Factors Influencing Foreign Direct Investment in Nigeria (Case Study Nigerian Oil and Gas Sector)

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Abstract:-**This study examines the variables that influence foreign direct investment in Nigeria using the Nigerian Oil And Gas sector as case study. Noting that there is significant evidence on the link between FDIs and economic growth in the Oil and Gas sector, the results submitted by researchers in the field of FDI determinants and the impact of FDI determinants in this sector are still not clear. Following this, the study identified underlying Human capital factors that affect the flow of FDI into the sector while taking note of the infrastructural and policy factors affecting FDI flow. The study adopts a survey research design where a self-structured questionnaire was administered to senior and junior staff of the multinational oil and gas companies in Nigeria to establish the relationship that exists between FDI determinants and the growth of Nigerian oil and gas industry. Data collected was analyzed using frequency charts and percentages while Chi-square was used to test the study hypothesis. From the study findings, it was revealed that human capital factors and infrastructural factors have a significant effect on flow of foreign direct investment into the oil sector. Also the findings show that the relationship between flow of FDI into Nigeria's oil sector and growth of the economy is significant also. Therefore FDI is an important instrument for growth of the economy. The study further recommended that MNC entering the sector should engage itself in the field where it can make a difference through quality, low cost and the Market analysis for of MNC should be geared towards obtaining competitive advantage.**

I. INTRODUCTION

Foreign Direct investment (FDI) is a direct investment by way of a company in a industrial undertaking in another country. Mallampally and Sauvant outline FDI as an investment via multinational corporations in foreign countries so one can assets and manage production activities in an international locations (1999). It plays an brilliant and growing position in global business by means of imparting a company with new markets and advertising and marketing channels for their merchandise. For a host countries or the foreign firm which receives the investment, it gives a source of latest technology, capital, procedure, merchandise, organizational technologies and modern management practices. All of these are presumed to make contributions to economic boom and development in an economy. FDI is essential not just for the developing countries however also for developed nations.

Statement of the Problem

FDI is among the many challenges of the Nigerian economic system which was changed into a macroeconomic volatility driven in large part through outside terms of exchange shocks and the united states's large reliance on oil export earnings. in keeping with world bank file (2003) through some measures, Nigerian economic system ranked the various maximum risky within the international for the period, of 1960 to 2000.Though, FDI is accepted to be a stimulant to economic growth, most of the empirical studies that have been undertaken in this field have used panel data for some of countries to set up the cacountryl relationships. within FDI determinants, the outcomes of studies performed at on the linkage among FDI determinants in a country are not unanimous in their submissions.

Results submitted by reviewed researchers in this field of determinants of FDI and the impact in the Nigerian economic system are nonetheless now not clear. Ekpo, examined the relationship among FDI and some macro economic variables for the length 1970-1994 and determined that political regime, real income per capita, price of inflation, world interest rate, credit rating, and debt service defined the variance of FDI inflows to Nigeria (1997). Adutse, submits that the development and improvement of Africa and certainly Nigeria's economic system relies upon largely on foreign direct investment (FDI) which has been described because the major provider for switch of recent scientific and related technological innovation (2008). for the duration of the pre-deregulated era, Nigeria witnessed a number of tight regulations which constrained FDI inflows into the country. but in the era of deregulation, Nigeria witnessed a variety of adjustments within the economic system specifically in element of infrastructure, economic device, privatization and liberalization of the oil sector and some different sectors of the economic system. these necessitated the influx of FDI within the country. since 1986, when deregulation started, foreign direct funding in Nigeria has been on the increase consequently making Nigeria the 19th greatest recipient of FDI in the world, UNCTAD, (2009)

Objectives of the Study

The Objectives of the study include:

1. To identify the underlying human capital factors that affect the flow of FDI into Nigeria
2. To explore the infrastructural factors and their impacts on the flow of FDI in Nigeria
3. To investigate the policy changes and its impact towards attaining sustainable economic growth in Nigerian economy with specific interest on the flow of FDI based on the findings of this research.

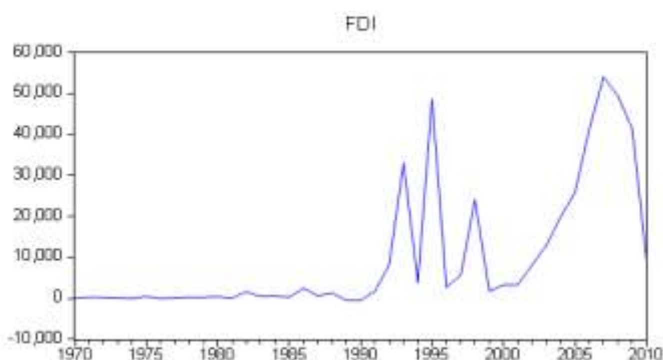
II. REVIEW OF RELATED LITERATURE

Foreign Direct Investment Inflows in Nigeria

There is the view that FDI tends to be larger in countries that are riskier financially, underdeveloped and institutionally weak, (Hausamann and Fernandez- Arias, 2000). In 1960 to 1970, Nigeria depended highly on foreigners for investment in the country and, that was why FDI was regarded as a means for political and economic domination of Nigeria. prompted this, the Nigerian government policy mkers resolved to restrict foreign funding into nigeria . the Nigerian establishments promotional Decree (NEPD) Promulgated in 1972 and turned into amended in 1977. The NEPD that turned into mounted was additionally called indigenization coverage, Its intention was geared closer to regulated inflows of FDI in Nigeria throughout the period, additionally throughout this era only 60% FDI stake preserving became allowed by using foreigners. This resulted in a decline in fdi and bogged down the tempo of economic activities in all sectors of the economy Nigeria.

In Nigeria, 1986 marked the beginning of deregulation era. In an attempt to create a suitable environment for investors, the Nigerian government created the structural adjustment programme (SAP) in July 1986.The programme integrated change and trade reforms reinforced via monetary and economic measures that enabled diversification inside the economy's mono-export base. The implementation of SAP was to to result in improvement inside the economic system more in particular within the sharp trade price depreciation which changed into expected to discourage importation and make exportoriented multinational benefit on their funding. at some stage in this period, Nigerian economic system recorded wide fluctuation in trade price and inflation fee uncertainly heightened up till the 2017. After the introduction of SAP, there had been extreme political conflicts in the united states of america and this paralyzed each sphere of the Nigerian economy. This improvement limited the achievements of the reform programme beneath SAP. this period turned into characterized by the technology of army rule in the united states. The return of democracy on may also 29, 1999 raised hopes of redressing socio-monetary damages of the navy rule.

Fig 3: FDI inflows to Nigeria 1970-2017



Source: Authors Calculation

From the Figure 4above, it presents the FDI inflows in Nigeria during the Pre and Post Deregulation era in Nigeria (1970-1985 and 1986-2017). During these periods, Nigeria witnessed greater foreign direct Investment (FDI) inflows starting from the Pre-Deregulation Era N121.60m and declined in 1973 to N192.60m. It later increased in 1975 and declined in 1976. But starting from the Deregulation Era, FDI inflows increased tremendously toN2,499.60 million in 1986and declined in 1987 and peaked at N1,345.00 million in 1988. Later half of the 1990s, the annual net flow of FDI into Nigeria increased and dropped in 1999 up to 2002. Then in 2003 it increased again, continuously up to 2009 and dropped by 78.1% in 2017.

Determinants of FDIs

Foreign Direct investment determinants have been mentioned in a broadly examine literature. Overseas Direct funding is classed into two sorts: - market orientated and export-orientated FDIs. And in those classes, there are lots of factors that determine the influx of FDI into a particular country. these factors can be categorized into micro determinants and macro determinants. Krugell defined the micro-determinants of FDI as FDI that are mainly worried with those region specific factors that have an impact on the profitability of FDI at firm's or enterprise stage (2005). The host us of a characteristics that influence productivity and cost at this micro stage include market size and growth, labour charges, tariffs, host authorities rules and alternate obstacles. The macro-determinants of FDI are the elements that impact profitability and the selection to make investments at an economy-extensive stage (Krugell, 2005).these are the scale and increase of the host marketplace, exchange quotes and political stability. these elements are called export orientated in nature and it appears at cost competitiveness. Holland reviewed numerous studies on determinants of FDI and produced evidence of the importance of market length and increase capability as determinants of FDI. underneath are the elements that decide the FDI inflows into a country (2000). this is based on the micro and macro-determinants discussed above and different factors mentioned in my view at the FDI willpower in an economic system. There are also a few elements in commonplace for both styles of FDI. Nigeria is concept to have some of these characteristics:

- Market size and growth of the Nigerian Economy
- Natural and human resources endowments-cost and productivity of labour
- Openness to international trade and access to international markets
- Development of the regulatory frame work and economic policy coherence.
- Inflation Rate
- Exchange Rate
- Infrastructure
- Investment Incentives

Empirical Review

There are several studies that have articulated theoretically and empirically foreign direct investment determinants in a country but very few studies on foreign direct investment determinants in Nigerian economy. Moreover, most theoretical studies in the literature of FDI location only focused on this issue in the developed countries such as the United States and countries from European Union (EU) (Bartik, 1985; Coughlin, Terza and Arromdee, 1991; Friedman, Gerlowski & Silberman, 1992). Less is understood about the determinants that drive FDI into emerging economies, such as Nigeria, China and Hundai (Batra, 1997; Child & Tse, 2001 and Asiedu, 2002).

Dunning, in his study, argued that foreign direct investment (FDI) is determined by three sets of advantages which direct investment should have both at home and abroad. The first advantage is the ownership, specific one includes the advantage that the firm has over its rivals in terms of its brand name, patent or knowledge of technology, and marketing. This allows firms to compete with the other firms in the markets it serves regardless of the disadvantages of being foreign (1981). The second is the internationalization advantage, that is advantages by own production rather than producing through a partnership arrangement such as licensing or a joint venture. The third and final one is the location-specific advantages which relate to the importance for the firm to operate and invest in the host country and are those advantages that make the chosen foreign country a more attractive site for FDI than the others. For example, firms may invest in production facilities in foreign markets because transportation costs are too high to serve these markets through exports.

Ekpo, in his study on determinants of foreign direct investment in Nigeria examined the relationship between FDI and some macroeconomic variables. The results showed that the political regime, real income per capita, rate of inflation, world interest rate, credit rating, and debt service explained the variance of FDI inflows to Nigeria (1997).

An empirical analysis of the relationship between foreign direct investment and its determinants reveals that the markets size of the host country, deregulation, political instability and exchange rate depreciation, endowment of natural resources and inflation are significant determinants of FDI to Nigeria. Most of the authors, found market size to be positive and significant in attracting FDI among other variables (Soumyanada, 2009; Yuko and Nauro 2002; Beatrice and Adolf,2004; Asiedu, 2002; Obadan, 1982; Anyanwu, 1998; Iyoha 2001; LVNa and Lghtfoot 2006; Isabel 2005; Ewe-Gylee 2001; fung, lizaka, Lee and Parker 2000; Billington, 1999; Shatz and Variables, 2000; Dees, 1998; Branard, 1997; Loree and Guisinger, 1994).

Soumyananda, in his study, employement, exchange rate, inflation rate, openness and natural resources are variables affecting FDI. Using vector error correction model, the results, shows that in the long run, FDI inflow to Nigeria is co-integrated with natural resources outflow, GDP per capita, openness, inflation and foreign exchange rate. Also to be noted here is that the coefficients of error correction of FDI flow and foreign exchange rate are significantly negative whereas that of resources flow and GDP are significantly positive(2009).

Marcelo and Mario using econometric model based on panel data analysis for 38 developing countries (including transition economies) for the period of 1995 – 2000 period and concluded that FDI is correlated to level of schooling, economy's degree of openness, risk and variables related to microeconomic performance like inflation, risk and average rate of economic growth (2002).

And finally, Carolyn and Lynne in their study on factors determining the form and volume of private foreign direct investment in Southern Africa found out that FDI is one element linking Southern Africa to the global economy. The result is not isolated however; as it has also been found on trade flows (see Brun 2002, as well as Didier and Head, 2004).

III. RESEARCH DESIGN

This research investigation has a nature of sample survey. Its design seeks the relationship that exists between FDI determinants and the growth of Nigerian oil and gas industry. The data collected so far are both primary and secondary data. They are sourced internally and externally. The raw data collected externally arefrom representative samples and a self-structured questionnaire used as a guide for the discussions with the staff and customers of the selected oil companies in Nigeria. The interview supplements the information derived from the questionnaire and help to reduce the rigidity associated with the designed questionnaire.

The authors of related empirical studies provided some of the secondary data. The fact that this study needs an in-depth descriptive record, the recorded data in the CBN annual statistical bulletin 2017, FOS report 2017 and others were also used. An effort was made to structure the questionnaire into multiple choices, questions that gives the respondent the opportunity to choose from a range of options. The instrumentation was divided into sections with twenty-eight (28) items in total. Apart from the personal data, the first section elicits more on the research objectives. The 5 point Likert scalewas used and the instrument was correlated for reliability. The items used for the pilot testing are more of negatively keyed than the 28-structuredquestionnaire. Copies of the questionnaires were administered directly to the respondents. The emphasis on the analysis was placed on those questions, which have direct bearing on the proposed research questions and objectives of the study so that both the subjectivity and objectivity of the research can be actualized. However, the research will be based on the data available to the researcher. Therefore, the degree of variability of the population for the study is the senior staff and those junior

staff of the oil and gas companies with minimum of BSC degree holding from faculties related to the study. The respondents and all involved cannot be reached in the geographical coverage, and there is the problem of time limit and/or financial insufficiency, this fact led to the decision on a defined population.

Sample Size Determination

This criterion targets at least 300 respondents depending on the outcome of the field surveying.

The research is determined to accommodate a critical parameterat an acceptable confidence level of 5% if evenly distributed while the 5% will reflect the chance of committing an error.

However, to obtain this confidence, the Taro Yamane formula is used to determine the sample size of the targeted population, to be studied:

$$n = \frac{N}{1 + N(e)^2}$$

Where, n = Sample size unit

N = Total population

e = Degree of acceptable error margin (5%)

I = Constant

From the surveying carried out, the data obtained are stated in tabular form:

Selected Oil companies	Companies Staff	Junior Staff	Total
Shell	64	174	238
NNPC	54	144	198
Total	118	318	436

Source: Field Survey

$$n = \frac{436}{1+436(0.052)} = \frac{436}{1 + (0.0025)}$$

$$= \frac{436}{1 + 1.09} = \frac{436}{2.09}$$

$$= 201.61 = 202$$

Approximately 202 units were distributed but 100 was returned representing 52% sample size.

The statistical tool to be used to determine the standard error of mean will be Chi-Square (X^2). It will help in making appropriate inferences through this statistical hypothesis testing and its application in decision-making. The SPSS statistical software will be used for the data analysis.

IV. DATA ANALYSIS AND RESULTS

The hypotheses of this study are:

HO_1: human capital factors do not have a significant effect on flow of foreign direct investment into the oil sector

HO_2: infrastructural factors do not have a significant effect on the flow of FDI into Nigeria's oil sector

HO_3: there is no significant relationship between flow of FDI into Nigeria's oil sector and growth of the economy

Hypothesis one:

Human capital factors do not have a significant effect on flow of foreign direct investment into the oil sector.

To test for this hypothesis, response to question one from section two was used for chi square.

To what extent do you think that human capital factors affect the services of Oil and gas companies?

very strongly	61
strongly	21
Rarely	8
no idea	10
TOTAL:	100

Contingency table for hypothesis one

O	E	O-E	O-E^2	O-E^2/E
61	25	36	1296	51.84
21	25	-4	16	o.64
8	25	-17		11.56
10	25	-15	225	9
100				73.04

X^2 Calculated Value = 73.04

To obtain X^2 Critical Value, we use the degree of freedom (df) and level of significance given as 5%

df = K-1 =5 -1 = 4, -- = 0.05

X^2 (0.05) = 11.07

X^2_5Critical Value = 11.07

Decision Rule: Because the Calculated Value of X^2 (73.04) is greater than the Critical Value of X^2 (11.07), we reject null hypothesis and accept the alternative hypothesis which states that Human capital factors have a significant effect on flow of foreign direct investment into the oil sector. This relationship

is supported by Carnegie in his work, He believed that human capital quality is a major challenge of multinational companies situated in developing countries (2009).

Hypothesis Two:

Infrastructural factors do not have a significant effect on the flow of FDI into Nigeria's oil sector

To test for this hypothesis, the study uses business environment as a proxy for infrastructure therefore, the question 'Is the business environment in Nigeria suitable for growth of Multinational Companies?' is used to test the hypothesis.

Is the business environment in Nigeria suitable for growth of Multinational Companies?

Strongly agree	10
Agree	11
Disagree	28
Strongly Disagree	51
TOTAL:	100

Contingency table for hypothesis Two

O	E	O-E	O-E^2	O-E^2/E
10	25	-15	225	9
11	25	-14	196	7.84
28	25	3	9	0.36
51	25	26	676	27.04
100				44.2

X^2 Calculated Value = 44.2

To obtain X^2 Critical Value, we use the degree of freedom (DF) and level of significance given as 5%

df = K-1 =5 -1 = 4, -- = 0.05

X^2 (0.05) = 11.07

$X^2{}_5$Critical Value = 11.07

Decision Rule: Because the Calculated Value of X^2 (44.2) is greater than the Critical Value of X^2 (11.07), we reject null hypothesis and accept the alternative hypothesis which states that Infrastructural factors have a significant effect on the flow of FDI into Nigeria's oil sector.

Hypothesis Three

There is no significant relationship between flow of FDI into Nigeria's oil sector and growth of the economy.

From the questionnaire, the proxy for economic growth for this study was favorable balance of trade. Thus investigation is carried out to evaluate the relationship between FDI in oil sector and economic growth. As such the response to the question 'To what extend has FDI in oil and gas industry helped Nigerians bridge the digital divide gap between exportation and importation?' will be used to test the third hypothesis.

To what extend has FDI in oil and gas industry helped Nigerians bridge the digital divide gap between exportation and importation?

very high	50
high	32
Average	8
low	10
TOTAL:	100

Contingency table for hypothesis Three

O	E	O-E	O-E^2	O-E^2/E
50	25	25	625	25
32	25	7	49	1.96
8	25	-17	289	11.56
10	25	15	225	9
100				59.08

X^2 Calculated Value = 59.08

To obtain X^2 Critical Value, we use the degree of freedom (DF) and level of significance given as 5%

df = K-1 =5 -1 = 4, -- = 0.05

X^2 (0.05) = 11.07

$X^2{}_5$Critical Value = 11.07

Decision Rule: Because the Calculated Value of X^2 (59.08) is greater than the Critical Value of X^2 (11.07), we reject null hypothesis and accept the alternative hypothesis which states there is a significant relationship between flow of FDI into Nigeria's oil sector and growth of the economy.

V. DISCCUSSION AND LIMITATION OF STUDY

Human Capital Factors Affecting FDI

Human capital has long been considered an important factor in promoting the building of knowledgebase economy for accelerated economic growth and development. It is a part of the investment climate of the economy and it implies skilled labour, that is, skills are acquired by individuals through investment in education and training. The hypothesis that human capital in host countries is a determinant of foreign investment has been embodied in the theoretical literature that views FDI as an important element of economic growth and development. Example of such theoretical frame wok is the economic growth models pioneered by the likes of (Schultz,1961 and Becker, 1964).

Following this, the study investigated the influence of human capital factors in FDI flow into the oil sector in Nigeria. The

study assessed human capital measures such as the quality of the labour market in Nigeria, human capital incentives and organizational operations of MNC as factors that could limit the flow of FDI into the sector. From the findings, 61%, 51% and 37% of the sampled population strongly agreed to quality of the labour market in Nigeria, human capital incentives and organizational operations of MNC respectively as factors influencing FDI flow into the sector. The tested hypothesis revealed a significant relationship between human capital and FDI suggesting that this factors plays crucial role in influencing FDI. The tested hypothesis for this study is similar to that of Kalaitzidakis, which showed that a well-educated workforce is perceived as significant incentive for foreign investment location decision(1997). The finding is also in line with that of McKean which showed that MNC are attracted to location that tends to reduce cost of production and wages for human capital is a major part of cost of production (1993).

Infrastructural Factors Affecting FDI

One of the first studies on the determinants of FDI that included a proxy for infrastructure is the one by Root and Ahmed in 1979. They found that 'commerce and transport', which was defined as the average percentage of a country's GDP attributable to wholesale and retail trade, transport, and communication, had a significantly positive effect on FDI. Over the years various improvements have being made on their work such as Biswas study on FDI determinants and using communication industry as proxy for infrastructure (2002). A more comprehensive study on infrastructural factors affecting FDI is the work of Cheng and Kwan who used business environment which was the sum of all the proxy for infrastructure listed above as a determinant of FDI. The study of Cheng and Kwan revealed that infrastructure contributes to the inflow of FDI (2010).

For this study, beyond the business environment, power generation and insecurity are captured separately as measures of infrastructure considering that poor power generation and problem of insecurity are major infrastructural limitations in the country. From the results, over half of the interviewed respondents considered poor power generation and insecurity as a major barrier to optimum performance of MNC in Nigeria supporting the findings of Ramasamy who evaluated the role of insurgency in FDI and found out that insurgency deter MNC from investing in a country (2001) and the finding of Yeung which revealed that electricity per capital is a determinant of FDI inflow (2010). The tested hypothesis showed that these infrastructural factors have a significant effect on the flow of FDI into Nigeria's oil sector which is also in line with the study of Cheng and Kwan (2010).

Policy Factors Affecting FDI

The degree to which an economy attracts foreign FDI can be traced to the implementation relevant government policies in this direction. Academics state that these policies could include increasing the degree of trade openness refering to the absence of tariffs and other obstacles that tend to hinder MNC from setting up in a host country. Liargovas and Skandalis state that in order to enchance the inflow of FDI and settlements of MNC in a host country the country must make favourable and encouraging economic policies in this direction (2011). From our study most respondent agree to the fact that the Nigerian government has been encouraging foreign direct investment through their policy framework. This is not farfetched as Wheeler and Mody state governments of most developing countries tend to adopt measures and regulations in order to attract more FDI (1992). Nowadays this has become a competitive activity between economies. Policy makers are aware that the need for capital is present as funds motivate investments and these in turn motivate employment, production and welfare. Thus, attracting FDI is absolutely necessary for all economies, developed and developing, in order to prosper and setting the right policy in order to bring FDI within a country is a basic priority for modern countries.

VI. RECOMMENDATIONS

The study conducted an depth analysis of the flow of FDI into the oil and gas sector and identified the main challenges in obtaining higher positive macro and micro impacts from FDI flow in the sector to the economy and shed light on ways of further improvements in effective use of FDI opportunities. Based on the analysis of best practices and international regulations and experience in FDI domains, we try to examine the significant factors in providing valuable and long lasting incentives to the value added creation at micro and macro levels by multinational enterprise in the sector. The main objectives which focused on the human capital, infrastructural and policy factors affecting FDI discovered that these factors contribute significantly to sustainable development of MNC and the economy.

Therefore, a multinational that enters the sector must participate in the field where it can make a difference through quality, low cost, the service provided, proximity to the client, for example, and must have clarified very well the following aspects: direction, quantity Investment and the means to materialize strategic investments. For an efficient positioning, the company must have information about the needs and desires not only of the consumers, but also on the requirement of factor costs in the target markets and on the advantages that follow, to know the strengths and weaknesses of the competitors . firm. Informed about how the company is perceived compared to others. Therefore, the market analysis for these companies should be oriented towards obtaining a competitive advantage through different phases: the initial increase, the collection of benefits (when the strategic movements of the first phase produce results) and erosion, With different duration and intensity. In the first phase, the company adopts an offensive strategy. The second phase depends on the temporary reaction of the competitors. Here, the company recovers its initial investments and obtains higher than average earnings. In the third phase, the competitive advantage of the company decreases. Therefore,

to maintain the initial advantage and insert the first phase of a new cycle, the company in the second phase must prepare the launching base for another competitive offer (Someşan, 1999). From the point of view of administration and organization, this leads to a change at a strategic level, in order to achieve greater flexibility and adaptability and a more efficient way of making decisions.

The strategies followed by using multinationals are extremely complex, various and always changing. Mercedes-Benz as an instance, followed a very opposed method as compared to Nestle and distinctive from the Mattel that produce the Barbie doll. On the one hand, Mercedes-Benz to begin with focused its manufacturing of cars in Germany, extended the manufacturing of certain models in other nations, exportion then the final product, on the other hand, Nestle factories maintain less than 3% of the team of workers, factories and income in Switzerland, domestic base.In 2002, Nestlé had 508 plants in 58 countries (Cullen and Parboteeah, 2010). However, a more generic and tactical approach to implement these strategies should include entry into a new market with a production model similar to the country of origin to expand the consumer base, producing most of the components in a single region and products. finals. in other regions specialized in each type of product, producing components of a single product in different regions that have the lowest costs for each component and assembling the final product in a single position, looking for efficiency or reducing the costs of the processes and entry into new markets with low-cost products The implementation strategy postulated by N. Hashai and T. Almor, which suggests a gradual model of internationalization of companies after several phases of implementation of the strategy abroad: exports (phase 1), branches of Greenfield (phase 2), mergers and acquisitions (phase 3), multiple modes (step 4). They also state that companies with more experience in branch management are more likely to convert Greenfield's strategy into acquisitions (2002).

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