

Foreign Direct Investment (FDI) Trends in Developing Nations: Nigeria Experience in a Globalization Era

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Abstract

The idea supporting the efficacy of foreign direct investment (FDI) in the developing nations for greater economic growth and development is a subject of both theoretical and empirical examinations over the years.

However, the share of the gains, losses and benefits of the flows has been a thing of concern.

This paper therefore investigates the nature and the magnitudinal trends of FDI in developing nations, taking Nigeria as a case study using a trends analytical approach.

It thus revealed that there is an undulating terrain in the flows of FDI to developing nations, with Africa and Nigeria in particular assuming a low position in the comity of developing nations' share of FDI. This therefore was adduced to the acclaimed negative relationship between FDI and Economic growth in Nigeria by many authors (Ayadi, 2009). It thus recommended that the developing nations and Nigeria in particular should be cautious in the process of opening-up their economies while exploiting the growth potentials of FDI, in the globalization stance.

Key words: Direct Foreign Investment (FDI); Globalization; Trends; Economic growth; Developing nations; Economic liberalization development

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INTRODUCTION

Globalization is defined by the Organization of Economic Cooperation and Development (OECD, 1993) as “the process by which market and production in different countries are becoming increasingly interdependent due to the dynamics of trade in goods and services and the flows of capital and technology”. It is manifested in the process of the intensification of economic, political, social and cultural relations across international boundaries (Fotopoulos, 2001; Sheila, 2004; Uwatt, 2004; Czinkota, Ronkainen and Moffett, 2009; Mimiko, 2010).

Worldwide economic change involving flows of trade and investment between and among countries has been one major phenomenon in international economics in the last few decades; with economic theories of comparative advantage suggest that free trade leads to a more efficient allocation of resources with all economies involved in the trade benefiting (Samuelson, 1962; O'Rourke, 2002; Obadan, 2004; Obaseki, 2007).

In addition, the liberalization of trade and regulatory regimes in many countries and falling costs of communication and transportation has made the world more interconnected. The acquisition of imported knowledge and information through international trade in goods and services, foreign direct investment (FDI), technology licensing, partnerships, networks and other means seem unlimited. Thus, denationalizing what had been constructed as national. Relying on this background, any reasonable study of an economy must take cognizance of the development in other nations and the consequences of their operations. Hence, the need for the trend descriptive analytical approach to a subject of this nature in the literature. Most importantly, when it had been argued that the same process (globalization) is not a novelty in the growth process neither is the growth-stimulating effect of FDI an automatic (Onwuka and Eguave, 2007), and that the phenomenon is argued not to be new afar all (Wikipedia, 2008; Mimiko and Afolabi,

2008).

The study goes to review the flows of FDI in the world economy and most importantly the share of Sub-Saharan African nations and Nigeria in particular. The trend approach allows for numerical, descriptive and figurative analysis of FDI flows in the era of globalization. Thus, the study review trends in FDI as it concerns Nigeria using a descriptive analytical approach.

1. THE TRENDS ANALYTICAL APPROACH

The basic phenomenon that characterized the global changes in the recent decades is the rapid advances in technology especially in transport and communication. This development has attendant growing integration of markets and capital flows across international borders as its elements; sweeping through the world as a result of its supersonic networking, intensified the competition for foreign direct investment among the countries of the world and most importantly, the developing countries (Chantal and Patrick, 2005). This trend of events is expected to enhance economic growth through the growth-potential benefits of FDI (Mottaleb, 2007; Crespo and Fontura, 2007; Brooks and Sumulong, 2003).

Thus, FDI had continued to be a driving force in the globalization process and has become a centre of economic discussions over the years with its attendant interrelation with the process of economic growth.

However, the trends in the shares of the gains and benefits and loses or costs of the wave and flows have all along been uneven and lopsided (Collier and Dollar, 2001; UNCTAD, 2007).

The attendant lopsided, unfair, and unequal trends observed in the impact of the advantages and gains from the FDI – globalization process is argued to be as a result of the different magnitude of the share to each region of the world. This aspect needs more clarification in order to identify the position of the sub-Saharan African nations in the distribution.

2. PERSPECTIVES IN TRENDS

The trends in the flows of foreign direct investment (FDI) globally and the attendant uneven distribution across the regions of the world have been a subject of empirical discussions over the past decades.

Several studies including Montiel, 1993 have provided evidence of upsurge and increasing degree of international capital mobility among the major industrial countries and among emerging economies which offer high returns. They opined that such economies ensure macroeconomic stability and liberal trade regimes as well as ease financial restrictions and offer free access to listed stocks. Thus, the past decades had however undoubtedly witnessed an

exponential increase in the flows of FDI globally.

2.1 Trends in Global FDI Flows

While discussing the subject of the trends in FDI both globally and on regional basis, the nature as well as the magnitudes of the flows as proportionately shared by different regions of the world should be a central focus of such discussion.

The flows in FDI globally increased continuously during the 1980s and 1990s with the sharpest growth in the late 1990s. One major discovery is that the flows increased geometrically, then reaching a peak of \$1,411.4billion in year 2000 from \$58billion figure recorded in 1985. The trends took a dramatic turn by declining between 2001 and 2003 thereby reaching a low level of \$564.1billion in year 2003. This was the experience of both developed as well as developing economies of the world. (Table 1)

This sharp decline in FDI flows in the world in general and the developed countries in particular was associated with a general global economic recession. It was also related to depressed stock market sentiments and business cycles, both of which led to a massive decline in M&A investments especially in the developed countries (UNCTAD, 2007). Developing countries were then said to be affected only to a small extent. World FDI flows started to recover in the year 2004 and were back at the 2000-level in 2006 recording a \$1,305.9billion figure (UNCTAD, 2007). Moving from \$58billion in 1985 to \$1,306 billion in 2006 and \$2,100billion in the year 2007 (Table 1), the flows could be said to be a good index for the world economy manifesting in the world intra-state transfers as a result of globalization stance.

The trends took another dimension and recorded a 16 percent decline in 2008 to \$1,771billion which further had a 37 percent decline to \$1,114billion in the year 2009 (Table 1). The figure that is less than the 2000 and 2006 figures of \$1,411.4billion and \$1,305.9billion respectively. This dwindling world FDI since the year 2007 could be attributed to the global economic recession experience in the world economy which started in 2007; the plague that the world is still battling with till date. Thus, the global decline in FDI flows reflects the weak economic performance in many parts of the world, as well as the reduced financial capabilities of TNCs (UNCTAD, 2010).

2.2 Regional Trends in FDI Flows

Regionally, FDI flows to the developed countries which had recorded a consistent increase from 1985 got to its peak of \$1,146.2billion in the year 2000. This started undulating and further got to the highest level of \$1,444billion in 2007 – just like the trend in the global case. However, just as the experience with the global FDI flows, decline sets in and the developed nations' FDI flows reduced to a low figure of \$1,018billion in 2008 (that is about 30 percent fall). FDI flows to developed countries further contracted by 44percent in 2009 to an

unprecedented figure of \$566billion. This has been the largest decline among all regions and sub-regions and the worst of its kind since 2006 (UNCTAD, 2010). This is evident in the world FDI flows decline of 37 percent at the same period (Table 1).

Developing and transition economies which proved relatively resilience to the global turmoil in 2008 were not spared in 2009. Even though, they did better than the developed countries. After six years of an uninterrupted growth, FDI flows to developing economies declined by 24 percent in 2009 from 2008 figure of \$630billion to \$478billion (Table 1).

With the experience recorded during 2007 to 2009, and due to the growth recorded by both developing and transition economies coupled with reforms in such economies as well as their increased openness to FDI and international production (WIR 91), it is expected that the pace of recovery of FDI flows in the years ahead would be stronger in developing countries than in developed ones (UNCTAD, 2010). It is expected that the shift in foreign investment flows towards developing and transition economies be accelerated as these economies as at 2009 accounted for nearly half of global FDI inflows (Table 1, also see figure 2)

Although, the developing and transition economies have been adjudged to have performed better in FDI inflows recently than the developed nations, however, the flows are not evenly distributed within this region. Asia and the Pacific have become quite successful in attracting FDI in the past decades, receiving about two thirds of total developing countries' FDI inflows. In the early 1980s, Latin America top the list by receiving most FDI flows to developing region; however, Asia took the lead in the early 1990s and the trend continued till date, followed by Latin America (Table 1).

Even though, there is a small literature dealing with issues related to FDI flows to Africa (see for example, Rogoff and Reinhart, 2003; Akinlo, 2003; Bende-Nabenfe, 2002; and Schoeman et al, 2000), the trend in the flows to African nations is evident in the numerical description of Chantal and Patrick, (2005).

Africa in the developing region receives the smallest share of global FDI flows. Around 3 percent in recent years till the year 2007, and gradually increased to a little above 5 percent in 2009. It is worth noting that Africa's share in global FDI which has doubled since the early 1990s also fell in 2009 to \$59billion from \$72billion of 2008 figure, however, the share increased in percent share as aforementioned.

The share of Africa in the developing countries' FDI flows has not been all that encouraging. Although, rising consistently from 11.15 percent of the total flows to developing nations in 2007 to 11.42 percent in 2008 and eventually to 12.34 percent in 2009, the absolute share is not good enough compared to what exists in Asia or

Latin America. The Asian share within the same period recorded 45.8 percent in 2007 and 44.8 percent in 2008 and eventually 48.7 percent in the year 2009 (Table 1). The observed undulation is however in line with the movements in the developing countries' share of the total global FDI in general.

Among the developing economies – which as a whole registered a 24 percent fall in FDI inflows – South, East and South-East Asia showed the smallest decline (17 percent) between 2008 and 2009 and remained the largest recipient, accounting for almost half of the total inflows. Africa recorded a decrease of 18 percent in FDI flows in 2009 with the greater decline rates in the flows to Latin America and the Caribbean and West Asia amounting to 36 percent (Table 1).

Notwithstanding, all the developing economies put together experienced a share rise in global FDI inflows between 2007 and the year 2009. However, the case is not so with the transition economies of South-East Europe and the commonwealth of independent states (CIS) which suffered a decline of 43 percent in 2009 (Table 1).

Worth noting is that the same pattern of the FDI inflows to all the regions of the world is observed in FDI outflows between 2007 and 2009. The same ostilative terrain is thus observed throughout the period.

The decline in FDI inflows to Africa from a peak of \$72 billion in 2008 to \$59billion in 2009 was attributed to the contraction of global demand and the fall in commodity prices. Nonetheless, the general uneven trends in the world FDI flows as well as regional flows in particular, especially in the later part of the last decade cannot be far from the recent global economic recession that is still plaguing the world till date. This development is also observed in all the nations within Africa, Nigeria inclusive.

3. THE NIGERIA EXPERIENCE

Consideration of FDI flows within the continent Africa is a pertinent issue as the same trend in the global context also manifest in the region.

However, Nigeria share of FDI flows to Africa remain a subject of concern in the region as the nation is being regarded as the “giant” of the continent. Real foreign direct investment into Nigerian has been unstable over the years. Following the adoption of Structural Adjustment Programme (SAP) in 1986, and the subsequent liberalization of some aspects of the Nigeria economy, FDI continue to be on an increasing trend ranging from N3,620.10 ('000) in 1986 to as high as N70,714.60 ('000) in the year 2000. The increasing trend continued to the peak of N178,478.0 ('000) in 2009, although a decline was observed between 1995 and 1996 (Table 2).

The dwindling trend so noticed between 1995 and 1996 and the attendant slow growth in 1997 and 1998

was attributed to the reversal of the Structural Adjustment Programme (SAP) policies by government in 1994 specifically. The 1995 level of N10,899.6 ('000) was a decline of 3.9 percent from the preceding year's level of N11,339.20 ('000). The level further declined to N10,436.10 ('000) in 1996; thereafter it has been on a persistent increase.

Empirical evidence confirmed that the decline in the Nigeria FDI during this period in question was as a result of economic crisis, declining productivity, reduced capacity utilization and other factors; mainly policy reversal which tended to send uncertainty signals to potential investors (Ekpo, 1996). Of course, the underlying political apathy existing in the country then cannot be overemphasized. Thus, the observed trends in FDI flows in Nigeria is therefore more of "policy" than any other factor (Chantal and Patrick, 2005).

The period in question manifests the highest mishaps in the polity of the nation. A period when the imperialistic rule of the military got to its climax with the advent of the military dictator, Late Gen. Sani Abacha on board. One would not expect less at this time as no rational investor will be willing to invest in an unstable political environment. The political atmosphere at that time was such that even the local investors would want to think twice before investing in the country as the heat of "June 12" scenario was all over the place.

The political situation at that time also manifested in the unstable trend in the foreign unremitted profits (FUP). This is so to the extent that the larger part of the foreign multinationals' profits were repatriated abroad due to uncertainty that enveloped the nation's economy. The trend however changed dramatically from year 2001 when it became clear that the nation is experiencing relatively stable polity (Table 2). However, the trend in the FUP remain consistently stable and at an increasing pace thereafter till year 2009.

Consequently, as the declining resulted from the world economic crisis rocks the globe and each region in particular, the FDI flows to Nigeria has remained consistently increasing throughout the last decade. Rising from N119,391.6 ('000) figure in 2001 to the peak of N178,478.0 ('000) in 2009, the increase has been systematic and unaltered (Table 2). This trend may be in part due to the relative stable democratic political settings in existence in the country and the seriousness with which the Nigerian government had handled any issue relating to FDI attraction to the nation. Nigerian government, both at national, states and local levels had been in many instances going to the developed industrialized nations of the world soliciting for investments for the country.

Except for the period between 1994 and 1998 as aforementioned, which recorded an unstable level in the FDI inflows to Nigeria, the trend has been encouraging.

The implication of this observation is that it seems

Nigeria is gradually becoming an environment to be desired for investment as the observed level of FUP in the last decade evidenced confidence repose on the nation's economy by the foreign investors. However, the insecurity in the country coupled with the Niger-delta crisis live much to be concerned especially in the last five years. The pace of armed robbery, kidnapping and extra-judicial killings cannot be overemphasized. In addition, there exist poor infrastructural facilities, such as poor road network and epileptic power supply. All these needed to be addressed if the pace would be sustainable.

The same trends were observed in the variables of globalization and economic growth. There is an increasing trend in both IOP, CAB, PCI and RGDP all through except for one or two changes that occurred in some of the variables (Tables 2, Figure 1). For example, one noticeable thing in the trends is the increasing nature of all the figures starting from 1999 and or 2001, that is, when the nation embraced democracy and when it could be said that the process is sending a stability signal. One could notice a steady and unaltered growth in both PCI and RGDP between 2007 and 2009 when the transition from civilian to civilian was successful. PCI for instance rose from N206,453.2 ('000) in 2007 to N295,673.2 ('000) in 2009. In addition, RGDP rose from N6,946,810 ('000) in 2007 to N7,635,800 ('000) in 2009. This analysis is represented schematically with a line graph as depicted in figure 1 below.

Thus, the political condition existing in an economy could be an important factor in the growth potentials of both globalization and foreign direct investment, in so much that maintenance of a sustained political and macro economic policy environment are necessary conditions for attracting needed FDI in a global world economy (Chantal and Patrick, 2005; Dupasquier and Osakwe, 2005).

The pace of event in the last four years lend credence to the fact that Nigeria is gradually benefiting from the global economy. The index of openness coupled with the figures of all other variables attest to this fact (Tables 2, Figure 1). Notwithstanding, this observed position can only be sustained if the present socio-political terrain is adequately monitored such that sustainable investment friendly environment could be maintained.

It is worth noting that the choice of domestic currency as value index in the FDI trends in Nigeria is necessitated for better understanding and for value judgments that may arise therewith.

As a matter of fact, when the high figures are expressed in foreign currency (dollar in particular), one would see the reason for caution especially when it is realized that the exchange rate of the naira has suffered massive depreciation from 1986 to date.

The observed lopsided, unfair and unequal distribution of advantages and disadvantages, gains and losses from the flows of globalization process are traced to the

challenges facing regions of the world economy (Ojo, 1997).

Krugman and Venables (1995) observed that the growing concern among many observers in the advanced nations is over the impact of globalization on their ability to sustain high living standards, in the face of loss of production and markets to developing countries. This is so to the extent that globalization is seen as generally beneficial, having the capacity of fostering greater interdependence among nations and facilitating freer and increased flows of international trade, capital, competition and information (Ojo, 1997). This presupposes that the advanced nations are not all that disposed and sincere when it comes to the principles of globalization.

Central to the higher growth rates that characterized the new global economy is the vastly increased knowledge content of the production, distribution and consumption of goods and services. However, the poor countries are falling behind the richer developed countries in tapping into the benefits of the new knowledge and information – driven global economy. The international trading system is argued to have reflected persistent biases against the few sectors in which many developing countries have comparative advantage (Brahmbhatt and Dadush, 1996) and partly that the FDI inflows to the South have remained heavily concentrated on a few countries as evident in the trends analysis above (Table 1). As a result, with less flows of globalization process to Africa and many other less developed regions of the world, the existing imbalances in output, production and income distribution become increasing.

Howbeit, as globalization process becomes more manifest, there is the urgent need to discontinue lumping together all countries that were formerly in the poor developing country group in the 1970s and 1980s. This is so to the extent that countries that newly got industrialized in the early 1990s such as East Asia and Latin America can no longer be correctly categorized with the poor less developed Third World countries as they had become more developed and richer. The misery behind their fast integration to the global world is not far from what economists called cautious approach to global demands and developed domestic institutional framework.

4. POLICY IMPLICATIONS AND CHALLENGES FOR DEVELOPING ECONOMIES

The fact that many developing countries are becoming less integrated with the world economy is a matter of concern. Nonetheless, that should not be cause for fatalism or despair, according to Brahmbhatt and Dadush (1996). The duo observed that the evidence indicates that government policies play a large role in determining the extent to which countries can draw on the benefits of

global integration for economic growth.

The pace and level of integration are argued to be empirically associated with economic growth, which according to Ojo (1997), is theoretically reasoned to expect integration and growth to be mutually enhancing. Restrictive trade and FDI policies, inavailability and improper maintenance of adequate economic infrastructure, telecommunications and transportation facilities in particular are the factors identified as limiting the developing nations' integration, most of which are sub-Saharan Africa. These nations according to Brahmbhatt and Dadush (1996) are referred to as weak and slow integrators.

The question then centred on how to address the challenges facing the developing countries so that the lopsidedness will be addressed and they may be able to benefit from the flows in globalization process. At a time that economic liberalization gathers momentum, how could the rising disparities in all parts of the world be reduced?

As a pointer, they are to be helped to embrace the new economy by integrating them into the available scientific knowledge and technologies (Ojo, 1997). The advanced developed nations should also help them to safely access the international financial markets. Improving market access for developing countries is of course the most important step that developed countries can take to fight poverty.

In addition, there is the need to relax the protectionist and discriminating policies of the developed nations. For example, the developed countries persist with agricultural subsidies and tariffs against the exports of the developing countries, while the developing countries over the years were encouraged to eliminate subsidies as a basic step towards revamping their fiscal policies, which in turn could stimulate necessary growth. In a joint report by the IMF and World Bank staff (2002), it was tagged as “*unfair*”; to encourage poor countries to open up their markets while imposing protectionist measures that cater for powerful special interests in the rich countries.

The developing countries are then warned to be cautious in integrating to the world economy. Countries such as Argentina, Brazil, Indonesia and Russia that wholly adopted the open stance to FDI and trade in late 1980s and early 1990s lived to tell the bitter story of the negative effect. The case of Kenya and Nigeria was done without considering the peculiarities of their economies. This was responsible for the liberalization of the foreign exchange market and consequently the fall of the naira against other major currencies in the 80's. The trend persists till date.

Thus, as observed by Ojo (1997), “the capacity of national economies in many of these countries to benefit from the opportunities of open trading system and to absorb external shocks has differed, with disappointing

experience in many cases, depending on such factors as stage of industrial development, association with industrial regional group, as well as factor mobility and responsiveness of economic policies". This assertion corroborates the views of Brahmhatt and Dadush (1996) and Rogoff et al., (2002).

The Nigerian economy therefore needs to be integrated to the world economy in order to exploit the attendant opportunities in the face of the challenges of globalization. However, for Nigeria to be more integrated to the world economy, there is the need for cautious approach to global demands and developing domestic institutional frameworks. In addition, the development of the domestic institutional framework and the available infrastructural capacities of the nation prior "open-up" cannot be overemphasized.

The line graphs depicting the discussions above are presented in figures 1a to 1d below as mentioned above. These line graphs have their source in table 2. Thus, the relevance of the economic indicators is appreciated by the line graphs as it concerns each and every economic variables of FDI and globalization indices.

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APPENDICES

Table 1
FDI flows, by region, 2007-2009
 (Billions of dollars and per cent)

Regions	FDI inflows			FDI outflows		
	2007	2008	2009	2007	2008	2009
World	2100	1771	1114	2268	1929	1101
Developed economies	1444	1018	566	1924	1572	821
Developing economies	565	630	478	292	296	229
Africa	63	72	59	11	10	5
Latin America and the Caribbean	164	183	117	56	82	47
West Asia	78	90	68	47	38	23
South, East and South-East Asia	259	282	233	178	166	153
South-East Europe and the CIS	91	123	70	52	61	51
Memorandum: percentage share in world FDI flows						
Developed economies	68.8	57.5	50.8	84.8	81.5	74.5
Developing economies	26.9	35.6	42.9	12.9	15.4	20.8
Africa	3.0	4.1	5.3	0.5	0.5	0.5
Latin America and the Caribbean	7.8	10.3	10.5	2.5	4.3	4.3
West Asia	3.7	5.1	6.1	2.1	2.0	2.1
South, East and South-East Asia.	12.3	15.9	20.9	7.9	8.6	13.9
South-East Europe and CIS	4.3	6.9	6.3	2.3	3.1	4.6

Source: UNCTAD, FDI/TNC database (www.unctad-org/fdistatistics).

Table 2
 Data Presentation

Obs	IOP	CAB	FDI	FUP
1986	0.130000	8006.600	3620.100	316.4000
1987	0.400000	17138.20	3757.900	427.5000
1988	0.210000	31585.10	5382.800	396.9000
1989	0.250000	59112.00	5949.500	1194.500
1990	0.550000	79810.10	6418.300	1531.800
1991	0.610000	51969.80	6804.000	2101.500
1992	0.600000	93680.50	9313.600	889.5000
1993	0.520000	-34414.70	9993.600	2734.500
1994	0.380000	-52304.30	11339.20	1749.700
1995	0.710000	-188084.8	10899.60	4428.800
1996	0.560000	240180.0	10436.10	1758.200
1997	0.600000	268899.4	12243.50	1942.500
1998	0.480000	-331436.2	20512.70	9471.800
1999	0.590000	46336.20	66787.00	2719.700
2000	0.570000	713023.9	70714.60	1293.000
2001	0.580000	108996.0	119391.6	3911.400
2002	0.610000	117037.3	122600.9	5798.700
2003	0.650000	704560.0	128331.8	8699.300
2004	0.540000	2056326.	152409.6	13217.40
2005	0.670000	4046521.	154188.6	17182.60
2006	0.560000	3374806.	157535.4	27552.10
2007	0.570000	2703754.	162343.4	34440.20
2008	0.580000	4150489.	166631.6	24859.20
2009	0.560000	4135456.	178478.0	32564.30

Figure 1
Trends Analysis

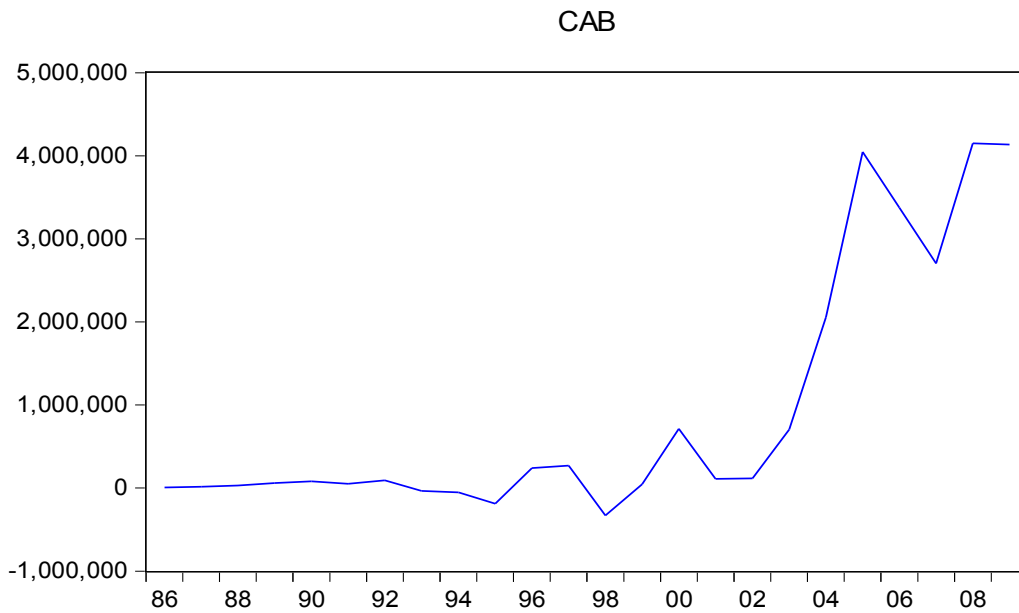


Figure 1A
Trend Analysis of Current Account Balance

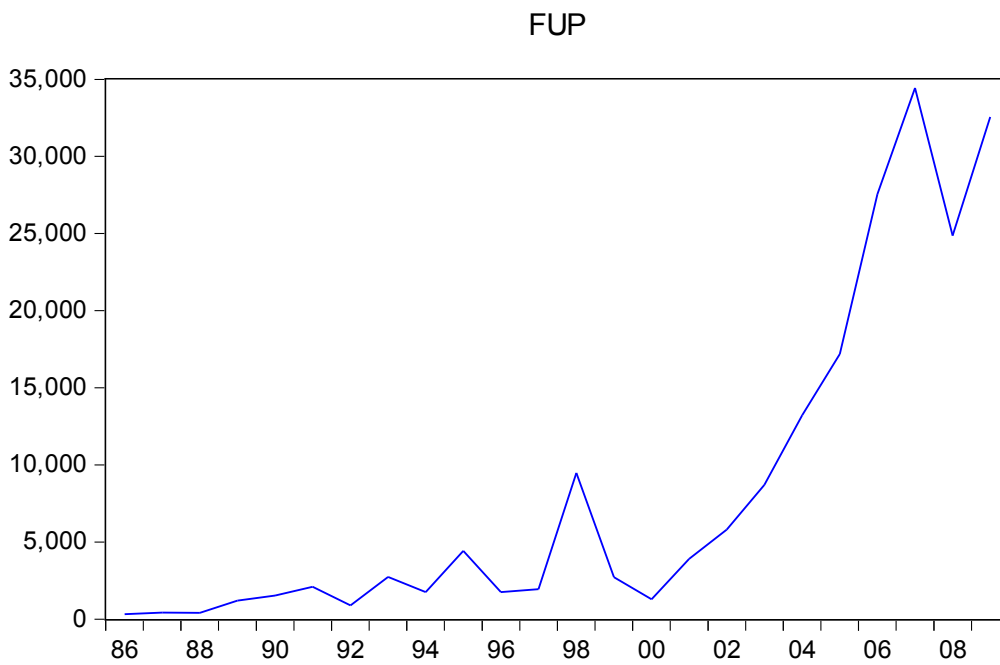


Figure 1B
Trend Analysis of Foreign Direct Investment

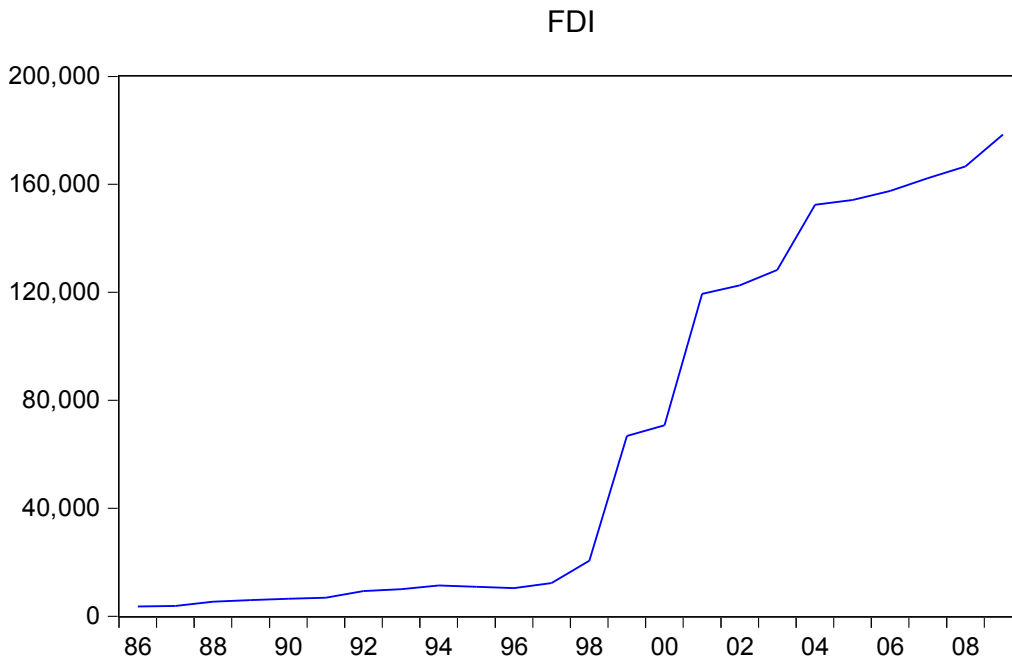


Figure 1C
Trend Analysis of Foreign Unremitted Profit

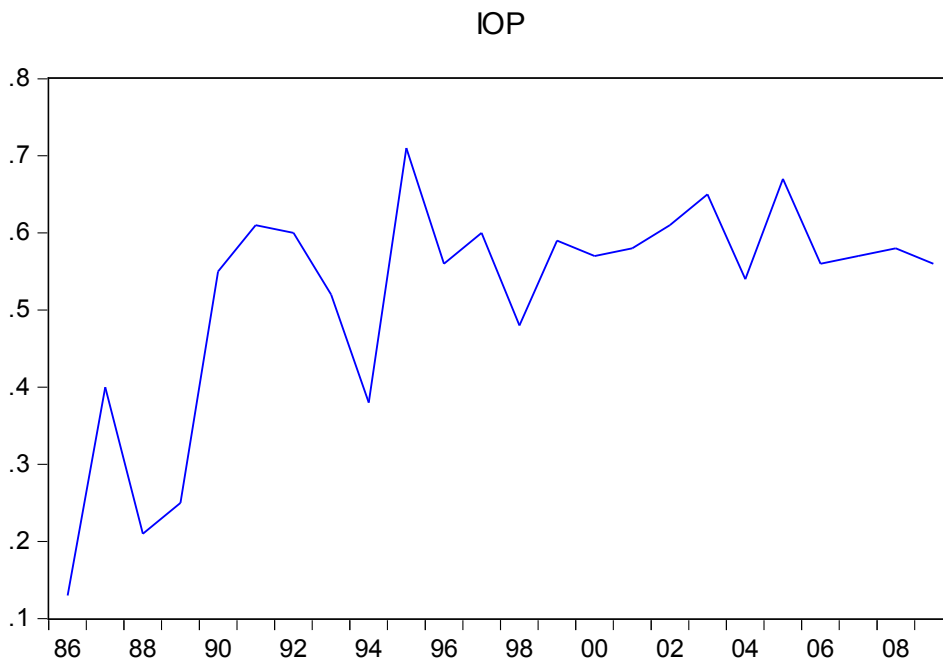
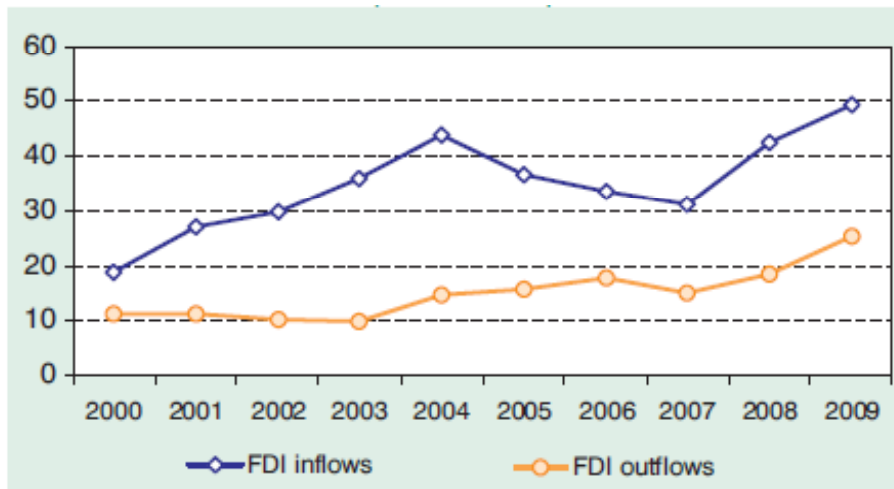


Figure 1D
Trend Analysis of Index of Openness

Source: Appendix I

(Percent)



Source: UNCTAD, based on data from the FDI/TNC database (<http://www.unctad.org/fdistatistics>).

Figure 2
Shares of Developing and Transition Economies in Global FDI Inflows and Outflows, 2000–2009