NIGERIA GOVERNMENT REFORM POLICIESAND ITS IMPACT ON FOREIGN DIRECT INVESTMENT BY U.S. FIRMS IN NIGERIA BETWEEN 1986 AND 2006

Felix Abeson, Coppin State University
fabeson@coppin.edu

ABSTRACT

This study examines the impact of the Nigerian government reform policies on foreign direct investment by U.S. multinational corporations in Nigeria between 1986 and 2006. Data for the study was collected from U.S. Bureau of Economic Analysis and The International Country Risk Guide published by Political Risk Services (PRS) Group. The result shows that there was an increase in U.S. firms' foreign direct investment in Nigeria between 1986 and 2006. The results of a regression analysis performed indicated significant correlation between foreign direct investment and level of investment profile points.

I. INTRODUCTION

In 1972, the Nigerian government passed the Nigerian Enterprise Promotion (indigenization) decree. The aim of the decree was to localize ownership through equity transfers to individuals, and direct government participation. The decree also sought to limit the sectors of the economy in which foreign companies could operate. The decree prompted some actions (intervention) by the Nigerian government that had adverse effect on multinational firms' operating in the country (Abeson and Taku, 2007). This resulted in significant reduction of foreign direct investment and interest in Nigeria.

When President Babangida came to power in 1985, the government was anxious to promote foreign direct investment in an effort to bring back foreign investors. The reforms instituted in the mid 1980's were designed to increase the attractiveness of the country's investment opportunities and foster growing confidence in the economy.

There are considerable studies on foreign direct investment (FDI) inflows (Wheeler and Mody 1992 and the role of government policies in attracting foreign direct investment (Morisset (2000), Noorbakhsh et al, (2001), Asiedu (2002, 2004) and Asiedu and Gyimah-Brempong (2008)); and some studies that have shown that government policies which encourage foreign investment have increased foreign direct investment (Morisset 2000; Asiedu and Gyimah-Brempong (2008). There is however no study that examine the impact of the Nigerian government reform policies in the mid 1980s on foreign direct investment in the country. The purpose of this study therefore is to determine the impact of the reform on foreign direct investment by U.S. companies in Nigeria between 1986 and 2006.

II. FOREIGN DIRECT INVESTMENT

Asiedu (2004) found that there was a decline in Africa's foreign direct investment global position despite improvement in policy environment. Morisset (2000) on the other hand concluded that to improve the climate for foreign direct investment an econometric analysis indicates that strong economic growth and aggressive trade liberalization can be used to fuel the interest of foreign investors. Mali and Mozambique were cited as the two countries that have shown spectacular improvement in their business in the 1990s because of implementation of few visible actions which were essential in the strategy of attracting foreign direct investment. Asiedu and Gyimah-Brempong (2008) also concluded that liberalization of policies has a significant and positive effect on investment.

Host government intervention in the operations of multinational firms has been the focus of some studies, notably, (Kim, 1987, Lecraw, 1983, Poynter, 1982 and Doz and Prahalad, 1980, Abeson and Taku, 2007). The study by Abeson and Taku (2007) showed that U.S. firms with operations in Nigeria between 1975 and 1985 experienced a high level of government intervention and that some companies pulled out of the country because of the intervention.

III. METHODOGY

Secondary data was used for the study. The data on U.S. foreign direct investment in Nigeria was taken from "U.S. Direct Investment Position Abroad on a Historical-cost Basis: Country Detail; compiled by Bureau of Economic Analysis. Data on factors affecting the risk to invest in Nigeria (investment profile score) was collected from International Country Risk Guide published by Political Risk Services (PRS) Group. Investment profile, one of twelve components of political risk rating published by PRS is made up of three subcomponents namely, contract viability/expropriation, profit repatriation and payment delays. Each of the subcomponents is given four points for a total of twelve points for investment profile.

In order to make a good comparison, the years were divided into three periods. The first period is 1972 to 1985 (fourteen years of indigenization). The second period is 1986 to 1999 (fourteen years after reform). The third period is from 2000 to 2006 (reform continued). Comparison is made between the first period (1972 to 1985), and the second period (1986 to 1999). Since the third period (2000 to 2006) is not up to fourteen years, it can not be compared with either of the other two periods. It should be mentioned that investment profile scores can not be assigned to the first period because there was no data before 1984.

IV. ANALYSIS AND RESULTS

A comparison of U.S. foreign direct investment in Nigeria from 1972 to 1985 and 1986 to 1999 shows a significant increase in U.S. foreign direct investment from 1986 to 1999. As is shown in Table 1A, the mean and median U.S. investment in Nigerian for 1972 to 1985 was $ 232.3 billion and $ 234.5 billion respectively. The maximum investment was $ 535 billion and the minimum was $-66 billion.

TABLE 1A: SUMMARY STATISTICS OF FOREIGN DIRECT INVESTMENT IN NIGERIA 1972 - 1985

Statistic	FDI
Mean	232.2857
Median	234.5000
Maximum	535.0000
Minimum	-66.00000
Std. Dev.	203.1110
Skewness	0.022892
Kurtosis	1.741626
Observations	14

The mean and median for 1986 to 1999 (Table 1B) was $ 630.0 billion and $ 617 billion respectively and the maximum and minimum investment was $1686 billion and $ -401 billion respectively. The mean and median for 2000-2006 (Table 1C) was $ 849 billion and $ 874 billion respectively. The maximum and minimum investment was $1999 billion and $ 260 billion respectively. Although 2000 to 2006 has eight fewer years than the other two periods (1972 to 1985; and 1986 to 1999), the investment amount is more. The minimum for 2000 to 2006 is positive as opposed to the negative amount for the other two periods.

TABLE 1B: SUMMARY STATISTICS OF FOREIGN DIRECT INVESTMENT IN NIGERIA 1986 - 1999

Statistics	FDI
Mean	630.0000
Median	617.0000
Maximum	1686.000
Minimum	-401.0000
Std. Dev.	539.0502
Skewness	0.107718
Kurtosis	2.932664
Observations	14

TABLE 1C: SUMMARY STATISTICS OF FOREIGN DIRECT INVESTMENT IN NIGERIA 2000 - 2006

Statistics	FDI
Mean	849.0000
Median	874.0000
Maximum	1999.000
Minimum	260.0000
Std. Dev.	597.1449
Skewness	0.968382
Kurtosis	2.999798
Observations	6

Table 2 shows the yearly (1986 to 2006) amount invested and the profile score for each of the years. Regression analysis (Table 3) was used to examine the relationship between U.S. foreign direct investment in Nigeria and the investment profile scores between 1986 and 2006. The result indicates that there is a direct correlation between investment profile point and foreign direct investment in Nigeria between 1986 and 2006. The overall F test statistic of 5.07 is significant at .05 level of significance. The mean FDI for 1986 to 2006 was $703 billion. The highest score is 7.10 and the lowest is 3.90. High score means low investment risk and low score means high investment risk.

TABLE 2: U.S. FDI AND INVESTMENT RISK IN NIGERIA FROM 1986 -2006

YEAR	FDI(Millions of US Dollars)	RISK (SCORES)
1986	793.00	3.90
1987	913.00	5.10
1988	680.00	5.60
1989	-42.00	7.10
1990	-401.00	6.10
1991	529.00	7.00
1992	301.00	6.00
1993	478.00	6.00
1994	605.00	5.50
1995	629.00	4.20
1996	1020.00	5.00
1997	1396.00	6.00
1998	1686.00	5.80
1999	233.00	5.90
2000	470.00	5.00
2001	260.00	5.50
2002	901.00	4.45
2003	1100.00	4.15
2004	1999.00	4.50
2005	874.00	4.95
2006	339.00	6.00

Notes: A score of 12 indicates no risk, while a score of 0 represents very high risk.
Sources: U.S. Bureau of Economic Analysis and Political Risk Services (PRS).

TABLE 3: REGESSION RESULTS (DEPENDENT VARIABLE: FDI)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CONSTANT	2272.153***	705.3038	3.221524	0.0045
INVESTMENT RISK	-289.6898**	128.6104	-2.252461	0.0363

R-squared	0.210753	Mean FDI	703.0000
Adjusted R-squared	0.169214	S.D. FDI	554.1113
F-statistic	5.073580	Prob. (F-statistic)	0.036311

Pearson correlation of FDI and RISK = -0.459** P-Value = 0.036

*** and ** Indicate 1 and 5% level of significance, respectively

V. IMPLICATIONS AND CONCLUSION

This paper shows that foreign direct investment by U.S. firms increased significantly after the reform that was instituted in 1985. This finding supports Morisset (2000) conclusion that trade liberalization can be used to fuel the interests of foreign investors; and Asiedu and Gyimah-Brempong (2008) conclusion that liberalization has a significant and positive effect on investment. This paper also shows that there is a direct correlation between foreign direct investment by U.S. firms and investment profile score between 1986 and 2006.

Since there is a direct correlation, U.S. foreign direct investment could have been higher than what it is if the scores have been higher. It is interesting to note though that in some years investment was high despite low score (high risk) and low despite low risk. This goes to show that some other component of political risk such as internal conflict, socioeconomics, corruption, ethnic tension, government stability etc does have influence on foreign direct investment. Asiedu (2006) concluded that corruption, and political instability will have adverse effect on foreign direct investment—will not promote FDI.

This study focus only on the investment profile score. The lesson to be learnt from this study is that developing countries like Nigeria stands to benefit from foreign direct investment if the governments intervene less in the operations of Multinational Corporation.

The present study provides a major contribution to the issue of government intervention and what can happen if the governments of a developing like Nigeria adopt policies that encourage investments by foreign firms. As is shown in this study, investment was positively impacted. Although this study used one component of political risk (investment profile), The Nigerian government must continue to work toward increasing the investment profile score and the score of the other components of political risk which are not taken into consideration in this study. The highest score of 7.10 for investment profile is not good enough. Multinational corporations do pay attention to investment risk for every country they want to invest in. High level of risk will prevent foreign firms from investing. A lower level of risk will encourage investments by foreign firms. It is important therefore for governments of developing countries like Nigeria to adopt policies that are conducive for investment by foreign firms.

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