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Foreign Direct Investment and the Development of Neo-Colonial Economies: A Survey Approach

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Abstract: In their search for sustainable development and endurable development strategies, neo-colonial economies of the Third World and Africa in particular gloss over massive corruption in public office and sit-tight syndrome of leaders. Rather, since attaining independence in the 1950s and 60s, their leaders have tinkered with several development strategies drawn from both the capitalists and socialist models. In all of these, development has remained a far cry as a result of many challenges faced by these economies. Strategies ranging from indigenization to export promotion and import substitution of the 1960s, to privatization and structural adjustment of the 1980s and Foreign Direct Investment of the 1990s have been experimented with varying degrees of success. Little has been done in the area of checking financial corruption and abuse of office by public office holders, building of strong institutions from which economic oriented strategies can be rooted and checking tenure elongation by leaders of states. The results have been huge failures and frustration on the part of development partners. This paper has attempted a survey approach to Foreign Direct Investment as a way out of structural imbalances of neo-colonial economies. Basing this examination on Nigeria, findings have shown that Foreign Direct Investment can work for development only if host government regulate the activities of foreign investors and also create enabling environment for investment to yield expected results.

Keywords: Development strategies; Strong institutions; Vociferous civil society; Development partners; Financial corruption.

1. Introduction

The development of neo-colonial economy of "Nigeria", writes Williams (1982) "requires the transfer of state authority into indigenous hands". It is pertinent to add that even when state authority has passed on to "indigenous hands", the neo-colonial state still operated within the framework of capital which was fundamentally opposed to and disarticulated the pre-colonial economies. The quest for development strategies became obvious as decolonization furthered dependency rather than down play foreign economic domination.

Foreign Direct Investment hereafter referred to as FDI, promotes international flow of capital and financial ties among and between countries. It is accompanied more by strategic policies. National government and their firms are similarly concerned about creating enabling environment for investments within and between countries. The USA, Japan and the European Union (EU) are in the forefront of Foreign Direct Investment. China has also emerged as a contender with the leading facilitators and now is neck deep and surpassing established members especially in Africa.

Three contending perspectives are popular in any in-depth analysis of FDI. These paradigms are;

(i) FDI has stimulated economic growth of developing countries
(ii) FDI might not be growth enhancing due to the high capital flight it triggers and
(iii) FDI can work for development if certain challenges are surmounted or resolved.

After attempting conceptual clarification, this paper examines these contending paradigms; this would be furthered with the examination of activities of FDI in the industrial and peripheral economies like Nigeria and then a conclusion.

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2. Conceptual Definition of FDI

Various definitions have been offered to explain FDI. It is pertinent to say that no one definition conveys the meaning in all its various historical epoch; foreign investment has different forms and characteristics and motivated by different objectives.

Okongu (1984) defined foreign investment as a form of direct stake in the economic development of a country by foreign investors. Chu's definition has been described by some revisionists as apt particularly when it is considered that FDI is not an entirely modern development, but traced back to the 18th and 19th century.

FDI, according to Aja (2001) is investment behaviour when an individual or industrial firm has expanded assets resources from one country to the other in compliance with the legislation of the host country. It takes the form of capital flows across national boundaries.

In its classic form, FDI is defined as a company from one country making a physical investment like building a factory in another country. It is the establishment of an enterprise by a foreigner (www.en.wikipedia.org).

As the name implies, foreign investment means investment in another country by foreigners; it may be a group or one investor owning a company in a host country. This company or companies may be floated in form of a subsidiary or associate, through equity participation or companies that are affiliate. These foreign investors may have or may not have any firm in their home country, but come to Nigeria for instance, to float and manage a company.

Historically, foreign investment means imperialism in its form and characteristics, an expression of 19th century industrial monopoly capitalism in Europe.

According to Hobson (1902) FDI is

> The endeavour of the great controllers of industries to broaden the channel for the flow of their surplus wealth by seeking foreign markets and foreign investment to take off the goods and capital they cannot sell or use at home.

As plausible as Hobson's view may seem, it fails to highlight the basic issue of economic inequality between the foreign investors and the host country; for instance, the United States investments in Nigeria and Africa in general.

Barrat. (1974) is even more convincing when he defined foreign investment as:

> the outward drive of certain peoples…to build empire both formal colonies and privileged positions in markets, protected sources of raw materials and extended opportunities for profitable employment of labour…an unequal relationship between states not simply the inequality of large and small, rich and poor trading partners, but the inequality of political and economic dependence of the later on the former.

Be it as it may, foreign investment as differently conceptualized by writers and scholars cannot be overemphasized. "It is a measure of foreign ownership of production assets such as factories, mines and land". Increasing foreign investment can be used as one measure of growing economic globalization. The largest flows of foreign investment noted (Aja, 2001) occur between the industrialized countries of the North America, North West Europe and Japan. The flow of foreign investment to non-industrialized countries is increasing.

International resource flows, Aja noted, are not specific or selective; investment extends to foreign economic and business activities in agriculture, manufacturing, mining, ship construction and development, electronic and communication industries, biotechnology and construction industries (Aja, 2001).

FDI creates greater challenges of industrial organization and management. As it is not easy to manage assets abroad, industrial firms or organizations seek ways of controlling labour cost, tax policies, trade barriers, economic infrastructure, productive technology and inter-firm competition. FDI is heavily profit oriented. It is facilitated by multinational corporations hereafter (MNCs) that command the monopoly of world capital, technology and market ideology. MNCs according to (Aja, 2007), accounts for 95% total world FDI. "They facilitate the flows of capital and technology across national boundaries by adopting entry strategies, corporate strategies, optimal timing, strategic location behaviour, trade creation and trade diversion and market service strategies".

It is pertinent to state that workers and elements of technical knowledge also flow with investment capital beyond national boundaries.

3. Views on FDI

Three contending perspectives on FDI have been indentified here for a critical examination. The first paradigm holds that FDI has simulated or has capacity to trigger economic growth of developing countries.

A study conducted by the Global Development Finance noted that foreign investment triggers technology spillovers, assist human capital formation, contributes to "international trade integration, helps create a more competitive business environment and enhances enterprise development" (Business Day, 2008) all of these factors according to the study, "contributes to a higher economic growth which is the most potent tool for alleviating poverty in developing countries". The study maintains that beyond the strictly economic benefits, foreign investment may help improve environmental and social conditions in the host country by for example, transferring of environmental friendly technologies culminating in more socially responsible corporate policies.

Effiom and David (1996) noted that in the case of Nigeria, there are overwhelming facts and figures in support of the absolute necessity to realign the economy with global trends. According to the duo, there are over 1000 state owned enterprises in Nigeria; many of these enterprises gulped billions of Naira without yielding much positive result by satisfying the customer due to poor management, among other factors. Effiom and David however, failed to see the impact of corruption for instance, as a serious bane on the performance of public enterprises.

For Irving Williamson (1997) following economic deregulation and consequent upon a number of changes in economic development policy, foreign investment has stimulated the economic growth of developing countries. It is however, pertinent to point out that there can be growth without development.

The second perspective holds that FDI might not be growth enhancing due to the high capital flight it triggers. According to observers, the deteriorating balance of payment as profits are repatriated, a lack of positive linkages with local communities, the potentially harmful "environment impact of foreign investment especially in the extractive and heavy industries, social disruptions of accelerated commercialization in less developed countries and the effect on competition in national market produces negative effect to growth". In addition to the above, authorities in some countries view Foreign Direct Investment as perpetuating dependency on multinational enterprises with the effect of undermining the sovereignty of host' state. Some expected benefits may prove elusive if, for example, the host economy in its current state of economic development is not able to take advantage of the technologies or know-how transferred through foreign investment.

According to Effiom and David (1996) it is crucial for instance, to ensure that the current foreign investment exercise does not leave Nigerians at the mercy of private monopolies, noting that, private monopolies are worse than public monopolies. In the same vein, Akinlo (2004) has shown that foreign investment might not be growth enhancing due to the high capital flight it generates.

The third school of thought maintains that FDI can work for development if certain challenges are surmounted. According to this perspective sub-Saharan Africa attracts only a small share of total FDI flows as a result of the litany of compounding challenges. If FDI is to work, this viewpoint opines that these challenges will have to be addressed. Most of the challenges identified by Te Velde include:

i. To determine whether and how FDI fits in with development objectives
ii. Think in terms of quality, not quantity
iii. Prepare well
iv. Reduce conflict and corruption
v. Provide appropriate infrastructure and appropriate skills
vi. Implement FDI policies consistently and actively
vii. Understand the pros and cons of international investment agreements
viii. Facilitate trade
ix. Provide a transparent and appropriate incentive and regulatory framework and
x. Promote linkages with available means (Veld, 2001)

In summary therefore, argument for and against FDI as facilitators of development have been stated here as follows;

1. Job creation and employment opportunities
2. Skill training/technology transfer
3. Economic development
4. Social/welfare services
5. Promotion of economic interdependence.

On the other hand, FDI as agents of underdevelopment include factors such as:

1. Transfer of obsolete technology
2. Environmental population
3. Repatriation of salaries and profits
4. Lack of interest in local investment
5. Over invoicing
6. Intervention and influence in host country's politics
7. Evasion of taxes, etc.

4. FDI among Industrialized Economies

It is interesting to note that since the 1980s, the industrial economies have altered the strategic location and trade behaviour in favour of the developed economies. Industrial economies now concentrate in cross targeting flow of capital and technology causing a decline of FDI in the less developed countries. USA, Japan and Europe now penetrate one another with greater flow of capital and technology. The USA and the Japanese monopolies, writes Aja (2001) find it more profitable to build numerous subsidiaries in other developed countries with a view to achieving trade caution and diversion as well as manipulating the protectionist trade barriers.

The USA has maintained the lead, with Japan as the strongest rival. Both the USA and Japan, target each other for penetration and export of capital and technology.

In this rivalry, national borders are no longer a barrier to the flow of capital. Russia, China and other hitherto socialist market economies are now more open to FDI. The competition among the USA, Japan and the EU is high with each of them concerned about the creation of investment climate in what Aja (2001) terms the Japanization of America, the Americanization of Europe as the case may be. In this trade war according to Aja, none of the EU nations has the power needed to challenge either the USA or Japan or both. The EU single market was therefore, initiated, to meet the challenge of globalization. It was designed to provide European firms with a domestic base large enough to compete with the USA and Japan.

5. FDI in the Peripheral Economies: Nigeria

With the strategic location behaviour of firms, the investment interest of the highly industrialized economies in less developed countries hereafter (LDCs) has declined. The risks of investing in LDCs are higher than the opportunities due largely to the lack of investment climate.

Literature has shown that most of the LDCs are crisis-ridden in politics, economics, social life, market technology and technological development. Taking Nigeria for instance, FDI in Nigeria has remained low, largely, due to democratic failures, environmental problems and so on. In the strategic industrial behaviour of the developed economies, FDI in the LDCs is the function of good government based on democratization and sustainable economic policies.

Nigeria, “a rich land of lost opportunities”, according to critics, has been described by the USA as one of the four priority countries in the world. Others are Columbia, Ukraine and Indonesia. According to Bill Clinton, the USA is interested in Nigeria because the stakes are so high

> …a democratic Nigeria is a key to a stable and prosperous West Africa, an invigorated Africa, and to US national and economic security. Nigeria is our good largest trading partner in all Africa. (Aja, 2001).

Until recently, the USA is Nigeria’s largest trading partner. USA investment in the country’s petroleum sector is over ₦700 billion, with Japan, Belgium, Britain, France, Germany, India and China showing keen investment interest in Nigeria’s economy and natural resources (Aja, 2001). The resource potentials of Nigeria are considerable. The country has no less than thirty-three strategic solid mineral resources, untapped. The country is rich in oil and gas; a rich and luscious vegetation with attractive climate is an attraction to the industrial economies (Aja, 1998).s

France is the second largest investor in Nigeria’s economy. Its stakes in the Nigerian economy are high. France’s varied operations in Nigeria can be identified in six main areas including oil and gas, the automobile, building and civil engineering, electricity, chemicals/pharmaceuticals, and the food industry. French investment in Nigeria as at 2008, has reached about 4 billion US Dollars, “more than all of the rest of West Africa” and ranking behind the United States (Ethiopianreview.com Nov.14, 2008). Nigeria comes second to Morocco as France trading partner in Sub-Saharan Africa. France’s substantial involvement in the economy of Nigeria is predicated on “the conviction that a genuine partnership would lead to technological transfer and by extension the development of the region” (Nigerian News, May 2009).

China’s Foreign Direct Investment in Nigeria has increased with most of its FDI directed towards infrastructure, agro allied industry, manufacturing and communication sector (Enor and Chime, 2015). Chinese state oil companies have in the last decades made considerable inroad into the competitive oil sector. Its strategy for gaining resources in any Third World country is to invest. A conservable amount of its FDI is directed towards infrastructure to accentuate the whole of Chinese multinationals in Nigeria which will facilitate trade. China has been able to dominate the market and place itself as Nigeria’s largest trading partner today.

There is also Japan, in the lineage of FDI in Nigeria. In 1991, Japanese trade delegation was in Nigeria for trade and investment promotion. All of these robust investment activities are not without matters arising. Apart from repatriation of funds, the ambiguity associated with technology transfer, trade imbalances and other hallmarks of FDI, are also local issues of poor infrastructure, political instability, massive corruption inter-alia, combining to frustrate or obscure the benefits of FDI.

The near absence of a vociferous civil society which should rise up to checkmate the activities of corrupt public office holders and even uproot the sit-tight Heads of States, is compounded by week institutions which only answer to the interest of their paymasters. It is little wondered therefore, that the well-meaning efforts of development partners is most times obscured.

6. Conclusion

In a globalized economic system, the LDCs cannot develop without Foreign Direct Investment. But they must also have a conducive investment atmosphere as outlined earlier. The agriculture, manufacturing and productive sectors of LDCs are low and need revitalization. Corruption in public and private life needs to be addressed with very stringent measures.

Foreign investment should be measured by their contribution and upliftment of host economy. Profit driven foreign investment is risky to the development of the neo-colonial economies. Foreign investment should be on terms acceptable and profitable to host country such as is practiced in Mali and Libya before the Arab Spring. FDI can make or mare depending on the ideological and other paradigms of the ruling elites. A situation where Nigeria, as reported by the House Committee on Finance, exports crude oil for four months and realizing nothing because of repatriation of profits does not augur well for a mono-culture economy like Nigeria. FDI has the capacity to disarticulate and disorientate host economy, if not guided. It can also encourage skill acquisition; enhance employment and management techniques if regulated.

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