The Impact of Foreign Direct Investment on Nigeria Economy. A Case Study of China - Nigeria Investment Relations.

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Abstract

This study explores vast business opportunities and the impact of foreign investment in economy of Nigeria. The study also employed trend lines to analyze the influence of FDI on Nigeria in relation to China investments in Nigeria. This paper analyzes the factors that drive foreign direct investment (FDI) and the economic relation between China and Nigeria in the area of foreign direct investment (FDI). From our study with all documentaries and its analysis, larger countries attract more FDI, regardless of their size; however, more open to countries, politically stable countries, and countries offering higher return to investment also attract FDI. FDI inflows are persistent in Africa, while Nigeria is the bedrock of Africa economy due to its resources in oil and minerals. This suggests that countries that manage to attract FDI today are likely to attract more FDI in the future. The results of the study revealed conclusively that although China's investments over the years have benefited the Nigerian economy and its various firms in the manufacturing sector, the agreement signed by both countries ultimately needs to be reexamined to ensure equity.

Keywords: foreign direct investment, China-Nigeria, economic growth

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1.Introduction

1.1 Research Background

The Federal Republic of Nigeria is the most populous African Country (eleventh in the World), with a population of 176 million Nigerians (annual growth: 2.3%). He has the largest African economy (GDP: 522 billion dollars), followed by South Africa. Nigeria is a petroleum-based economy, a sector that contributes to 20 percent of the GDP, 80 percent of the total revenues and 90 percent of the foreign exchange earnings. Petroleum revenues constitute 60% of the GDP and 90% of the Nigerian exports (Central Bank of Nigeria, 2019). Nigeria is rich in natural resources (huge petrol, gas deposits, bitumen).

But it's Underdeveloped due to the unpleasant experience of political unsteadiness, corruption, and poor macroeconomics management. Basic socio-economic infrastructure is also unsuitable. Nigeria is a leading petroleum manufacturer and exporter. Asiedu, E. (2016).
The main sector of the Nigeria economy are; Petrol and gas, Minerals, Nigerian Agriculture, Information and telecommunications, Tourism, Manufacturing, Infrastructure.

Over the years, many developing nations of the world have been unable to meet up with the Standards of developed nations in terms of economic growth rate due to the existing economic issues present in their economies. To advance the economic growth of these developing nations, an urgent need to source for more vivid and realistic solutions have been identified. Amongst others, increasing the level of cross border investments as a feature of globalization and attaining a higher level of foreign direct investment have been suggested by authors, corporations and entrepreneurs (Borensztein E., J. De Gregorio and J.W. Lee (2018).

Foreign direct investment according to De Gregorio, J. (2018) is a dynamic international resource flow capable of providing the capital required for financing long term developmental projects and hence, driving sustainable growth. Developing countries such as Nigeria, even though blessed with large reserves of human and material resources enabling her to become the largest economy in Sub-Saharan Africa and a major player in the global economy continues to aim at attracting foreign direct investment since it forms an important component in economic development strategies (Asiedu, E. (2016). This is the basis for the effort of the Nigerian government to improve the business climate of the nation in recent times. The New Partnership for Africa's Development (NEPAD) was also launched in this order to increase capital available to about US$64billion through a combination of reforms, resources and thus creating an environment for foreign direct investment.

Considerably, Nigeria is now one of Africa's largest recipients of foreign investment but the Over-dependence on the oil and gas sector has remained a major challenge for her economy. The economy lacks the drive to divert attention towards the non-oil sub-sectors including the mining, manufacturing, services and telecommunications sectors and as a result, a larger percentage of about 60% of the FDI which flows into Nigerian economy is made into the extractive (oil) industry (Akinlo, A.E. (2016) while the non-extractive industry remains on a declining path except for the telecommunication sector which has progressed over time. The economic structure of Nigeria, due to this shifted attention to the Oil sector, remains undiversified with Oil being the major contributor to Nigeria's GDP and accounting for about 95% of the total exports (UNCTAD, 2017).

1.2 Research Problems

To analyze the economic relation between China and Nigeria in the area of foreign direct investment (FDI). Nigeria's traditional development partners are mainly from Europe and the Americas (U.S. A. and Canada). These groups have dominated the flow of trade, investment (in terms of foreign direct investment-FDI) and grants and financial as well as technical aid to the country. These economic relationships are governed by various bilateral and regional agreements that exist between these countries and Nigeria. Although Nigeria and these countries have come a long way in their relationship, it is contestable if such has in any significant way assisted the country in its quest for development. The relationship appears to be exploitative at least from the trend in the structure and pattern of FDI inflow to the country. This is based on the fact that the oil and gas sector dominate the country's exports to the tune of about 98% and FDI inflows to the oil and gas sector accounted for about 40% (Ogunkola, Bankole and Oyerantin, 2018).

The growing relationship between China and Nigeria is induced by the fact that the two countries have economic complementarities. On one hand, a major development challenge in Nigeria is infrastructure deficiency, with huge investment need. China has developed one of the world's largest and most competitive construction industries with particular expertise in the civil works critical for infrastructure development coupled with its ability to provide the necessary financial assistance. Positive developments have been recorded recently in respect of the net FDI inflow from China to Nigeria, as it has doubled from US$3 billion in 2003 to more thanUS$6 billion in 2005. The share of the oil and gas sector was about 75 per cent. This proportion of Chinese FDI to Nigeria implies the expressed and explicit desire of China in Nigerian oil and gas resources. It further reinforces the prevalence of a link between Chinese FDI and trade in the context of China-Nigeria investment relations (Ogunkola et al., 2018). In Nigeria, like in some other African countries, three related factors explain the observed positive developments in Chinese FDI flows. These are changes in the FDI regime; privatization programme of the government; and the aggressive drive of the government in attracting FDI into the country (WTO, 2015).

1.3 Objective of the study

- To analyze the economic relation between China and Nigeria in the area of FDI with a view to determining its developmental impacts.
- To assess the economic impact of the trade agreement of the aforementioned countries on the basis of key economic performance indicators such as trade balance, employment, FDI and GDP.
- Composition of Chinese FDI in Nigeria.
- To access the Chinese investments in Nigeria it's benefits to the local community.

For existing and future FDI inflow from China to be beneficial to Nigeria (and China),

The following issues or questions should be evaluated:

- To what extent is China different from other exploitative practices?
- In what sectors is incoming FDI from China directed?
- Does this FDI augment productive capacity, or do the funds represent a change in ownership?
- Is incoming Chinese FDI resource or market seeking, and is the output targeted at the domestic or external market?
- Are all Chinese investment flows inward, or does the country also invests in China?

1.4 Scope of the study

The relationship between foreign direct investment (FDI) and economic growth has attracted major attention from academics and the governments of developing countries. Since economic growth is one of their main focuses, FDI attraction-related policies have been prioritized during the process of economic growth and development in these countries.It is widely observed that FDI mitigates the saving-investment imbalance and provides technology which is used for the production of goods and services. Additionally, FDI enhances tax revenue as well as human capital.

FDI increases investment, which in turn reduces the gap between saving and investment (Oyakhilome, W I,(2018). FDI has been defined as an investment made to acquire a lasting management interest (normally 10% of voting stock) in a business enterprise operating in a country other than that of the investor (where foreign is defined according to residency and not according to nationality) (World Bank, 2016).

The most fundamental contribution of FDI is to enhance a country's stock of physical capital; but according to the new growth theory, its indirect effects arising from technology abundance and efficiency gains, are of much importance.

1.5 Research Significance

The major attraction for foreign direct investment (FDI) from China include: vast energy reserves, agricultural and manufacturing sector at its infancy and growing domestic markets populated by over 190 million people with growing disposable income. Conversely, Nigeria's impetus rests in China's successful economic transformation and global dominance and its ability to carry out large-scale infrastructure projects and finance them. Although China's rationale for entering the Nigerian market was initially driven by the demand for energy resources, their involvement in Nigeria has vastly expanded in the area of manufacturing. Currently, China's public and private companies are developing economic zones in Nigeria aimed at constructing new roads and bridges, airports and railways connecting the major cities in Nigeria. On the surface level, these various agreements "appear" beneficial to both countries. However, there are numerous obstacles that could potentially hinder a "win" "win" outcome for the countries involved. For example, when the Nigerian Labor union expressed dissatisfaction with China's labor practice. Because China currently owns 49 percent of Tin Can Island Wharf in Lagos, the economic capital of Nigeria, there has been an increase in the quantity of inventory, i.e. equipment, machinery and manufactured products into the country for use in the construction of roads and bridges. Additionally, recent reports leveled by the Organization for Economic Co-operation and Development (OECD) have revealed that the quality of imported goods into the country is of inferior quality and this has devastated the domestic producers by causing a sharp increase in unemployment in this economy sector. Consequently, the purpose of this paper is to assess the economic impact of the trade agreement of the aforementioned countries on the basis of key economic performance indicators such as trade balance, employment, FDI and GDP.

Recently, China established its West African trade hub in Lagos, the economic capital of Nigeria, to be strategically positioned. The results of the study revealed conclusively that although China's investments over the years have benefited the Nigerian economy and its various firms in the manufacturing sector, the agreement signed by both countries ultimately needs to be reexamined to ensure equity.

The study was able to establish the sectors where the incoming FDI from China is directed and the extent at which Chinese FDI is bundled with inflows of aid. The study was also able to show that the incoming Chinese FDI are in resource seeking, and the output targeted at the external market. The study will be of value to academia and to policy makers who are interested in studying the China-Africa relation.

2. Literatures Review

2.1 Economic growth and FDI

Numerous studies (Hermes, Niels and Robert Lensink, (2018),) have debated the theoretical literature on economic growth and its relationship with trade policies over the years. However, the debate still remains far from resolved. Nabine (2017) notes studies on economic growth are, at their core, complex and ambiguous. There have been numerous studies on the subject, diverse enough to provide an array of models in which trade restrictions can decrease or increase the rate of growth (Matsuyama, 2017). It is paramount to note that if trading partners are asymmetric countries, i.e. different technologies and endowments, even if economic integration ultimately raises growth rate, it may adversely affect individual countries (Balasubramanyam, V. N., M. Salism and, D. Sapsfold (2019). It is common knowledge now that Nigeria is the largest economy in terms of GDP in Africa and is a member and signatory to numerous multilateral and regional trade agreements through the West African Monetary Zone and Economic Community of West African States, to name a couple. The policy response of such economic partnership agreements on trade policy has been to remove trade barriers, reduce tariffs and embark on outward-oriented trade policies (Nabine, 2017). With these strategic alignments, expectations are that tariffs will reduce drastically as required by the World Trade Organization (WTO) protocols and in compliance with regional trade agreements. Now, the majority of existing literature supports the axiom that there is a positive correlation with trade openness to greater economic growth with the main operational implication being that governments should dismantle the barriers to trade. Similarly, there are good arguments that suggest trade liberalization may improve resource allocation in the short term and or raise growth rates permanently. Nevertheless, studies by Barro, R.J. (2017) contradict this notion.

For instance, the researcher (Barro, R.J. (2017) explained the major limitation of the growth nexus is that it lacks microeconomic foundations. It is evident that numerous gains as well as losses have been made throughout the China/Nigeria trade agreement. Narrowing the focus, Taylor (2017) asserts that the rapid spread of Chinese products as well as its investors into the Nigerian market has had mixed reactions. For the purpose of trade relations, it can be deemed a positive sum game because China is providing cheap products and services that were not previously in Nigeria. While, on the other hand, evidence reported by the OECD revealed rapid disappearance of the textile industry and a rise in low-quality products. Regardless of this conundrum, Africa's merchandise exports to China increased over fourfold from US$4.5 and 8.3 billion in 2010 and 2013, respectively, to $36.4 billion in 2017, of which 35 per cent were attributed to Nigeria (Agba, A.E. (2015).In terms of economic models in determining the impact of foreign trade on the manufacturing sectors of developing countries, researchers (Chenery, H. B. and A. Stout (2017) have revealed a positive impact on imports on production as well as positive effects on technology through foreign trade on economic growth. Indeed, this analysis by design will only work if other variables such as the quality of goods and services imported, and the ability of coordinated training or transfer of knowledge from China to Nigeria Ceteris paribus. The Nigerian bureau of statistics noted that more than 850 manufacturing companies have temporarily discontinued operations, while others have closed permanently. The exodus of firms has been attributed to tough operating environment, erratic power supply, high interest rates and high taxation (Ojo, M.O. (2018). In their report on the performance of Nigerian manufacturing firms, (Akinkugbe, O. (2017) assert skills, education and technological constraints are lacking in the advancement of African countries in terms of manufacturing. (Collier,2018) argues that transaction costs faced by African manufacturers are typically high because manufacturing firms are intensive users of services that are particularly expensive in Africa. As a result of this dynamic, China has exploited an entry point into the Nigerian market importing cheap goods that Nigerians can afford. In further examination, the manufacturing sector contributed 4.2 per cent of GDP in 2015 slightly up from 3.6 per cent in the prior year.

2.2 How Nigeria attracted FDI

Sales strategy and FDI Nigeria's ability to attract other countries to invest has only been successful due to the massive reserves of oil and gas (OECD, 2019). FDI from 2013-2020 totaled USD11.03 billion and will continue to increase due to continuous infrastructure development particularly power and transportation. Although conducting business in Nigeria poses serious risks, the Nigerian Government has been successful in putting in place laws that incentivize and ultimately secure FDI from China and global businesses at large. For example, under the 2015 Investment Act of Nigeria,"100 percent foreign ownership is permitted in all sectors except oil and gas". Furthermore, the Nigerian legal codes allow 100 percent of profits of foreign business repatriated.(Oyerantin et al. 2018) opined China has established more than 30 solely-owned or joint venture companies in the construction, technology and oil and gas sectors of the Nigerian economy. Additionally, the authors noted FDI flows from China to the African continent hit an all-time high of 70 per cent in 2015. In the case of Nigeria from 2013-2020, FDI flows from China ranged from 12-50 per cent. Furthermore, their findings in another study on the China–Nigeria investment relations revealed the sectors where the incoming FDI from China is directed and the extent at which Chinese FDI is bundled with inflows of aid. The study was also able to show that the incoming Chinese FDI is in resource-seeking, and the output targeted at the external market. The manufacturing textile industry was once a vibrant sector of the Nigerian economy with over 500 registered local companies employing thousands in the process has witnessed a dramatic drop in companies triggering a spike in unemployment and subsequent public backlash. The causes of these industries' demise can be arguably linked to trade liberalization in Nigeria. With the rapid increase of foreign companies in Nigeria, the local business owners in the manufacturing industry have found it difficult to compete. With the increase of Chinese businesses manufacturing auto parts, textiles,fixtures and fittings and building equipment, to name a few, local business owners have subsequently shut down because of inadequate skills, infrastructure and increased competition and imported products from China.

2.3 China's FDI Policy.

China's African policy document was launched in January 2006. This policy articulates the objectives of Chinese policy toward Africa and how they are to be realized. The broad objectives stated in the policy include, mutual benefits, common development, and win-win results in economic relations. The policy document highlights government actions to foster trade, investment, financial services, agriculture, infrastructure, resources development and tourism. The implementation of the policy is supported by financial and technical assistance in non-commercial areas such as health and education (Wang, 2017).During the Beijing Summit of the Forum on China-African cooperation in November 2013, China's President announced a new commitment to Africa for 2014-2019. Among the items in the new commitment related to investment are:

- US $5billion China-Africa Development Fund to support Chinese FDI in Africa including Nigeria;
- Preferential creditors totaled US$5 billion, consisting of US$3 billion confessional loans and US$2 billion export credits;
- Grants element in investment
- Technical assistance to upgrade the required skill for managing investment

2.4 Past Research

Another landmark in China's investment regime is the recent favorable policy toward encouraging outward FDI, basically to upgrade technical skills and to secure supplies of key raw materials, such as petroleum and iron ore. The Central Government and some provincial governments have been encouraging firms to invest abroad by relaxing approval procedures and providing financial support. For instance, on 27 October 2014, the Export-Import Bank of China (EIBC) issued a "Notice on Loan Support Policy for Key State-Encouraged Overseas Investment Projects" which specifies that preferential interest rates may be accorded overseas investment loans. A particular sector of interest to China is the petroleum sector in which it invests in countries such as Indonesia, Kazakhstan, Myanmar, Sudan, Yemen and Nigeria, as well as in aluminum, iron ore, and coke industries in Brazil. Acquisition of shares in foreign enterprises is becoming attractive to some Chinese enterprises.

3. Research Methodology:

The researcher uses both Primary and secondary data to explore and understand the impact of Foreign Direct Investment (FDI) on Nigeria's economy. FDI has been a critical factor in the economic development of many countries, including Nigeria. This research aims to provide a nuanced and comprehensive view of the various dimensions of FDI and its effects on Nigeria's economic growth, employment, industrialization, and socio-economic development.

This research will adopt a qualitative research approach, as it is well-suited for exploring complex and multifaceted phenomena such as the impact of FDI on an economy. Then the economic relation between China and Nigeria in the area of foreign direct investment (FDI).

Qualitative methods allow for an in-depth examination of the experiences, perceptions, and behaviors of key stakeholders involved in FDI activities that shows China – Nigeria business relationships.

Data Collection Methods.

The primary data collection methods for this qualitative study will include:

a) In-depth Interviews: Conducting semi-structured interviews with key stakeholders, such as government officials, foreign investors, local entrepreneurs, economists, and representatives from non-governmental organizations. These interviews will explore their perspectives, experiences, and insights into the impact of FDI on Nigeria's economy.

b) Focus Group Discussions: Organizing focus group discussions with diverse groups, including local communities, labor unions, and industry associations. These discussions will provide a platform for participants to share their collective views and experiences related to FDI.

While I also utilized secondary data from Google Scholar, EBSCO, and other websites. From August to December 2022, for collecting data. This research had shown the factors to analyze the influence of FDI on Nigeria in relation to China investments in Nigeria.

4. Finding and Conclusion

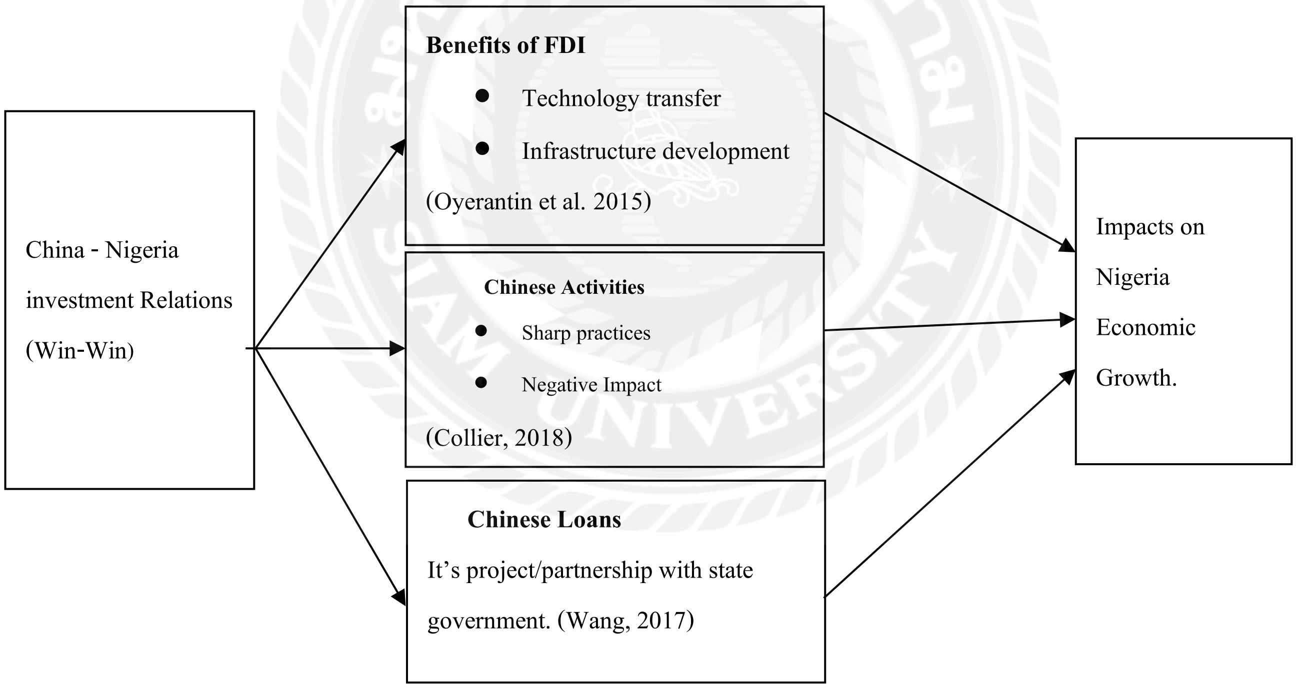

Figure: 1 Established Framework

This paper mainly uses the analysis of a documentary research method to evaluate the major areas in Nigeria that have a relative impact on economic growth as a result of Foreign direct investment. The major characteristic of Chinese investment in Nigeria is its concentration in a few sectors that are of strategic interest to China, especially in the extractive industries which are carried out largely by state-owned enterprises or joint ventures. We have visible Chinese investment areas in Nigeria, for example, in Ogun state and Lagos State.

In Ogun state, we have the Kajola Specialized Railway Industrial Free Trade Zone. The zone is a joint venture of the Ogun State Government and the Chinese Civil Engineering Construction Company (CCECC). The company's investment was estimated at about N115.8 billion. This project will aid in the Construction of Railway transportation. The government envisaged that the project will facilitate rapid industrialization of the State and deepen foreign direct investment inflow to the state. Of course, it will serve as a larger concept of simultaneous development of all parts of the state.

4.1 Ogun Guangdong Free Trade Zone (OGFTZ) is a tripartite project of two Chinese companies: Guangdong Xingang International of Guangdong Province in China and China-Africa Investment Limited; and the Ogun State Government. The cost of the project estimated at about $500 million is to be financed by the Chinese consortium.

When completed, the FTZ will consist of about 100 firms mainly engaged in the light to medium manufacturing activities including footwear and rubber production, ceramic 60 processing, furniture production, hardware and household appliances, real estate development, and light and heavy manufacturing plants. These activities promised to generate direct and indirect employment to different categories of Nigerians.

4.2 The impact of China-Nigeria Investment;

A number of benefits accrue from FDI, which include augmentation of domestic capital; transfer of technology, knowledge and skills; promotion of competition and innovation; employment and enhanced output, export and revenue performance. These must be weighed against their costs such as anti-competitive and restrictive business practices; tax avoidance and abusive transfer pricing; volatile flows of investment and related payments deleterious for balance of payments; transfer of polluting activities and technologies; and excessive influence on economic affairs with possible negative effects on industrial development.

A country desirous of hosting FDI must of necessity institute policies aimed at maximizing the direct and indirect benefits as well as in minimizing the possible negative impacts. A litmus test for gauging the motive of FDI is to classify such investments into resource-seeking, market-seeking or efficiency-seeking. Efficiency-seeking FDI is preferred to other forms at least from the perspective of the host country.

For optimal benefit is in the involvement of indigenous entrepreneurs in the affairs of the particular firm. A joint venture has a higher potential of positive impact in the host economy. Beyond, the involvement of indigenous entrepreneurs at the management level, local expertise and other work force are the channels through which technology is transferred and technological capacity is developed. However, Chinese firms in Nigeria have been criticized for being “closed” as they hardly employ local experts. There are even submissions that they mal-treat their workers. According to a report, the conditions of employment of Nigerians in Chinese firms neither conform with the Nigeria Labor Laws nor to that of the International Labor Organization (ILO). It was reported that Chinese companies such as Wahum Nigeria Limited and Galvanizing Company Limited are firms with the most inhuman condition of service (12 hours a shift) and many casual workers.

The expected benefits may not be realized. The lesson is for the country not only to design appropriate policies and regulations but also to ensure that these are implemented. Although some of the Chinese investments are in critical areas of the Nigerian economy especially in infrastructure (telecommunications, water, electricity, housing, etc.) hence they have high social contents. However, there are reservations about the activities of Chinese investors, especially those who are engaged in manufacturing. Such complaints include sharp practices such as importation and production of sub-standard products, and lack of respect for their workers.

However, the quest for oil and gas by the Chinese seems to be of importance in the resurgence of the current wave of relations. In summary therefore, perhaps the most important opportunity offered by Chinese FDI in Africa and Nigeria in particular is the increase in investment in transformation activities.

5. Recommendation

There is always a positive relationship between economic growth (GDP) and FDI especially in a developing nation like Nigeria. The focus is on the China-Nigeria investment relation with a view to investigating the impact of such relation, as part of FDI to strengthen the Non oil sector of the Nigerian economy. It should be noted that good governance and macroeconomic environment in the country should be ensured so as to promote productivity and sustainability of investment. A country desirous of hosting FDI must of necessity institute policies aimed at maximizing the direct and indirect benefits as well as in minimizing the possible negative impacts. This study which relied on the strengths of a detailed documentary analysis, from a general perspective, it is observed that Chinese investment in Nigeria is both market-seeking and resource-seeking in outlook. This suggests that a number of policy implications, lessons and agenda for the future China-Nigeria economic relations are worth noting.

A litmus test for gauging the motive of FDI is to classify such investments into resource-seeking, market-seeking or efficiency-seeking. Efficiency-seeking. FDI is preferred to other forms at least from the perspective of the host country. However, for a country to attract efficiency-seeking types of FDI macroeconomic stability must be ensured and distinct, predictable and easy-to-access policy environments including incentives must be instituted.

There is a need to ensure implementation of laws and regulations in Nigeria and to ensure compliance by the Chinese investors. Such laws include labor law, social responsibility law and local content requirement. To compliment this, Nigeria needs to invest the inflow of resources from the commodity booms in improving the investment climate, developing human resources necessary to support investment in new industries and establish development banks necessary to provide financial support to nascent private investors. Towards this end, there must be good and transparent governance while implementing these initiatives in order to ensure that the desired outcomes are realized.

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