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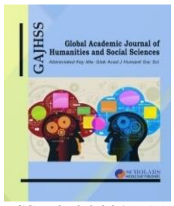

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Original Research Article

Foreign Direct Investment (FDI) and the Nigerian Political Economy

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Abstract: Foreign Direct Investment (FDI) has emerged as a major catalyst for accelerating the economic growth of developing nations over the years. This is because it is believed to be an important source of capital inflows and a major source of technology transfers to the host countries, especially developing ones like Nigeria. FDI has emerged as an integral part of an open and effective international economic system and a major catalyst for development. This research attempts to study the effects of FDI on the political economy of Nigeria in all ramifications, because FDI impacts not only economic indices alone; but affects the entire political economic fabric of the nation. The study used content analysis, contextual analysis and descriptive research, backed up with empirical secondary data of FDI inflows and value added to the Nigerian economy. The study discovered that while there are positive effects of FDI inflows into the Nigerian political economic system; like enhanced GDP contribution, improved infrastructure and public sector development, reduced unemployment and governance improvements; there are some negative impacts like undue foreign influence on domestic policy, corruption, political manipulation and unfair exploitation of natural resources. The study concluded that while FDI contributes to Nigeria's economic and political development, it also raises challenges related to foreign influence, corruption, and resource exploitation and recommended that to maximise the benefits of FDI, Nigeria must implement strong governance and transparency policies that balance foreign interests with national priorities.

Keywords: Foreign Direct Investment, Political Economy, Neoclassical Economic Theory, Dependency Theory, FDI Industrialisation Theory.

1. INTRODUCTION

Over the years, Foreign Direct Investment (FDI) has emerged as a major catalyst for accelerating the economic growth of developing nations. It is not only an important source of capital inflows, but additionally, a major source of technology transfers to the host country. The capital inflows and technology transfer are considered as accelerators for economic growth, such that foreign direct investment (FDI) is highly likely to promote economic growth of the host country (Wang & Wong, 2009). FDI has emerged as an integral part of an open and effective international economic system and a major catalyst for development.

However, the benefits of FDI do not accrue automatically and evenly across countries, sectors and local communities. National policies and the international investment environment matter for attracting FDI to a larger number of developing countries and for reaping the expected full benefits of FDI for development. The challenges primarily concern host countries, which need to establish a transparent, broad and effective enabling policy environment for investment and to build the human and institutional capacities to implement them.

According to Umaru, Gambo and Pate (2015), the benefits of FDI include serving as a source of capital, generating employment, facilitating access to foreign markets, and generating both technological and efficiency spillovers to local firms. It is expected that by providing access to foreign markets, transferring technology and generally building capacity in the host country firms, FDI will inevitably improve the integration of the host country into the global economy and foster growth. There is thus a belief among international institutions, academicians, policymakers and researchers that foreign direct investment (FDI) has a huge positive impact on the economic growth of the developing countries. It can significantly offer benefits to host economy and this may be one of the reasons that governments of many countries around the globe formulate strategies to attract foreign direct investment in their countries (Ali & Hussain, 2017).

Who are the major beneficiaries of FDI in Africa? According to Danjuma (2021), natural resources, cheap labor, and size of GDP naturally have made Sub-Saharan Africa a potential destination for resource and market seeking FDI. Asiedu (2005), quoting World Bank (2004), opines that the three largest recipients of FDI in Sub-Sahara Africa are Angola, Nigeria and South Africa because from 2000 to 2002, these countries absorbed about 65 per cent of FDI flows to the region. According to analysts (for example, Fadiran, 2022), Nigeria has always managed to attract foreign direct investment despite her poor economic outlook, as a result of its oil reserves and the consumption potential of its large population.

However, these inflows of foreign investment have been on the decline and now seem to have hit a halt. Over the past seven years, foreign direct investment in Nigeria has dropped by almost 80%. This somehow reflects a broader trend for the region, especially as a result of the after-effects of the global Covid-19 pandemic. According to Fadiran (2022), foreign investment inflows to Nigeria had even been falling even before the Covid-19 pandemic. The country's net inflows based on balance of payments fell from about US$9 billion in 2012 to below US$1 billion in 2018.

Khan (2007) asserts that Foreign Direct Investment (FDI) has emerged as the most important source of external resource flows to developing countries over the years and has become a significant part of capital formation in these countries, though their share in the global distribution of FDI continued to remain small or even declining. While writing on the effects and advantages of FDI to the host economy, Falki (2009) noted that the effects of FDI on the host economy are normally believed to be: increasing in employment, augmenting productivity, boosting exports, facilitating the utilisation and exploitation of local raw materials, introducing modern techniques of management and marketing, easing the access to new technologies, etc.

However, several scholars have doubted whether these FDIs actually contribute to economic growth in Nigeria or not (Asiedu, 1993; Danja, 2012; Ogunniyi & Igberi, 2014). If FDI actually contributes to growth, then the sustainability of FDI may be a worthwhile endeavour and a way of achieving its sustainability could be by identifying the factors contributing to its growth with a view to ensuring its enhancement. Another concern invoked in the late 1970s is the problem of transfer pricing by which multinational corporations (MNCs), who represent the businesses of FDIs, transfer back to the mother country undisclosed remittances and profits so that the host countries do not gain significant economic benefits from FDI (Lall, 1993). Furthermore, MNCs, due to their large size, reputation etc., gain easy access to local savings which may crowd out domestic investments (Hood & Young, 1979).

Despite the fact that many studies established the idea that FDI has a positive impact on the economic growth of a host country, there are several studies that argue otherwise. They assert that that the nexus between FDI and economic development is at best, ambiguous. Some scholars believe that FDI may lead to increase in balance of payment problems and could allow for the exploitation of the host country's market, thus, shrinking the capability of such country to manage its economy (Jawaid, Raza, Mustafa, & Karim, 2016), Some other studies have found no relationship between FDI and economic growth at all (Chakraborty & Basu, 2002). Aitken and Harrison (1999) stated that the net impact of foreign direct impact on the host country may be very small (Borensztein, De Gregorio, & Lee 1998) are of the view that FDI can only contribute to the economic growth, if the host country has sufficient absorptive capacity of advanced technology.

2. LITERATURE REVIEW

2.1. Conceptual Review

2.1.1. Foreign Direct Investment (FDI)

FDI is an inflow investment which involves countries' participation with joint venture, management, expertise, technology transfer, manufacturing and construction with the basic rationale of developing and expanding an economy, leading to increasing foreign reserves of the participating countries (Olaseinde & Ajayi, 2022).

According to Omankhanlen (2011), Foreign Direct Investment (FDI) is an investment made by an investor or enterprise in another enterprise, or equivalent in voting power, or other means of control in another country, with the aim to manage the investment and maximize profit. He believes that FDI serves as an important engine for growth in developing countries through two modes of action: expanding capital stocks in host countries and bringing employment, managerial skills, and technology.

On his part, Adeolu (2007) opined that FDI is an investment made to acquire a lasting management interest a business enterprise operating in a country other than that of the investor. To Harish and Plouffe (2018), FDI is a form of international production, where productive assets in a host market are owned and controlled by residents of the home market (foreigners to the host market). This term is often frequently contrasted with foreign portfolio investment (FPI), which is less commonly studied. The distinction between the two rests on control over the investment. While both forms of foreign investment involve ownership, the use of FDI is controlled by the foreign owner.

According to Gonzalez (2013) foreign direct investment differs from foreign portfolio investment as it involves the investors in actually operating a production facility in which they have a lasting interest; whereas portfolio investment refers to the purchasing of shares or other financial assets and does not entail any management role for the investors. In the post-World War II growth in international production, FDI has emerged as a major feature of the global economy, raising the significance of a range of governance issues, both for national governments as well as international frameworks and organizations (Harish & Plouffe, 2018).

2.2.2. Political Economy

Adam Smith, David Ricardo and John Stuart Mill are widely regarded as the originators of modern economics. However, they called themselves political economists and Mill's "Principles of Political Economy" was the fundamental text of the discipline, from its publication in 1848 until the end of the century (Friede, 2020). According to Asiodu (1993), the concept of political economy was coined from the Greek word *'politikos'* which stands for state and social; and *'oikonomia'* which means managing the household economy. Taken together, this could mean "the laws of state management."

Political economy has, therefore, emerged in the social sciences as a scientific sub-field which studies the social relations that evolve between people in the process of production, distribution, exchange and consumption of material benefits within a state. It studies how political forces influence economic policies, decisions, and outcomes, and how economic structures and processes, in turn, affect political decisions and institutions. It is an interdisciplinary field that combines insights from economics, political science, and sociology to analyse the relationships between economic systems, government policies, and societal outcomes.

According to Serrat (2011), political economics study the interrelationships between political and economic institutions (or forces) and processes and these do not necessarily lead to optimal use of scarce resources. Political economy is founded on the predicament of economic choices in a society comprising heterogeneous agents. Since economics is the study of the optimal use of scarce resources, subject to well-defined constraints and a market environment, political economy therefore embraces the complex political nature of decision making to investigate how power and authority affect economic choices in a given society.

Alesina & Perotti (1994) have argued that economic policy is the result of political struggle within an institutional structure. Thus, the empirically oriented researcher and the policy adviser have to be well aware of how politics influences economic policymaking. It arose from the widespread view that political factors are crucial in determining economic outcomes. Hence, as a discipline, economics historically viewed political forces not only as influencing economic outcomes, but often as a determining influence. Since economics is the study of the optimal use of scarce resources, political economy begins with the political nature of decision-making and is concerned with how politics will affect economic choices in a society. Society should be defined broadly here to include not only countries or other such jurisdictions, but also firms, social groups, or other organisations.

For the purposes of this paper, an understanding of political economy is critical for appreciating the real-world intersection of politics and economics as it is widely applied in analysing important issues, such as income trade wars, poverty, inequality, climate change policy, financial crises, foreign direct investment and much more. The Covid-19 pandemic particularly illustrates the intersection of politics, economics, and other considerations.

2.2. Theoretical Review

Neoclassical Economic Theory of FDI

Neoclassical economic theory states that FDI contributes positively to the economic development of the host country and increases the level of social well-being (Bergten, *et al.*, 1978). The reason behind this argument is that the foreign investors are usually bringing capital into the host country, thereby influencing the quality and quantity of capital formation in the host country. The inflow of capital and reinvestment of profits, increases the total savings of that country. Government revenue increases via tax and other payments (Seid, 2002). Moreover, the infusion of foreign capital in the host country reduces the balance of payments pressures of the host country.

Dependency Theory of FDI

The impact of foreign capital and multinational corporations (MNCs) on host countries can also be traced back to the writings of the Dependency scholars. Influential works of this school of thought include the ontology of dependency; Karl Marx's theory on development and underdevelopment; Paul Baran's analysis of economic backwardness and economic growth; Andre Gunder Frank's analysis of the development of underdevelopment; and the writings of Samir Amin on unequal development (Fan, 2003).

Industrialisation Theory of FDI and Spillover Effects

The standard neoclassical model developed by Heckscher and Ohlin (H-O), based on the restrictive assumptions about the immobility of factors of production and identical production functions across countries, assumed that no international difference existed at the technological levels. However, the H-O model fails to recognise technology transfer and spillover effects of the MNCs. The neoclassical portfolio theory also considered MNCs simply as arbitrageurs of capital (Khan, 2007).

2.3. Empirical Review

2.3.1. Foreign

Gudaro, Chhapra, & Sheikh (2012) analysed the impact of foreign direct investment (FDI) in Pakistan for the period 1981 to 2010. The link between gross domestic product (GDP,) foreign direct investment and inflation was measured using multiple regression models. GDP in this model was used as dependent variable, whereas FDI and inflation (CPI) were measured as independent variables. The regression analysis showed that the model was overall significant with the positive and significant association of GDP and FDI while a negative and significant relationship was found between GDP and inflation. The authors believed that FDI is an essential factor for economic growth in developing countries as FDI allows the transfer of technology, uplift competition in the domestic input market, contributes to human capital development and profits created by FDI contribute to corporate tax revenues in the host country.

Choong (2011) studied the panel data for a group of 70 developing and developed countries from 1998- 2002; using Generalized Method of Moments to identify the impact of FDI on financial development and economic growth. They concluded that in developing countries, the effect of FDI on economic growth was negative and significant. The result of the study supported the notion that low level of development of financial sectors in developing countries and weak rules and regulations that leads towards misappropriate distribution of private capital badly affect the economic performance of the country.

Wu & Chiang (2008) endeavoured to find if FDI can facilitate economic development. The study applied the threshold regression analysis. The empirical analysis concluded that FDI does play a defining role in the economic development. This was found out after an analysis of data of 62 countries from the year 1975 to 2000. The study found that FDI depends significantly on the initial GDP and human capital. This means that countries that have a significant GDP prior to FDI showed a positive relationship.

Naz, Sabir and Ahmed (2015) analysed the effect of foreign direct investment (FDI) on economic growth of Pakistan, using time series data for 35 years from 1979-2013. With data of FDI, GDP and inflation from the World Bank, a multiple linear regression model was used to find out the impact of FDI and inflation on economic growth of Pakistan. Unit root test was used for stationarity of data. The results of the study revealed that FDI and inflation significantly affect economic growth of Pakistan. Specifically, FDI has positive relationship with GDP while inflation has negative relationship with GDP.

2.3.2. Nigerian

In their study on the relationship between FDI and poverty reduction in Nigeria, Ogunniyi and Igberi (2014) empirically analysed secondary data from the Central Bank of Nigeria and the World Bank for the period 1980-2012, using the Ordinary Least Squares Estimation Approach. The results revealed that FDI has a positive but not significant impact on real per capita income and hence does have the potential of reducing poverty in the country. The insignificant impact on the Nigerian economy may be due to the under development of human capital, backward institutions, crowding out of domestic investment or other reasons which require further investigation. They maintained that the fact that FDI does not have a significant impact on poverty reduction has an important implication for policy makers.

Aderemi, Olowo, Osisanwo, & Omoyele (2021) examined the relationship between FDI inflows and poverty reduction vis-à-vis Human Development Index; which they believed majority of past studies have not fully explored in Nigeria. Data were extracted from secondary sources with application of ARDL and Bounds test technique. Their major findings include the fact that FDI net inflows had an insignificant negative relationship with GDP per capita, net FDI inflows had a negative but insignificant relationship with literacy rate, net FDI inflows had an insignificant positive relationship with life expectancy which measures welfare of the people in terms of health. Consequently, they proffered that policy makers should address poverty holistically in the country by targeting human development variables, policy measures that would stimulate FDI inflows into the country should be encouraged, and FDI inflows in the country should be utilised maximally in order to bring poverty reduction in the country in the short run.

Danja (2012) examined the applicability of FDI and the impact they have on the Nigerian economy. The study used both econometric and statistical methods on data of over 30 years in order to evaluate the relationships between FDI and major economic indicators. The study revealed a positive relationship between FDI and those variables, but FDI has not contributed much to the growth and development of the Nigerian economy and this was attributed to the repatriation of profits, contract fees, and interest payment on foreign loans. The study therefore recommended human capacity building, infrastructural facilities and strategic policies to attract FDI inflow.

Akinlo (2004) investigated the impact of foreign direct investment (FDI) on economic growth in Nigeria for the period 1970–2001. The ECM results showed that both private capital and lagged foreign capital have small, and statistically insignificant effect, on the country's economic growth. The results seem to support the argument that extractive FDI might not be growth enhancing as much as manufacturing FDI. In addition, the results showed that export has a positive and statistically significant effect on growth. Finally, the results show that labour force and human capital have significant positive effect on growth. These findings suggested the need for labour force expansion and education policy to raise the stock of human capital in the country.

Asiodu (2005) uses panel data for 22 countries over the period 1984-2000 to examine the impact of natural resources, market size, government policies, political instability and the quality of the host country's institutions on FDI. The main result is that natural resources and large markets promote FDI. However, lower inflation, good infrastructure, an educated population, openness to FDI, less corruption, political stability and a reliable legal system have a similar effect. These results suggest that countries that are small or lack natural resources can attract FDI by improving their institutions and policy environment.

Ayadi (2007) in his study on FDI and Economic growth in Nigeria over the period 1980-2007 found that FDI has not contributed significantly to the explanation of output growth in Nigeria. The failure of FDI to generate the desired growth rate is attributed to the limited infrastructural development in Nigeria. He also found that FDI has some level of influence on export of goods and services. He recommended that Nigeria should invest in human capital development in order to benefit from technological spillovers or other externalities associated with FDI. This recommendation was made because the study found human capital an essential factor in the FDI-growth debate in Nigeria.

Building his analysis within the framework of institutional utilitarianism, Hassan (2018) posits that the essential FDI strategies for achieving the greatest happiness for the greatest number of Nigerians are political and not economic. He used both content analysis and descriptive survey methodology in carrying out the study. The study finds no significant relationship between transition to democracy and FDI inflows in Nigeria, as most of the attracted investments during the period of the study were market and resource seeking as was the case during the military regime, thereby contributing minimally to the socio-economic development of the country. Consequently, the poor state of infrastructure, weak institutional capability and insecurity were identified as the major factors seriously hindering the success of Nigeria in exploiting FDI for domestic development. He recommended that emphasis should be placed on those measures aimed at improving the infrastructural facilities, building solid institutional framework, enhancing skill and technological transfer and coordinating FDI promotion activities by different agencies and at different levels of government.

3. METHODOLOGY

The methodologies utilised in this article involved content analysis, contextual analysis and descriptive research. Content analysis involves desk review of literatures that culminated in the development of the study's conceptual and theoretical framework of analysis. While content analysis focuses primarily on the content itself, contextual analysis examines how social and environmental factors shape that content.

Descriptive research is an exploratory research method that enables researchers to precisely and methodically describe a population, circumstance, or phenomenon. These methodologies were later backed up with empirical secondary data on FDI inflows and value added to the Nigerian economy as released by the National Bureau of Statistics (NBS), Central Bank of Nigeria (CBN), Nigerian Investment and Promotions Council (NIPC), Ministry of Trade, Industry and Investment, United Nations Conference on Trade and Development (UNCTAD), and statistical bulletins from other relevant agencies.

4. Impact of FDI on Nigerian Political Economy

4.1 Positive Impact of FDI on Nigerian Political Economy

The following are summaries of the positive impact of FDI on the political economy of Nigeria:

1. Economic Growth and GDP Contribution

FDI contributes positively to Nigeria's GDP by boosting industrial output and expanding business activities. The inflow of foreign capital supports sectors like oil and gas, telecommunications, and banking, strengthening the Nigerian economy. In a study by Dajuma (2021), he discovered that FDI inflows to the Nigerian oil and gas sector is unaffected by market size, electricity consumption, political violence and religious tension as indicated by the coefficient of these variables which fail the test of statistical significance at the conventional level of 5 percent. He believes that resource-seeking investors, do not usually take these factors into consideration, when making certain economic and commercial decisions. They rather consider the availability of resources and expected return on investment in the sector. The increased investment noticed in the Nigerian oil and gas sector inevitably leads to job creation and poverty reduction, which can reduce social unrest and political instability.

2. Infrastructure and Public Sector Development

There have been quite positive developments in infrastructure and public works in Nigeria as a result of Foreign Direct Investment (Agunbiade, 2024; Dalibi & Bello, 2017; and Ezeani & Ngoka, 2022). China's investment in the Belt and Road initiative has fostered rail and road transport infrastructure development in Nigeria especially with the development of transportation infrastructure with focus on railway and road development. These projects impact the host communities, areas beyond their locations and the country at large. The magnitude of such impacts cannot be easily quantified presently.

3. Job Creation and Skills Development

Foreign companies establish businesses that create employment opportunities for Nigerians. Knowledge transfer occurs as local workers gain technical and managerial skills from multinational corporations. The above-mentioned projects stimulate economic activities, create employment opportunities, and support local businesses, including small and medium enterprises.

4. Improved International Relations

FDI strengthens Nigeria's diplomatic ties with investor countries, leading to trade agreements and strategic alliances. Nigerian partnerships with China, the U.S., and the EU have improved economic cooperation and access to financial aid.

5. Policy Reforms and Governance Improvements

To attract FDI, Nigeria has implemented reforms such as the Ease of Doing Business initiatives and so on. Pressure from investors has led to regulatory improvements in sectors like banking, telecommunications, and oil and gas.

4.2 Negative Impact of FDI on Nigerian Political Economy

1. Foreign Influence on Domestic Policy

Multinational corporations and foreign governments may exert pressure on Nigerian policymakers to enact laws favouring foreign businesses. This may lead to policies that prioritise foreign investors over local industries and citizens.

2. Corruption and Political Manipulation

Large FDI inflows, especially in the oil and gas sector, have been linked to corruption, where politicians and officials misappropriate foreign investments. Foreign firms sometimes engage in corrupt practices to secure contracts, thereby undermining good governance. Overall, Nigeria ranks 145th out of 180 economies on the 2023 Corruption Perception Index, 109th among the 132 economies on the Global Innovation Index 2023 and 125th out of 184 countries on the latest Index of Economic Freedom. (United Nations Conference on Trade and Development - UNCTAD, 2023)

3. Exploitation of Natural Resources and Environmental Politics

Oil companies, particularly Shell, ExxonMobil, and Chevron, have been accused of environmental degradation in the Niger Delta. There have been series of political disputes arise between local communities, the government, and foreign investors over resource control.

4. Economic Dependence and Sovereignty Issues

Heavy reliance on FDI can weaken Nigeria's political independence, as foreign investors may demand policy concessions. Nigeria's dependence on Chinese loans and investments has raised concerns over debt diplomacy and national sovereignty.

5. Political Unrest and Conflicts

Unequal distribution of FDI benefits can fuel regional tensions, especially in oil-producing areas like the Niger Delta. Protests and resistance movements against foreign companies have led to security crackdowns, affecting Nigeria's political landscape.

5. CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

While FDI contributes to Nigeria's economic and political development, it also raises challenges related to foreign influence, corruption, and resource exploitation. To maximise the benefits, Nigeria must implement strong governance, transparency, and policies that balance foreign interests with national priorities.

5.2 Recommendations

1. Efforts should be intensified by Nigerian government on the war against terrorism through a combination of diplomatic engagement and foreign assistance by working with foreign government partners to develop modern warfare technologies that will build the capabilities necessary to prevent, degrade, detect, and respond to terrorist threats
2. Friendly economic policies and business environment need to be put in place in order to attract FDI into all sectors of the economy. Stricter Pollution Laws, enforcements of tougher environmental laws to prevent oil spills, deforestation, and industrial pollution should be strictly followed.
3. Corporate Social Responsibility (CSR) should be strictly enforced by government on foreign companies, requiring them to invest in community development projects like healthcare, education and provision of clean water. Tey should also promote sustainable practices and green technology thereby ensuring eco-friendly business operations.
4. Government should also strictly enforce and strengthen the various Local Content policies and statutes, thereby increasing local participation in economic activities. This will involve forcing foreign companies to partner with Nigerian firms and use the services of local suppliers.
5. Foreign investors should be mandated to train and transfer knowledge to Nigerian workers, thereby reducing dependence on expatriates. The abuse of issuing fraudulent expatriate quotas should be stopped, so long as there are capable and qualified Nigerians that can take up the various roles.
6. FDI should be diversified across multiple sectors, apart from oil and gas, telecommunications and construction. FDIs should be directed towards investment in agriculture, manufacturing and renewable energy in order to balance the nation's economic growth.

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