly.

Presentation of Findings

Data were collected from:

i. Foreign direct investments operating in Nigeria

ii. Nigerian nationals

iii. CEOs of indigenous companies in Nigeria.
### TABLE 15

**NUMBER OF YEARS RESPONDENTS HAVE BEEN WITH THEIR ORGANIZATION**  
(N = 150 respondents)

<table>
<thead>
<tr>
<th>Years with Organization</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year or less</td>
<td>7</td>
<td>4.667</td>
</tr>
<tr>
<td>Between 2 and 5 years</td>
<td>19</td>
<td>12.667</td>
</tr>
<tr>
<td>Between 5 and 8 years</td>
<td>46</td>
<td>30.667</td>
</tr>
<tr>
<td>Between 8 and 11 years</td>
<td>33</td>
<td>22.000</td>
</tr>
<tr>
<td>Between 11 and 14 years</td>
<td>27</td>
<td>18.000</td>
</tr>
<tr>
<td>Between 14 and 17 years</td>
<td>13</td>
<td>8.667</td>
</tr>
<tr>
<td>17 years and more</td>
<td>5</td>
<td>3.333</td>
</tr>
<tr>
<td><strong>Cumulative Total</strong></td>
<td><strong>150</strong></td>
<td><strong>100.000</strong></td>
</tr>
</tbody>
</table>

Figure 3. Number of Years Respondents Have Been with Their Organization.
Descriptive Results

Research Question #1: Researcher wants to know the number of years respondents have been with their organization.

As Table 15 and Figure 3 depicted, 30.67 percent of the respondents had served their organizations for between 5 and 8 years. While 22 percent of the respondents had served between 11 years and 14 years. About 17.14 percent had served their firm for five years or less while 12 percent had service records of fifteen years or more. Finally, 18 percent had spent between 11 and 14 years.

These statistics suggest that a significant percentage of the respondents had the opportunity to familiarize themselves with their companies’ policies, particularly with how top management perceives Nigerian public policy on foreign investment.
TABLE 16
NUMBER OF PEOPLE WHO WORK FOR RESPONDENTS’ FIRM
(N = 150 Respondents)

<table>
<thead>
<tr>
<th>NUMBER OF EMPLOYEES</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>299 Employees or less</td>
<td>5</td>
<td>3.333</td>
</tr>
<tr>
<td>Between 300 and 499 employees</td>
<td>23</td>
<td>15.333</td>
</tr>
<tr>
<td>Between 500 and 599 employees</td>
<td>15</td>
<td>10.000</td>
</tr>
<tr>
<td>Between 600 and 699 employees</td>
<td>37</td>
<td>24.667</td>
</tr>
<tr>
<td>Between 700 and 899 employees</td>
<td>31</td>
<td>20.667</td>
</tr>
<tr>
<td>Between 900 and 999 employees</td>
<td>17</td>
<td>11.333</td>
</tr>
<tr>
<td>Between 1000 and 1500 employees</td>
<td>13</td>
<td>8.667</td>
</tr>
<tr>
<td>Between 1501 and more employees</td>
<td>9</td>
<td>6.000</td>
</tr>
<tr>
<td>Cumulative Total</td>
<td>150</td>
<td>100.000</td>
</tr>
</tbody>
</table>

Figure 4. Number of People who Work for Respondents’ Firm.
Research Question #2: Researcher wants to know the number of people that respondents' firm employ.

Table 16 and Figure 4 show that 24.67 percent of the companies represented had employees of between 600 and 699 people and 20.67 percent employ between 700 and 899 people. These figures help to validate the findings of this study, because most of the foreign investors operating in Nigeria employ between 750 and 1,500 employees.¹

Therefore with a combined total of 71.3 percent employing between 600 and 1,500 or more people, the companies represented in this study are in this respect similar to the general population of foreign investors in Nigeria. Only 28.67 of the companies employ 600 or fewer people compared with the 71.3 percent which employ 600 and more people. However, only 3.3 percent of the companies employ 299 people or less while 15.3 percent employ between 300 and 499 people. This however, does not significantly affect the finding of the study.

### TABLE 17
**NUMBER OF ALIENS EMPLOYED BY RESPONDENTS’ FIRM**
(N = 150 Respondents)

<table>
<thead>
<tr>
<th>NUMBER OF ALIENS EMPLOYED</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>9 aliens or less</td>
<td>33</td>
<td>22.000</td>
</tr>
<tr>
<td>Between 10 and 19 aliens</td>
<td>39</td>
<td>26.000</td>
</tr>
<tr>
<td>Between 20 and 29 aliens</td>
<td>25</td>
<td>16.667</td>
</tr>
<tr>
<td>Between 30 and 39 aliens</td>
<td>23</td>
<td>15.333</td>
</tr>
<tr>
<td>Between 40 and 49 aliens</td>
<td>17</td>
<td>11.333</td>
</tr>
<tr>
<td>Between 50 and 59 aliens</td>
<td>9</td>
<td>6.000</td>
</tr>
<tr>
<td>Between 60 and more aliens</td>
<td>4</td>
<td>2.667</td>
</tr>
<tr>
<td>Cumulative Total</td>
<td>150</td>
<td>100.000</td>
</tr>
</tbody>
</table>

Figure 5. Number of Aliens Employed by Respondents' Firm.
Table 17 and Figure 5 show that 22 percent of the companies represented employed between 9 aliens or less while 26 percent of the companies employed between 10 and 19 aliens. Since no data were available on the average number of aliens employed by foreign investors in Nigeria, it is not possible to determine how closely these figures approximate the actual number of aliens employed by foreign enterprises. However, 16.67 percent of the respondents employ between 20 and 29 aliens while 15.33 percent employ between 30 and 39 aliens in the study. Finally, 20 percent of the respondents employ between 40 and 60 and more aliens. This is true because the Nigerian government's regulation of foreign subsidiaries requires alien companies to reduce the number of their expatriates and replace them with Nigerians.

Analysis and Interpretation of the Findings

This section presents the results of the investigation that was derived from the responses to the research questionnaire. The research questions were designed after a thorough review of the Nigerian political environment and those pieces of legislation on foreign investment were primarily designed to encourage the inflow of foreign capital. To this end, foreign investors were granted many incentives, particularly in the form of tax relief. However, in an effort to regulate the activities of foreign establishments in Nigeria, General O. Obasanjo enacted the Nigerian enterprise promotion decree (Indigenization Decree) in 1977 as amended in 1979.

A lot of these policy changes usually occur, especially as a new successful government will always moderate, eliminate or add to the policies that already exist. This is done to represent the interest of the people. The majority of the changes also affect the FDI. The researcher shall incorporate them into the research questionnaire and find out to what extent they impact on Nigeria.
TABLE 18
WHAT MOTIVATES YOU TO ESTABLISH YOUR BUSINESS IN NIGERIA?
(N = 150 Respondents)

<table>
<thead>
<tr>
<th>PERCEPTION</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Stability</td>
<td>2</td>
<td>1.333</td>
</tr>
<tr>
<td>Cheap Labor Supply</td>
<td>24</td>
<td>16.000</td>
</tr>
<tr>
<td>Abundant Raw Materials</td>
<td>14</td>
<td>9.000</td>
</tr>
<tr>
<td>Profit Motive</td>
<td>110</td>
<td>73.333</td>
</tr>
<tr>
<td>Others (Please Specify)</td>
<td>0</td>
<td>0.000</td>
</tr>
<tr>
<td><strong>Cumulative Total</strong></td>
<td><strong>150</strong></td>
<td><strong>100.000</strong></td>
</tr>
</tbody>
</table>

Fig. 6. What Motivates You to Establish Your Business in Nigeria?
Research Question #4  What Prompted the Foreign Direct Investors to Establish Their Companies in Nigeria?

As Table 18 and Figure 6 show, 1.33 percent of the respondents said that it was as a result of political stability that they decided to invest in Nigeria. On the other hand, 16 percent and 9 percent of respondents claim that cheap labor supply and an abundant supply of raw materials, respectively, were their prime motives for investment in Nigeria. Finally, 73.33 percent of the respondents indicated that the return on investment was greater than perceived political instability in Nigeria. Therefore, they have invested in Nigeria based on profit motives.
TABLE 19
PERCEPTION OF POLITICAL UNREST/MILITARY TAKE OVERS IN NIGERIA
(N = 150 Respondents)

<table>
<thead>
<tr>
<th>PERCEPTIONS</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not at all Frequent</td>
<td>2</td>
<td>1.333</td>
</tr>
<tr>
<td>Not Very Frequent</td>
<td>4</td>
<td>2.667</td>
</tr>
<tr>
<td>Somewhat Frequent</td>
<td>32</td>
<td>21.333</td>
</tr>
<tr>
<td>Very Frequent</td>
<td>84</td>
<td>56.000</td>
</tr>
<tr>
<td>Extremely Frequent</td>
<td>28</td>
<td>18.667</td>
</tr>
<tr>
<td>Cumulative Total</td>
<td>150</td>
<td>100.000</td>
</tr>
</tbody>
</table>

Fig. 7. Perception of Political Unrest/Military Take Overs in Nigeria.
Research Question #5  How Foreign Investors Perceive Political Unrest/Military Takeovers in Nigeria

As Table 19 and Figure 7 show, 1.333 percent and 2.67 percent of the respondents, respectively, maintain that the political unrest/military takeovers are "not at all frequent" and "not very frequent." This means that a total of 4 percent of the respondents must not have been fully informed of the events that are happening in Nigeria or that they are gaining a lot from the military government to have given the above answer. However, 56 percent of the respondents commented they perceived the political unrest/military takeovers as "very frequent." Also 18 percent concluded that the political unrest/military takeovers occur "extremely frequent." This group of respondents have compared Nigerian political stability with that of Ghana as to say that Nigerian military takeovers are "extremely frequent." Nonetheless, the final group of respondents (21.33 percent) said that political/military interventions occur "somewhat frequent." Above all, a total of 74.67 percent maintain that political/military interventions occur more often than not.
TABLE 20

RESPONDENTS PERCEPTIONS OF NIGERIAN CONTROL OF FOREIGN BUSINESS WHEN THERE IS POLITICAL INSTABILITY
(N = 150 Respondents)

<table>
<thead>
<tr>
<th>PERCEPTIONS</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not at all restrictive</td>
<td>4</td>
<td>2.667</td>
</tr>
<tr>
<td>Not very restrictive</td>
<td>42</td>
<td>28.000</td>
</tr>
<tr>
<td>Somewhat restrictive</td>
<td>86</td>
<td>57.333</td>
</tr>
<tr>
<td>Very restrictive</td>
<td>14</td>
<td>9.333</td>
</tr>
<tr>
<td>Extremely restrictive</td>
<td>4</td>
<td>2.667</td>
</tr>
<tr>
<td><strong>Cumulative Total</strong></td>
<td><strong>150</strong></td>
<td><strong>100.000</strong></td>
</tr>
</tbody>
</table>

Fig. 8. Respondents' Perceptions of Nigerian Control of Foreign Businesses when There is Political Instability.
Research Question #6 Respondents' Perception of Nigerian Control of Foreign Business When There is Political Instability

As shown in Table 20 and Figure 8, 57.33 percent of the respondents said that Nigerian control on foreign businesses are "somewhat restrictive." Although it is not certain why the majority of the subjects gave this answer, one possible explanation is that they wanted to avoid a controversial response. However, it is not unlikely that 57.33 percent of the respondents compared Nigerian incentives and disincentive legislation on foreign investment before responding to this question.

Another 28 percent of the respondents said that Nigerian controls over foreign business are "not very restrictive," compared with 9.33 percent who rated the controls as "very restrictive." However, 2.7 percent of the respondents answered that Nigerian controls on foreign businesses in Nigeria are "extremely restrictive" and "not at all restrictive" respectively.
TABLE 21
RESPONDENTS PERCEPTIONS OF CHANGES IN NIGERIAN GOVERNMENTAL CONTROL OF FOREIGN BUSINESSES
(N = 150 Respondents)

<table>
<thead>
<tr>
<th>PERCEPTIONS</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not at all restrictive</td>
<td>3</td>
<td>2.000</td>
</tr>
<tr>
<td>Not very restrictive</td>
<td>5</td>
<td>3.333</td>
</tr>
<tr>
<td>Somewhat restrictive</td>
<td>33</td>
<td>22.000</td>
</tr>
<tr>
<td>Very restrictive</td>
<td>80</td>
<td>54.334</td>
</tr>
<tr>
<td>Extremely restrictive</td>
<td>29</td>
<td>19.333</td>
</tr>
<tr>
<td>Cumulative Total</td>
<td>150</td>
<td>100.000</td>
</tr>
</tbody>
</table>

Fig. 9. Respondents' Perceptions of Changes in Nigerian Governmental Control of Foreign Businesses.
Research Question #7  Respondents' Perception of Changes in Nigerian Governmental Control of Foreign Direct Investment

Table 21 and Figure 9 show that 53.33 percent of the respondents felt that changes in Nigerian governmental control of FDI are "very frequent." This is not surprising since successive Nigerian civilian and military administrations have been known to make frequent changes in the areas of profit repatriation, percentage of imported raw materials, and tax rates.

Further buttressing this finding is the fact that an additional 19.33 percent of the respondents rated changes in Nigerian governmental controls of FDI as "extremely frequent." By contrast, only 3.33 percent of the subjects perceived these changes in governmental controls as "not very frequent." This last figure is statistically insignificant compared with the cumulative 72.66 percent derived from the "very frequent" and "extremely frequent" categories (53.33 and 19.33 respectively). Therefore the perception of foreign investors is that Nigerian governmental control of foreign investment is interrupted too much. This implies that an unstable FDI climate exists in Nigeria.
TABLE 22
PERCEPTION OF THE LEVEL OF MORALE OF FOREIGN DIRECT INVESTORS DOING BUSINESS IN NIGERIA DURING POLITICAL INSTABILITIES
(N = 150 Respondents)

<table>
<thead>
<tr>
<th>PERCEPTIONS</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not at all discouraging</td>
<td>0</td>
<td>0.000</td>
</tr>
<tr>
<td>Not very discouraging</td>
<td>8</td>
<td>5.333</td>
</tr>
<tr>
<td>Somewhat discouraging</td>
<td>56</td>
<td>37.333</td>
</tr>
<tr>
<td>Very discouraging</td>
<td>70</td>
<td>46.666</td>
</tr>
<tr>
<td>Extremely discouraging</td>
<td>16</td>
<td>10.666</td>
</tr>
<tr>
<td>Cumulative Total</td>
<td>150</td>
<td>100.000</td>
</tr>
</tbody>
</table>

Fig. 10. Perception of the Level of Morale of Foreign Direct Investors Doing Business in Nigeria During Political Instabilities.
Research Question #8  Level of Morale of Foreign Investors in Business in Nigeria When There is Political Unrest

As Table 22 and Figure 10 show, 46.67 percent of the respondents thought that the level of morale in business in Nigeria during periods of political unrest is "very discouraging to foreign investors." However, 37.33 percent of the respondents believed that the morale in doing business in Nigeria under political instability is only "somewhat discouraging to foreign investors." The fact that such a high percentage of the respondents exhibited a relatively neutral perception of political instability suggests that foreign investors probably do not feel very strongly that political instability could significantly discourage foreign investors from investing in Nigeria. In this situation, these respondents may have considered political instability in Nigeria the return on investment to have been able to come to their conclusion.

Only 10.67 percent of the respondents said that political instability is "extremely discouraging to foreign investors." None of the respondents, however, rated political instability as "not at all discouraging to foreign investors." This is not surprising, since it is not likely that such restrictive environment would have a neutral effect on the inflow of foreign capita into the Nigerian economy.
TABLE 23
RESPONDENTS' PERCEPTION OF THE NIGERIAN FOREIGN INVESTMENT CLIMATE
(N = 150 Respondents)

<table>
<thead>
<tr>
<th>PERCEPTIONS</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not at all favorable</td>
<td>0</td>
<td>0.000</td>
</tr>
<tr>
<td>Not very favorable</td>
<td>40</td>
<td>26.667</td>
</tr>
<tr>
<td>Somewhat favorable</td>
<td>98</td>
<td>65.333</td>
</tr>
<tr>
<td>Very favorable</td>
<td>12</td>
<td>8.000</td>
</tr>
<tr>
<td>Extremely favorable</td>
<td>0</td>
<td>0.000</td>
</tr>
<tr>
<td><strong>Cumulative Total</strong></td>
<td><strong>150</strong></td>
<td><strong>100.000</strong></td>
</tr>
</tbody>
</table>

Fig. 11. Respondents' Perception of the Nigerian Foreign Investment Climate.
Research Question #9  The Perceptions of Foreign Investors on the Foreign Investment Climate in Nigeria

Table 23 and Figure 11 show the Nigerian Foreign Investment Climate. Of the 150 respondents who participated in this study, none perceived the Nigerian foreign investment climate to be "not at all favorable." Also, none of the respondents described the foreign investment climate as "extremely favorable." These findings can be explained by taking into account the fact that, as discussed in the previous chapter, Nigeria has promulgated numerous laws and decrees with concessions to foreign investors. Hence, it is not surprising that none of the subjects described the nation's foreign investment climate as "not at all favorable."

The finding suggests that the Nigerian investment climate is not judged to be totally unfavorable by foreign investors. It is probable that none of the respondents rated the investment climate as "extremely favorable" because of the restrictive regulations implemented by the Nigerian government in the post-civil war era to control the activities of foreign establishment (Indigenization decree prorogation 1972).

A majority of the respondents (65.33%) described Nigeria's Foreign investment climate as "somewhat favorable." Perhaps the respondents in this category took into consideration Nigeria's "incentive" and "disincentive" legislation and decrees in their estimation of the nation's foreign investment climate. The results of their analyses probably compelled them to conclude that the investment climate is "somewhat favorable" or "somewhat unfavorable." This reaction seems to suggest that the investment climate is favorable enough to justify the presence of foreign enterprises. However, 26.67 percent of the respondents determined that the Nigerian foreign investment climate is "not very favorable." One possible explanation for the reaction of these respondents is that they only took Nigeria's restrictive regulations into consideration, to the exclusion of the nation's incentive-related legislation on foreign investment. Only 8 percent of the respondents determined that the climate is "very favorable" for foreign investment.
TABLE 24

THE DEGREE EACH SUCCESSIVE GOVERNMENT HAS BEEN SUPPORTIVE IN CREATING A CONDUCIVE CLIMATE FOR FOREIGN INVESTMENT IN NIGERIA
(N = 150 Respondents)

<table>
<thead>
<tr>
<th>PERCEPTIONS</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not at all supportive of foreign investment</td>
<td>24</td>
<td>16.000</td>
</tr>
<tr>
<td>Not very supportive of foreign investment</td>
<td>110</td>
<td>73.333</td>
</tr>
<tr>
<td>Somewhat supportive of foreign investment</td>
<td>14</td>
<td>9.333</td>
</tr>
<tr>
<td>Very supportive of foreign investment</td>
<td>2</td>
<td>1.333</td>
</tr>
<tr>
<td>Extremely supportive of foreign investment</td>
<td>0</td>
<td>0.000</td>
</tr>
<tr>
<td>Cumulative Total</td>
<td>150</td>
<td>100.000</td>
</tr>
</tbody>
</table>

Fig. 12. The Degree Each Successive Government Has Been Supportive in Creating a Conducive Climate for Foreign Investment in Nigeria.
Research Question #10  The Degree To Which Each Successive Government\(^2\) Has Been Supportive of the Creation of A Conducive Climate For Foreign Investors in Nigeria

Table 24 and Figure 12 show that an overwhelming majority of the respondents (73.33%) said that successive governments are "not very supportive of the foreign investment" climate. None of the respondents perceived the successive government to be "extremely supportive to the foreign investment" climate. Only 1.33 percent said the successive governments are "very supportive of the foreign investment" climate in Nigeria.

However, 16 percent of the respondents judged the successive government to be "not at all supportive of the foreign investment" climate in Nigeria. Finally, only 9.33 percent maintain that the successive government is "somewhat supportive of the foreign investment" climate in Nigeria.

\(^2\)From 1960 to 1997, Nigeria has had ten different governments at the national level, led by Sir Abubakar Tafawa Balewa, Major-General Aguiyi Ironsi, General Yakubu Gowon, General Murtala Muhammad, General Obusegun Obasanjo, Alhaji Shehu Shagari, General Muhamadu Buhari, General Ibrahim Bahangida, Chief Ernest Shonekan, and General Sani Abacha.
TABLE 25

EFFECT OF INDIGENIZATION ON FDI IN NIGERIA

QUESTION: WHAT EFFECT DO YOU THINK INDIGENIZATION HAD ON YOUR COMPANY?
(N = 150 Respondents)

<table>
<thead>
<tr>
<th>ANSWER</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discouraged equity participation</td>
<td>9</td>
<td>6.00</td>
</tr>
<tr>
<td>Discouraged further diversification</td>
<td>97</td>
<td>64.67</td>
</tr>
<tr>
<td>Bred inefficiency</td>
<td>31</td>
<td>20.67</td>
</tr>
<tr>
<td>Other (please specify)</td>
<td>13</td>
<td>8.67</td>
</tr>
<tr>
<td>Total</td>
<td>150</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Fig. 13. Effect of Indigenization on FDI in Nigeria.
Question: What effect do you think Indigenization had on your company?
Research Question #11  The Effect That Indigenization Exercise Had on FDI

A total of 150 questionnaires were distributed to FDI operating in Nigeria. Table 25 and Figure 13 shows that 6 percent of the respondents asserted that the Indigenization exercise discouraged equity participation. Sixty-four point seven percent also agreed that it discouraged further expansion of their company portfolio in Nigeria, 20.67 percent declared that it bred inefficiency, while 8.67 percent gave varying reasons, such as being apprehensive of Nigerian laws affecting the FDI climate.
TABLE 26
IMPACT OF NIGERIAN POLICY ON DIVIDEND AND CAPITAL REPATRIATION ON FDI IN NIGERIA (50% LIMIT ON FDI REPATRIATION OF EARNINGS)
(N = 150 Respondents)

<table>
<thead>
<tr>
<th>ANSWER</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discourages further investment by your company in Nigeria</td>
<td>95</td>
<td>63.333</td>
</tr>
<tr>
<td>Encourages investment of unrepatriated income in Nigeria</td>
<td>13</td>
<td>8.666</td>
</tr>
<tr>
<td>Stifles research and development activity of your company</td>
<td>20</td>
<td>13.333</td>
</tr>
<tr>
<td>Causes sale of investment</td>
<td>20</td>
<td>13.333</td>
</tr>
<tr>
<td>Others: Going out of Business</td>
<td>2</td>
<td>1.333</td>
</tr>
<tr>
<td>Cumulative Total</td>
<td>150</td>
<td>100.000</td>
</tr>
</tbody>
</table>

Fig. 14. Impact of Nigerian Policy on Dividend and Capital Repatriation on FDI in Nigeria (50% limit on FDI Repatriation of Earnings).
Research Question #12  The Impact of Nigerian Policy on Dividend and Capital Repatriation (50% Limit on Foreign Investors' Repatriation of Earnings)

Table 26 and Figure 14 show that 63.33 percent of the executives of the foreign investors studied asserted that Nigeria dividend and capital of repatriation policy "discourages further investment by their companies in Nigeria," 8.67 percent declared that it encourages investment in Nigeria. One group of 13.33 percent, and another 13.33 percent declared respectively that it stifles research efforts and causes sale of investment. Only 1.33 percent had given varying responses, such as going out of business. The CEOs surveyed also identified poor policy on dividend repatriation as retarding foreign investment in Nigeria.

One possible explanation for this unequivocal reaction is the desire for the foreign investors to repatriate a sizable percentage of their profits to their countries of origin. This desire, however, is directly at odds with one of the objectives of the Nigerian government, which is to compel foreign establishment to reinvest 50 percent or more of their profits in the Nigerian economy.

Also, in Question #4 of the questionnaire administered to Nigerians, a majority (83%) declared that the Nigerian policy on dividends and capital repatriation on foreign investors discourages capital inflow into Nigeria. The CEOs surveyed also identified poor policy on divided repatriation as retarding foreign direct investment in Nigeria.
### TABLE 27

**ASSESSMENT OF NIGERIAN TAX RATE**  
(N = 150 Respondents)

<table>
<thead>
<tr>
<th>RESPONSE</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excessively high</td>
<td>20</td>
<td>13.333</td>
</tr>
<tr>
<td>High</td>
<td>100</td>
<td>66.667</td>
</tr>
<tr>
<td>Moderate</td>
<td>30</td>
<td>20.000</td>
</tr>
<tr>
<td>Low</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Too low</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Cumulative Total</strong></td>
<td><strong>150</strong></td>
<td><strong>100.000</strong></td>
</tr>
</tbody>
</table>

![Fig. 15. Assessment of Nigerian Tax Rate.](image-url)
Research Question #6  Designed for Nigerians. The group assessments
tax rates and how they negatively affect
Foreign Businesses

The following response was obtained from Nigerians. Table 27 and Figure 15
above depict that 13.33 percent of the respondents asserted that the Nigerian tax rate was
excessively high. A majority, 66.67 percent, declared the tax rate high, 20 percent agreed
that it was moderate. None agreed that the tax rate was low or too low.

Also, in Questions #8 and #9 of the questionnaire designed for CEO's of
indigenous companies in Nigeria, they declared that the tax rates were high among other
policies and that they negatively affected foreign investment in Nigeria.

Research Question #13  Whether or not the Nigerian market and infra-
structural facilities were sufficient incentives
to attract Foreign Direct Investment to Nigeria?

From the data collected and analyzed, 97.33 percent of the respondents answered
"no," which means that the market and infrastructural facilities (support system) do not
constitute sufficient incentives to attract Foreign Direct Investment to Nigeria. However,
2.64 percent of the respondents answered yes," that there is enough market potential and
infrastructure that could give enough incentives to foreign investors. Moreover, in
Questions #5a and #5b of the questionnaire designed for Nigerians, regarding the infra-
structural facilities and market attractiveness, they indicated that it had a negative effect on
foreign investors.
TABLE 28
RESPONDENTS' PERCEPTIONS REGARDING WHETHER NIGERIA WOULD HAVE ATTRACTED MORE FOREIGN DIRECT INVESTMENT (FDI) IF SHE WAS POLITICALLY STABLE (N = 150 Respondents)

<table>
<thead>
<tr>
<th>PERCEPTIONS</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not at all likely</td>
<td>0</td>
<td>0.000</td>
</tr>
<tr>
<td>Not very likely</td>
<td>16</td>
<td>10.667</td>
</tr>
<tr>
<td>Somewhat likely</td>
<td>42</td>
<td>28.000</td>
</tr>
<tr>
<td>Very likely</td>
<td>72</td>
<td>48.000</td>
</tr>
<tr>
<td>Extremely likely</td>
<td>20</td>
<td>13.333</td>
</tr>
<tr>
<td>Cumulative Total</td>
<td>150</td>
<td>100.000</td>
</tr>
</tbody>
</table>

Fig. 16. Respondents' Perceptions Regarding Whether Nigeria Would Have Attracted More Foreign Direct Investment if She was Politically Stable.
Research Question #14  The Perceptions of Whether Nigeria Would Have Attracted More Foreign Direct Investment (FDI) if the Political Environment Had Been Stable

Table 28 and Figure 16 show that 48 percent of the respondents said that it is "very likely" that Nigeria would have attracted more foreign direct investors if the political environment had been stable. In contrast, none of the respondents believed that it is "not at all likely" that Nigeria would have attracted more foreign investment if the country was politically stable.

Furthermore, 13.33 percent of the respondents believed that it is "extremely likely" that Nigeria would have attracted more foreign capital if the political environment had been stable. Hence, the majority of the respondents felt that it is likely that Nigeria would have attracted more foreign capital if the political environment had been stable.

By the same token, this same question was also presented to the Nigerian CEOs respectively, that Nigeria would have attracted more foreign investors if it was politically stable. To Nigerians, 50 percent said "very likely" and 15 percent said "extremely likely." This constitutes 65 percent who were highly in favor of the fact that Nigeria would have attracted more foreign direct investors if there was political stability. However, 72 percent of the CEOs agreed ("very likely and extremely likely") that Nigeria would have attracted more foreign investors had the political environment been stable.
TABLE 29

RESPONDENTS’ PERCEPTIONS REGARDING WHETHER NIGERIA WOULD HAVE ATTRACTED MORE FOREIGN INVESTMENT IF LAWS LIMITING REPATRIATION OF PROFITS HAD NOT BEEN IMPOSED
(N = 150 Respondents)

<table>
<thead>
<tr>
<th>PERCEPTIONS</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not at all likely</td>
<td>0</td>
<td>0.000</td>
</tr>
<tr>
<td>Not very likely</td>
<td>14</td>
<td>9.333</td>
</tr>
<tr>
<td>Somewhat likely</td>
<td>46</td>
<td>30.667</td>
</tr>
<tr>
<td>Very likely</td>
<td>82</td>
<td>54.667</td>
</tr>
<tr>
<td>Extremely likely</td>
<td>8</td>
<td>5.333</td>
</tr>
<tr>
<td>Cumulative Total</td>
<td>150</td>
<td>100.000</td>
</tr>
</tbody>
</table>

Fig. 17. Respondents’ Perceptions Regarding Whether Nigeria Would Have Attracted More Foreign Investment if Laws Limiting Repatriation of Profits Had Not Been Imposed.
Research Question #15  Respondents' Perception of Whether Nigeria Would Have Attracted More Foreign Direct Investment (FDI) if Laws Limiting Repatriation of Profit Had Not Been Imposed

Research Questions #15 and #16 were presented taking into account the harsh Nigerian Indigenization Decree promoted to regulate the activities of foreign investment in Nigeria.

Table 29 and Figure 17 show that 54.67 percent of the respondents believe that it is "very likely" that Nigeria would have attracted more foreign capital if laws limiting repatriation of profit had not been imposed. The fact that none of the respondents answered "not at all likely" suggests that foreign investors consider this policy to be a major impediment to investment in a foreign country (Nigeria). Only 5.33 percent of the respondents thought it "extremely likely" that Nigeria would have attracted more foreign capital if laws limiting repatriation of profit were not imposed. However, 9.33 percent of the respondents believed that it is "not very likely" compared with a cumulative total of 60 percent who determined that it is likely that Nigeria would have attracted more foreign direct investment if laws limiting repatriation of profit had not been imposed.
TABLE 30

RESPONDENTS' PERCEPTIONS REGARDING WHETHER NIGERIA WOULD HAVE ATTRACTED MORE FOREIGN INVESTMENT IF CERTAIN INDUSTRIES HAD NOT BEEN EXCLUSIVELY RESERVED FOR NIGERIANS
(N = 150 Respondents)

<table>
<thead>
<tr>
<th>PERCEPTIONS</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not at all likely</td>
<td>0</td>
<td>0.000</td>
</tr>
<tr>
<td>Not very likely</td>
<td>18</td>
<td>12.000</td>
</tr>
<tr>
<td>Somewhat likely</td>
<td>55</td>
<td>36.667</td>
</tr>
<tr>
<td>Very likely</td>
<td>73</td>
<td>48.667</td>
</tr>
<tr>
<td>Extremely likely</td>
<td>4</td>
<td>2.667</td>
</tr>
<tr>
<td>Cumulative Total</td>
<td>150</td>
<td>100.000</td>
</tr>
</tbody>
</table>

Fig. 18. Respondents' Perceptions of Whether Nigeria Would Have Attracted More Foreign Investment If Certain Industries Had Not Been Exclusively Reserved for Nigerians.
Research Question #16  Perceived Perception of Whether Nigeria Would Have Attracted More Foreign Direct Investment (FDI) if Certain Industries Had Not been Exclusively Reserved for Nigerians

To 48.67 percent of the respondents, it is "very likely" that Nigeria would have attracted more foreign direct investment if certain industries were not exclusively reserved for Nigerians. In Table 30 and Figure 18, however, 36.67 percent of the respondents believed that it is only "somewhat likely." Another 12 percent of the respondents believed that it is "not very likely" that Nigeria would have attracted more foreign capital in the absence of this regulation, compared to 2.67 percent who thought it "extremely likely."

Research Question #17  Perception of Whether Restriction of Employment of Aliens (Expatriate Quotas) is Deterring Foreign Direct Investment (FDI) in Nigeria

About 146, or 97.33 percent, of the respondents from FDI declared "yes" while only 2.64 percent declared "no." In the same vein, the same question was given to both Nigerians and the CEOs in Questions #10 and #9 designed for them respectively. Here, 80 percent of Nigerians asserted that such restrictions discourage foreign direct investment in Nigeria. The majority, 83.33 percent (about 25 CEOs out of the 30 surveyed) of the CEOs identified the restriction of employment of aliens as one of the policies that negatively affect foreign direct investment in Nigeria.
Research Questions #18 and #19 were designed to address the foreign direct investors. And similar questions, 6.11 and 6.12 were designed to address Nigerians; the researcher wants to know the effectiveness of political and technological conditions in attracting foreign direct investment into Nigeria.

In Question #18, 97.33 percent asserted that it is "very discouraging," for FDI, and in Question #19, 97.33 percent responded in the negative, maintaining that political conditions in Nigeria are not encouraging foreign investment in the country. Also, in Questions #11 and #12 addressing Nigerians on whether the political situation and technological advancement in Nigeria attract foreign direct investment, 80 percent of the respondents answered "no," while 20 percent responded in the affirmative.

Research Questions #20, #13 and #10 were designed to address both the FDI, Nigerians and the CEOs respectively; the researcher wants to know whether the Nigerian investment climate (with the presence of political instability) encourages Foreign Direct Investment (FDI) in Nigeria.

The following response was obtained. Table 31 shows that 94.67 percent of FDI, Nigerians, and CEOs felt that when there is political unrest in Nigeria, the investment climate would not be encouraging for foreign direct investment in Nigeria. On the other hand, 5.33 percent, 12 percent and 13.33 percent of FDI, Nigerians and CEOs respectively responded to the above question.
Research Questions #21, #14 and #8 were designed for FDI, Nigerians and CEOs to address the issue of whether some government policies actually discourage foreign direct investment, and the following response was obtained.

As Table 32 shows, 94 percent, 85 percent and 90 percent of the respondents (FDI, Nigerians and CEOs) respectively agreed that some government policies on FDI in Nigeria retard foreign direct investment whereas 6 percent, 15 percent and 10 percent of the respondents (FDI, Nigerians and CEOs) respectively disagreed by selecting the answer "no" that is to say that some Nigerian government policies "do not" discourage foreign direct investment.

Furthermore, in Research Question #15 designed for Nigerians, an attempt was made to ascertain the source of foreign capital that possesses the greatest force in putting the country into the path of fast development, and the following response was obtained.
TABLE 31
RESPONDENTS' REACTION TO NIGERIAN INVESTMENT CLIMATE UNDER INSTABILITY

**QUESTION:** Do you think that Nigeria's Investment Climate Encourages Foreign Direct Investment in Nigeria when there is Political Instability?

<table>
<thead>
<tr>
<th></th>
<th>&quot;NO&quot;</th>
<th>&quot;YES&quot;</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency (FDI)</td>
<td>142</td>
<td>8</td>
<td>150</td>
</tr>
<tr>
<td>Frequency (CEOs)</td>
<td>88</td>
<td>12</td>
<td>100</td>
</tr>
<tr>
<td>Frequency (Nigerians)</td>
<td>26</td>
<td>4</td>
<td>30</td>
</tr>
<tr>
<td>Cumulative Total of Frequency</td>
<td></td>
<td></td>
<td>280</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>&quot;NO&quot;</th>
<th>&quot;YES&quot;</th>
<th>% TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage (FDI)</td>
<td>94.67%</td>
<td>5.33%</td>
<td>100.00%</td>
</tr>
<tr>
<td>Percentage (Nigerians)</td>
<td>88.00%</td>
<td>12.00%</td>
<td>100.00%</td>
</tr>
<tr>
<td>Percentage (CEOs)</td>
<td>86.67%</td>
<td>13.33%</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

Fig. 19. Respondents' Reaction to Nigerian Investment Climate Under Instability.
TABLE 32
RESPONDENTS' REACTION TO EFFECTIVENESS OF SOME NIGERIAN GOVERNMENT POLICIES ON FOREIGN DIRECT INVESTMENT

QUESTION: In your opinion, do you think that some Nigerian government Economic Policies on Foreign Direct Investment discourage FDI in Nigeria?

<table>
<thead>
<tr>
<th></th>
<th>&quot;YES&quot;</th>
<th>&quot;NO&quot;</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency (FDI)</td>
<td>141</td>
<td>9</td>
<td>150</td>
</tr>
<tr>
<td>Frequency (Nigerians)</td>
<td>85</td>
<td>15</td>
<td>100</td>
</tr>
<tr>
<td>Frequency (CEOs)</td>
<td>27</td>
<td>3</td>
<td>30</td>
</tr>
<tr>
<td>Cumulative Total of Frequency</td>
<td></td>
<td></td>
<td>280</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>&quot;YES&quot;</th>
<th>&quot;NO&quot;</th>
<th>% TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage (FDI)</td>
<td>94%</td>
<td>6%</td>
<td>100.00%</td>
</tr>
<tr>
<td>Percentage (Nigerians)</td>
<td>85%</td>
<td>15%</td>
<td>100.00%</td>
</tr>
<tr>
<td>Percentage (CEOs)</td>
<td>90%</td>
<td>10%</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

Fig. 20. Respondents' Reaction to Effectiveness of Some Nigerian Government Policies on Foreign Direct Investment.
TABLE 33
EXTERNAL FINANCING SOURCE WITH HIGHEST PROMISING DEVELOPMENT CAPACITY
(Which of the Following Do You Think Possesses More Potential of Ushering Faster Rate of Economic Development?)
(N = 150 Respondents)

<table>
<thead>
<tr>
<th>ANSWER</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Investment</td>
<td>85</td>
<td>55.666</td>
</tr>
<tr>
<td>External Loans</td>
<td>10</td>
<td>6.667</td>
</tr>
<tr>
<td>Foreign Aids</td>
<td>40</td>
<td>26.667</td>
</tr>
<tr>
<td>External Grants</td>
<td>15</td>
<td>10.000</td>
</tr>
<tr>
<td>Others (please specify)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>150</td>
<td>100</td>
</tr>
</tbody>
</table>

Fig. 21. External Financing Source with Highest Promising Development Capacity (Which of the Following Do You Think Possesses More Potential of Ushering Faster Rate of Economic Development?).
Research Question #19  Designed for Nigerians. Research the source of foreign capital that possesses greatest force in putting a country into path of fast development.

Table 33 and Figure 21 reveal that 55.66 percent of the respondents agreed that foreign investment possesses greatest capacity of ushering the country into a path of faster rate of development. 6.67 percent, 26.67 percent, and another 10.00 percent of the respondents declared that external loans, foreign aid and external grants respectively possess such capacity.

Summary of Findings

The primary objective of this research was to ascertain the perceptions of the impact of political instability on FDI in Nigeria. The results are as follows:

(1) Nigerian control on foreign businesses are "somewhat restrictive."
(2) Changes in Nigerian government controls of foreign businesses are "very frequent."
(3) The level of morale of foreign direct investors doing business in Nigeria is low.
(4) Nigerian political instability is "very discouraging to foreign investors."
(5) The Nigerian foreign investment climate is "somewhat favorable" enough as to justify the presence of foreign enterprises.
(6) The Indigenization Decree in Nigeria serves as a disincentive to FDI.
(7) Nigerian policies on dividend and capital repatriation "discourage further FDI in Nigeria."
(8) The Nigerian market and infrastructural facilities do not constitute enough incentives for foreign direct investment in Nigeria.
(9) The Nigerian tax rate is "high."
(10) It is "very likely" that Nigeria would have attracted more foreign direct investment (FDI) if it had been politically stable.

(11) It is "very likely" that Nigeria would have attracted more foreign investment if laws limiting repatriation of profits had not been imposed.

(12) It is "very likely" that Nigeria would have attracted more foreign direct investment if certain industries were not exclusively reserved for Nigerians.

(13) The Nigerian expatriate quota on foreign businesses is "somewhat discouraging" to foreign direct investors.

(14) Political and technological conditions are "not attractive enough" to encourage Foreign Direct Investment (FDI).

(15) The Indigenization era led to the erosion of foreign direct investors' confidence in Nigeria.

(16) Most of the companies operating in Nigeria started before the promulgation of the Indigenization Decree, most for profit motive and scarcely as a result of specific incentive by the government.

(17) The level of foreign investment in Nigeria is not commensurate with the level of incentive given by the Nigerian government.

(18) The rate of increase of stock of foreign investment in Nigeria is appalling.

(19) Existing foreign investors will invest more in Nigeria if lapses in existing policies are amended.
Test of Validity of Hypothesis

The first task in analysis of data presented is test of the validity of the hypothesis formulated in Chapter I. Personal interviews and research questionnaires form the basis of data collection for testing the hypothesis.

Hypothesis I

1. \( H^0 \) - Some Nigerian Government Economic Policies Discourage Foreign Direct Investment (FDI) in Nigeria.
\( H^1 \) - Some Nigerian Government Economic Policies Do Not Discourage Foreign Direct Investment (FDI) in Nigeria.

In order to arrive at a statistically acceptable inference, our conclusion should be made taking into account the following statements. If the calculated chi-square fall in the upper or lower rejection region, then we reject the Null hypothesis (\( H^0 \)) and accept the alternative hypothesis (\( H^1 \)). If the calculation falls within the area bounded by the upper and lower region, then we accept the Null hypothesis.

In testing this hypothesis, we use data collected from Research Questions #20, #14 and #8 designed for Foreign Direct Investors, Nigerians and CEOs, as it shows in Table 34.
### TABLE 34
**RESPONDENTS' ANSWERS ON TABLE 32**

<table>
<thead>
<tr>
<th>Classes of Respondents</th>
<th>Response Yes Column</th>
<th>Response No Column</th>
<th>Total Row</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Direct Investors</td>
<td>141</td>
<td>9</td>
<td>150</td>
</tr>
<tr>
<td>Nigerians</td>
<td>85</td>
<td>15</td>
<td>100</td>
</tr>
<tr>
<td>CEOs Personnel</td>
<td>27</td>
<td>3</td>
<td>30</td>
</tr>
<tr>
<td>Column Total</td>
<td>253</td>
<td>27</td>
<td>280</td>
</tr>
</tbody>
</table>

We obtain the expected frequency by using the Formula

\[
EF = \frac{CT \times R}{GT}
\]

Where
- \(EF\) = Expectancy Frequency
- \(CT\) = Column Total
- \(R\) = Row
- \(GT\) = Grand Total

### TABLE 35
**CALCULATION OF EXPECTED FREQUENCY**

<table>
<thead>
<tr>
<th>Yes Column</th>
<th>No Column</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Observed</td>
<td>Expected</td>
<td>Observed</td>
</tr>
<tr>
<td>141</td>
<td>135.5</td>
<td>9</td>
</tr>
<tr>
<td>85</td>
<td>90.4</td>
<td>15</td>
</tr>
<tr>
<td>27</td>
<td>27.1</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>253</td>
<td>27</td>
</tr>
</tbody>
</table>

Formula

\[
X^2 = \sum \frac{(O - E)^2}{E}
\]

Where
- \(X^2\) = Chi-Square
- \(O\) = Observed frequency
- \(E\) = Expected frequency
\[0.2232 + 0.3225 = 0.0004 + 2.862 + 3.0375 + 0.0034 = 5.6732\]

Degree of Freedom \[V = (h - 1)(K - 1)\]
\[= (2 - 1)(3 - 1)\]
\[= 1 \times 2\]
\[= 2\]

where \(v = \text{degree of freedom}\), \(h = \text{number of cases}\), \(k = \text{number of categories}\)

At 5 percent level of significance, critical value for \(X^2\) (0.05) = 5.991

Also at 10 percent level of significance, critical value for \(X^2\) (0.10) = 9.236

**Decision Rule**

Accept Null Hypothesis if at 5% and at 10%

\[X^2 = 5.991\]
\[X^2 = 9.236\]

That is as a result of political instability, some Nigerian government economic policies discourage (FDI). If the above decision rule is not so, reject Null Hypothesis and accept alternative hypothesis.

From the above, at 5 percent significance level, the test is significant, the computation is less than the critical value at 5 percent level of significance. Hence, we accept the Null Hypothesis: some Nigerian government economic policies discourage foreign direct investment in Nigeria and reject the alternative hypothesis.

Also, at 10 percent, the critical value is greater than the observed value, hence the observed value falls into the acceptance region.

**Hypothesis II**

II. \((H^0)\) - Nigerian Political Instability Discourages Foreign Direct Investment in Nigeria.

\((H^1)\) - Nigerian Political Instability does not Discourage Foreign Direct Investment in Nigeria.
We tested this hypothesis (H1) using responses from questions 26, 18, and 10 of questionnaire for Foreign Direct Investors, Nigerians and CEOs respectively (see Table 36).

### TABLE 36

**FREQUENCY COMPUTATION**

<table>
<thead>
<tr>
<th>Classes of Respondents</th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Direct Investment</td>
<td>8</td>
<td>142</td>
<td>150</td>
</tr>
<tr>
<td>Nigerians</td>
<td>12</td>
<td>88</td>
<td>100</td>
</tr>
<tr>
<td>CEOs</td>
<td>4</td>
<td>26</td>
<td>30</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>24</td>
<td>256</td>
<td>280</td>
</tr>
</tbody>
</table>

### TABLE 37

**COMPUTATION OF EXPECTED FREQUENCY AND CHI-SQUARE**

<table>
<thead>
<tr>
<th>Observed Frequency</th>
<th>Expected Frequency Column Total &amp; Row Grand Total</th>
<th>$X^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>12.9</td>
<td>1.8612</td>
</tr>
<tr>
<td>12</td>
<td>8.6</td>
<td>1.3442</td>
</tr>
<tr>
<td>4</td>
<td>2.6</td>
<td>0.7538</td>
</tr>
<tr>
<td>142</td>
<td>137.1</td>
<td>0.1751</td>
</tr>
<tr>
<td>88</td>
<td>81.4</td>
<td>0.1265</td>
</tr>
<tr>
<td>26</td>
<td>27.4</td>
<td>0.0715</td>
</tr>
<tr>
<td><strong>Total 280</strong></td>
<td>280</td>
<td>$\Sigma X^2=4.3323$</td>
</tr>
</tbody>
</table>

At 5 percent of significance critical value $X^2_2 (0.05) = 5.991$

Observed value = 4.3323
**Decision Rule**

If at 5 percent of significance \( X^2 \leq 5.911 \) and at 10 percent of significance \( X^2 \leq 9.236 \) we accept the Null Hypothesis i.e. - Nigerian political instability discourages foreign direct investment in Nigeria. But if \( X^2 > 5.991 \) at 5 percent or \( X^2 > 9.236 \) at 10 percent we reject the Null Hypothesis and accept the alternative hypothesis.

**Decision**

At 5 percent of significance, the critical value is greater than the observed value hence the observed value will fall within the acceptance region. That is, Nigerian political instability discourages foreign direct investors.

**Other Findings (Part II)**

Data analysis also revealed a lot of information on foreign direct investment in Nigeria. It was agreed by the majority of the respondents that foreign direct investment has a better promising future for Nigerian economic development effort than other sources of foreign direct investment. It was discovered that enough of foreign investment is not flowing into the country. It was ascertained that the country's investment climate was unconducive for attracting such scarce resource (foreign capital). In the same view, some Nigerian government economic policies were negatively affecting the flow of foreign investment in Nigeria. In the researcher's personal interview with some of the CEOs, the Nigerian environment was described as being hostile.

Infrastructurally, Nigeria is considered to be underdeveloped. A majority of FDI and Nigerians believe that the existing level of infrastructure does not encourage foreign direct investment in Nigeria. Infrastructure facilities in Nigeria fall among the least developed in the "Third World," not only in level of efficiency and reliability but also in level of maintenance.
Political instability discouraged foreign direct investment in Nigeria. Respectively, 97.33 percent and 80 percent of FDI and Nigerians were of the view that political instability (investment climate) in Nigeria possesses uncertain characteristic that should be closely watched. Nigeria is among the Third World countries fraught with high volatility in terms of changing governments. According to some CEOs and executives of Foreign Direct Investors, each new government comes with new policies that may render unviable already implemented projects. It was discovered that the majority of foreign firms operating in Nigeria established their businesses due to the perceived profits to be made.

The Indigenization exercise was discovered to be a major factor hindering foreign direct investment in Nigeria. In response to Question #6 of questionnaire for FDI, 65.33 percent of the Foreign Direct Investors in Nigeria asserted that it makes foreign investors unsure of the environment. It is equally revealed that Nigerian policy on dividend and capital repatriation is stringent and discourages further investment by the existing foreign direct investors in the Nigerian economy. 63.33 percent of the respondents (FDI) were of the above view.

Also, the unstable exchange rate regime, restrictions on employment of aliens, and absence of effective legal protection of foreign investors were among the reasons that the CEOs gave in their answer to Question #9 of the questionnaire (Appendix IV) designed for them on the policies negatively affecting foreign direct investment in Nigeria.

By and large, the situation whereby Nigerian political instability and some economic policies are repulsive to foreign direct investment is a serious issue that should be given due attention. The situation, though critical, is equally amenable.
The main purpose of the present study was to determine the perceptions of the impact created by political instability on foreign direct investments in Nigeria. The role of FDI in ushering Nigeria into the path of fast economic development is indisputable. Studies have revealed that on a comparable ground, foreign direct investments provide the greatest development impact over any other external source of finance.

FDI as viewed from an extension of financial, technical and managerial resources are highly desired in Nigeria. To make this a reality, the Nigerian government has for many years pursued a vigorous policy of encouraging FDI through extension of nexus of incentives to entice foreign direct investors. In spite of the innumerable incentives and coupled with the fact that Nigeria is a country with abundant mineral resources that are generating attractive investment opportunities, foreign investments are flowing into the country at a miserable rate when the rate of inflow into other countries with lower natural endowments is considered.

The appalling situation has been traced to lapses in some of the policies on FDI and a highly repulsive investment climate. Some of the policies on FDI include the following: rules on dividend and capital repatriation are very stringent; registration procedures of new companies are quite ambiguous; restrictions on employment of aliens are inconsistent with what exists in other countries; the tax regime is very ambivalent.

Also, political and economic conditions are very unstable; the level of infrastructure is still low. These elements of the policies and political/economic environment have combined and compelled foreign direct investors to stigmatize Nigeria as a high risk
investment zone. The reason a majority of the investors gave as to why they continued to invest is that return on investment is greater than the perceived high risk.

The researcher has therefore recommended the following: granting of customs duty exemptions on plant and machinery to be used by a foreign concern in establishing a firm in Nigeria; abrogation of restrictions on employment of aliens; moderating rules governing dividend and capital repatriation; and enhancing tax incentives.

**Recommendations for Attracting FDI into Nigeria**

In view of this study's finding that the Nigerian political/economic environment along with some economic policies discourages foreign direct investments, the following are recommended:

**Improve Political Stability and Security of Investment**

Political stability and security of life and property in the capital importing country is the first condition towards a favorable climate for inflow of foreign direct investment. Basically, these two variables are outside the economist's view, but they are necessary ingredients that should not be overlooked. In this regard, the Nigerian government is urged to establish separate insurance policies for foreign firms operating in the country as a way to prove to foreign investors the security of the capital of foreign investors.

Nigeria has been stigmatized as a politically unstable environment. The federal government should intensify efforts to make re-introduction of democracy a reality come 1998, and institute a policy barring the military from unnecessary intervention in the political affairs of the country.
**Customs Duty Exemptions**

Concrete steps should be taken to encourage greater inflow of FDI into Nigeria by granting exemptions from customs duty on plants and machinery imported by foreign industries for the setting up of industries in Nigeria. Assistance should also be given to the foreign firm on information regarding legal matters, labor recruitment, location of industry and all other relevant issues.

**Abrogation Of Policy Restricting Employment Of Aliens**

Statistics show that a majority of the population of Nigerians is in the unskilled labor category. The establishment of a new industrial concern requires experienced staff to staff the positions. Since the Nigerian labor market, in most cases, lacks such experienced personnel, it will amount to outright discouragement if foreign investors are not allowed to employ expatriates for the smooth take-off of the new industries.

Aliens should be allowed to be employed, but not indiscriminately to starve the Nigerian labor market.

**Increased Tax Incentives**

Though the Nigerian government has increased the amount of tax concessions to foreign investors in Nigeria, additional tax incentives are deemed necessary. In this regard, the researcher advocates the increase of capital allowance, abrogation of withholding taxes on dividends and a reduction of the company tax rates from 40 percent to 35 percent.
Others

I. Nigerian policy makers should avoid frequent foreign investment policy changes. This is important because foreign investors need a stable environment in which to operate.

II. The Nigerian government should eschew the use of retroactive decrees. This would assist in alleviating the fears of foreign investors.

III. In as much as Nigerian policy makers agree that the nation’s economy needs the infusion of foreign capital for rapid development, the government should establish a dialogue with foreign investors to determine their primary area of concern. This should lead to the formulation of mutually beneficial policies and increased infusion of foreign capital into the Nigerian economy.

IV. The government should improve the political and economic environment through provision of infrastructural facilities, stabilize the Nigerian currency, improve the image of the police force, give equal treatment to foreign firms in all business affairs, and cultivate friendly attitudes.
APPENDIX I

FOREIGN DIRECT INVESTMENT (FDI) QUESTIONNAIRE

GENERAL INFORMATION ABOUT THE RESPONDENTS

Azbuiki Okechukwu,
International Affairs & Development Program
Clark Atlanta University
Atlanta, GA 30314

SOLICITATION SCRIPT
My name is Innocent Okechukwu. I am conducting research as part of my doctoral dissertation at Clark Atlanta University. My dissertation deals with the “Perceptions of the Impact of Political Instability on Direct Foreign Investment in Nigeria.” (1980-1993).

I would like to meet with you briefly to discuss your ideas about topics related to political intervention and your businesses. You will receive a copy of the interview questions in advance of our meeting.

The interview will be completely confidential. This project will lead to my success only if good people like you will help me.

I would very much appreciate your assistance and cooperation.

Sincerely,

Innocent Okechukwu

cc: Dr. Ogbo Agbaru, Advisor
Dr. Konfor Masanje
Dr. Christopher Jespersen
1. What is the name of your organization?

________________________________________________________________________

2. What is your position in your organization?

________________________________________________________________________

3. What nationality are you?

________________________________________________________________________

4. How long have you been with this organization?

________________________________________________________________________

5. Approximately how many people does your company employ?

________________________________________________________________________

6. How many foreigners (aliens) are currently employed by your company?
7. Between 1980 and 1993 what prompted the establishment of your company in Nigeria?
   A. Profit motive
   B. Political stability
   C. Abundance of raw materials
   D. Cheap labor supply
   E. Other (please specify)

8. Between 1980 and 1993 how frequently did you consider Nigerian government political unrest/military take over?
   A. Not at all frequent
   B. Not very frequent
   C. Somewhat frequent
   D. Very frequent
   E. Extremely frequent

9. What is your perception of Nigerian control of foreign businesses between 1980 and 1993 when there was political instability?
   A. Not at all restrictive
   B. Not very restrictive
   C. Somewhat restrictive
   D. Very restrictive
   E. Extremely restrictive
10. Between 1980 and 1993 what was your perception of changes of Nigerian government control of foreign business?
   A. Not at all frequent
   B. Not very frequent
   C. Somewhat frequent
   D. Very frequent
   E. Extremely frequent

11. Between 1980 and 1993 what was your level of morale in doing business in Nigeria when there was political instability?
   A. Not at all discouraging to foreign investors
   B. Not very discouraging to foreign investors
   C. Somewhat discouraging to foreign investors
   D. Very discouraging to foreign investors
   E. Extremely discouraging to foreign investors

12. As a result of political instability between 1980 and 1993, the foreign investment climate in Nigeria was:
   A. Not at all favorable
   B. Not very favorable
   C. Somewhat favorable
   D. Very favorable
   E. Extremely favorable
13. Between 1980 and 1993 to what degree have successive governments been supportive in creating a conducive climate for your business in Nigeria?

A. Not at all supportive to foreign investors
B. Not very supportive to foreign investors
C. Somewhat supportive to foreign investors
D. Very supportive to foreign investors
E. Extremely supportive to foreign investors


A. Discourages foreign equity participation
B. Discourages further diversification of your company in Nigeria
C.Breeds inefficiency
D. Other; please specify

15. Between 1980 and 1993, what impact do you think Nigeria’s policy on income and capital repatriation has had on your company?

A. Discourages further investment by your company in Nigeria
B. Encourage investment of unrepatriated income in Nigeria
C. Stifle research and development of your company
D. Causes sale of investment
E. Other
16. Between 1980 and 1993, do you consider the present level of infrastructure in Nigeria as a motivator to foreign investment in Nigeria?
   A. Yes ☐
   B. No ☐

17. Between 1980 and 1993, Nigeria would have attracted more foreign investment if there had been political stability.
   A. Not at all likely ☐
   B. Not very likely ☐
   C. Somewhat likely ☐
   D. Very likely ☐
   E. Extremely likely ☐

18. Between 1980 and 1993, Nigeria would have attracted more foreign investments if laws limiting repatriation of profits were not imposed.
   A. Not at all likely ☐
   B. Not very likely ☐
   C. Somewhat likely ☐
   D. Very likely ☐
   E. Extremely likely ☐

19. Between 1980 and 1993, Nigeria would have attracted more foreign investment if certain industries were not exclusively reserved for Nigerians.
   A. Not at all likely ☐
   B. Not very likely ☐
   C. Somewhat likely ☐
   D. Very likely ☐
   E. Extremely likely ☐
20. Between 1980 and 1993, did you consider Nigerian restriction of employment of aliens as a deterrent to Foreign Direct Investment (FDI) in Nigeria?
   A. Yes
   B. No

   If “yes,” what is your suggestion on recruitment policy that should be adopted.

21. Between 1980 and 1993, what impact do you think Nigerian technological cultures had on Foreign Direct Investment (FDI) in the country?
   A. Not at all discouraging to FDI
   B. Not very discouraging to FDI
   C. Somewhat discouraging to FDI
   D. Very discouraging to FDI
   E. Extremely discouraging to FDI

22. Between 1980 and 1993, do you think that the political situation in Nigeria is encouraged Foreign Direct Investment (FDI) in Nigeria?
   A. Yes
   B. No

23. Between 1980 and 1993, do you think that Nigerian political/economic environment encouraged Foreign Direct Investment (FDI) in Nigeria?
   A. Yes
   B. No
24. Between 1980 and 1993, do you think that some Nigerian government economic policies on foreign direct investment, retarded FDI in Nigeria?

A. Yes
B. No
APPENDIX II

QUESTIONNAIRE DESIGNED FOR NIGERIANS

Azuobike I. Okechukwu,
International Affairs & Development Program
Clark Atlanta University
Atlanta, GA 30314

SOLICITATION SCRIPT
My name is Innocent Okechukwu. I am conducting research as part of my doctoral dissertation at Clark Atlanta University. My dissertation deals with the “Perceptions of the Impact of Political Instability on Direct Foreign Investment in Nigeria.” (1980-1993).

I would like to meet with you briefly to discuss your ideas about topics related to political intervention and your businesses. You will receive a copy of the interview questions in advance of our meeting.

The interview will be completely confidential. This project will lead to my success only if good people like you will help me.

I would very much appreciate your assistance and cooperation.

Sincerely,

Innocent Okechukwu

cc: Dr. Gbu Agbuzu, Advisor
    Dr. Konfor Masanje
    Dr. Christopher Jespersen
1. What is your occupation?

2. What is your opinion of the level of foreign investment in Nigeria?
   a. Low
   b. Average
   c. Above average
   d. High

3. What effect do you think the Indigenization exercise has had on foreign investment in Nigeria?
   a. has reduced foreign participation
   b. has increased rate of risk aversion
   c. has discouraged capital flow into Nigeria
   d. has caused the sale of investment

4. What effect do you think that Nigerian policy on income repatriation is having on foreign investment in Nigeria?
   a. It discourages FDI on further investment
   b. It encourages FDI to re-invest the unrepatriated income
   c. It causes FDI to sell their investment
   d. It does not motivate FDI for investment expansion

5a. Do you think that the Nigerian market is large enough to attract FDI?
   Yes
   No
5b. Is the present level of infrastructure in Nigeria a variable hindering FDI in Nigeria?
   Yes [ ]
   No [ ]

6. What is your assessment of the Nigerian tax rate (i.e., general tax rate?)
   a. Excessively high [ ]
   b. High [ ]
   c. Moderate [ ]
   d. Low [ ]
   e. Too Low [ ]

7. Do you think that the present de-regulation of financial markets is an incentive to foreign investment in Nigeria?
   Yes [ ]
   No [ ]

8. Do you consider the present institutional framework for registration of foreign companies effective?
   Yes [ ]
   No [ ]

9. What is your general assessment of the registration procedures in Nigeria?
   a. Good [ ]
   b. Abnormal [ ]
   c. Normal [ ]
   d. Bureaucratic [ ]
10. Do you consider Nigerian restriction of employment of aliens as a deterrent to FDI in Nigeria?
   Yes [ ]
   No [ ]

11. Do you think that the political condition in Nigeria attracts foreign firms into Nigeria?
   Yes [ ]
   No [ ]

12. Do you believe that Nigeria is technologically advanced to attract foreign investment?
   Yes [ ]
   No [ ]

13. Do you think that Nigeria's political/investment climate is conducive to foreign investment in Nigeria?
   Yes [ ]
   No [ ]

14. Do you generally believe that some government policies retard foreign direct investment in Nigeria?
   Yes [ ]
   No [ ]
15. Which of the following do you think possesses more potential of ushering a faster rate of economic development?

a. Foreign investment
b. External loans
c. Foreign aids
d. External grants
APPENDIX III

QUESTIONNAIRE DESIGNED FOR CHIEF EXECUTIVE OFFICERS (CEOs) OF NIGERIAN INDIGENOUS COMPANIES

Azbuike I. Okechukwu,
International Affairs & Development Program
Clark Atlanta University
Atlanta, GA 30314

SOLICITATION SCRIPT
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The interview will be completely confidential. This project will lead to my success only if good people like you will help me.

I would very much appreciate your assistance and cooperation.

Sincerely,

Innocent Okechukwu

cc: Dr. Ogbu Agburu, Advisor
    Dr. Konfor Masanje
    Dr. Christopher Jespersen
1. Which of the companies do you represent in Nigeria?


2. What is your designation in your company?


3. Do you consider Nigeria’s economic relations with your company normal?
   Yes □
   No □

4. Do you think that your company’s investment in Nigeria has lived up to expectation?
   Yes □
   No □

5. Do you think that the Nigerian market is large enough to attract foreign investment?
   Yes □
   No □

6. Does your company favor investment in some special fields relative to other fields?
   Yes □
   No □

7. What are those policies you consider as effective in attracting foreign investment in Nigeria?
8. Do you consider some Nigerian government policies on foreign investment as a failure?
   Yes ☐
   No ☐

9. If "Yes," what are those policies that negatively affect foreign investment in Nigeria?

10. Do you think that Nigerian political and economic environments (investment climate) encourage foreign investment in Nigeria?
    Yes ☐
    No ☐

11. Do you think that foreign direct investment possesses more development potential than any other source of foreign capital?
    Yes ☐
    No ☐

12. What recommendations would you advance for better policy initiatives?
GLOSSARY

Balance of payment. All payments made from residents and nationals of one country to the rest of the world, and its receipts from other countries combined, therefore, the world's total import must equal export.¹

Black Africa. The geographical area commonly referred to as "Middle Africa" or "Africa South of the Sahara."² It excludes the North, which is dominated by Arab countries having long histories of contact with European nations. Also excluded is the South, with a history of white dominance in South Africa.³ The region in-between, with thirty-odd countries, is referred to here as Black Africa.

Capital goods. Assets that serve in the production of goods. Assets include buildings, plants, machinery or equipment such as assembly lines, and steel mills. Since they cannot be consumed, they represent the means of future production.⁴

Domestic investment. This is always used to denote domestic fixed capital formation.

Export promotion. A policy adopted by a host country (Nigeria) to encourage domestic enterprises to manufacture products that can be exported to foreign economies. One of the policy's advantages is believed to be improvement of the host country's foreign exchange position.

Expropriation. The action of the state in taking or modifying the property right of foreign investor in the exercise of its sovereignty. This act is to deprive of possession or proprietary rights. Government actions, or government discontinuities all brought about by social, economic, or political imperatives existing in a country's internal or relevant external environment.

Foreign Direct Investment (FDI). "Any investment in another country which is carried out by a private company or individual, as opposed to government aid."⁵


Foreign exchange rate. The rate or rates at which the currency of a country is traded with the monetary units of other nations. Fixed rate, flexible rates, and net floating rates are variously employed by different countries.6

Foreign investment. The institutional, individual, or government acquisition of assets in a foreign country. It includes both direct investment and portfolio investment and encompasses both public and private firms.7

Government intervention. For the purpose of this study, the term government intervention is defined as a variety of political risks that a firm investing abroad is exposed to, those political risks that are associated with the actual and potential behavior of the host government.

Host country. A country that plays host to foreign investors from other nations. The law and regulations of a host country can significantly affect the behavior of foreign investors. For example, hostile laws may discourage future foreign investment in a host country.

Local resource content. The extent to which foreign enterprises utilize locally available raw materials in their production processes. It is believed that high local resource content helps alleviate the foreign exchange deficit of the host country.

Multinational corporation. An international entity such as Exxon or General Motors that has its headquarters in one country but maintains operations and branch offices in numerous developed and developing countries.8

The Nigerian naira (abbreviated “N”). Nigeria’s official currency. To determine the equivalent value of figures represented in Nigerian currency (in this dissertation), the Naira figures must be divided by eighty. However, since the trading of the Naira responds to market forces, the Naira is dynamic.

Per capita income. The amount of income per person. It is calculated by dividing the total income of a given country by its population.9

Political instability. A political atmosphere (especially investment climate as it relates to this study) that is uncertain. Example: Government unrest, ranging from frequent political changes, policy intervention, internal wars, military coup to social unrest, like riots and the like.


8Ibid, 597.

Political risk. Negative perception emanating from internal instability, inter-governmental relationships, anticipated or unanticipated.\textsuperscript{10}

Portfolio equity investment. An aspect of foreign private investment that allows foreign investors to retain a share of ownership. Unlike Foreign Direct Investment (FDI), however, portfolio equity investment does not allow foreign investors to participate in the management of the company.\textsuperscript{11}

Public policy. Government rules and regulations representing the authoritative decisional output of a political system. Public policy can be considered individually or collectively; hence, it may be expressed in the following forms: executive orders, laws, court decisions, local ordinances, and administrative decisions.\textsuperscript{12}

Terms of trade. The ratio of the prices of a country's exports to the prices of its imports.\textsuperscript{13}

Third World. The developing countries of Latin America, Africa, the Middle East, and Asia that are mainly characterized by low levels of per capita income, general dependence on the economies of developed countries, high rate of population growth and low life expectancy.\textsuperscript{14}

Transfer of technology. Said to occur when technical and productive know-how have been assimilated by the host country. This would make it possible for the host country to adequately employ a given technology in its productive activities without the assistance of foreign countries.

\textsuperscript{10}Ibid., 96.

\textsuperscript{11}Isaiah Frank, "Finance and Third World Economic Growth," \textit{The Committee for Economic Development} (June 1987): 11.

\textsuperscript{12}Jack C. Plane, Robert E. Riggs, and Helenan S. Robin, \textit{The Dictionary of Political Analysis} (Santa Barbara, California: ABC-CLIO Information Services, 1982), 120.


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