

The Key Determinants of attracting Inward FDI into Nigeria's Service Sector in the context of Firm and Country Specific Advantages

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Summary

The locational choice of FDI by multinational firms has been studied over the years and the explanation for determinants of FDI debated over the decades. However, there is a dearth of FDI studies that focused on the services sector in emerging markets. The challenge for Nigeria as an emerging market country is to understand FDI determinants that will lead to attraction of inward FDI over other competing nations. Despite the importance of having this knowledge of these factors to attract inward FDI, host countries may be more successful when they focus on determining factors that are sector specific. This paper presents the literature review, hypotheses development and the conceptual framework for attraction of inward FDI in Nigeria's service sector.

Word count: 1985

Introduction

Recently, the coronavirus pandemic (COVID 19) had a major impact on the operations of businesses in emerging markets and other markets globally (Fu, Alleyne, and Mu, 2021). Notwithstanding, in the last few years, it has also been reported that most emerging market economies recorded low levels of investment activity due to slow growth, recession, and depreciating national currencies (UNCTAD 2016; Financial Times, 2015). In Nigeria's case, as it moves away from its overdependence on oil and diversifies into non-oil sectors, the need to attract and maintain inward FDI is vital due to its dwindling FDI inflows which dropped from a peak of \$8.9bn in 2011 and plunged considerably to \$1.9 billion in 2018, which shows the lingering challenge of securing investment (UNCTAD WIR, 2019). The reversal of this current state of its FDI inflow is even more imperative due to its position as the largest host country and economy in Africa (UNCTAD WIR, 2019).

Accordingly, the most important aspect of the development policies by several countries is to heighten the attractiveness of their country to multinational companies (Chowdhury, Sharma, and Yu, 2022; Mühlen and Escobar, 2019; Narula and Pineli, 2017). The inward FDI derived from these sources of finance serves as the foremost and external funding for several emerging African markets, also deemed as rapidly developing economies (UNCTAD WIR 2018).

We structure the rest of our paper as follows; the next section presents the literature review, hypotheses development, the conceptual framework for this study, conclusion, and the plan for developing the paper.

Literature Review

Inward FDI

Numerous factors have been suggested as influencing the expansion and growth of services in several economies. Structural transformation and the reduction of barriers that impede tradability of some specific services involving digital or technology-driven processes influenced companies' decision to invest abroad (Ghani and O'Connell, 2014; Mishra et al., 2020).

The rise of service FDI in recent decades due to increased liberalization of the service sector, profitability of services and more importantly the role of services in the growth of global value chains is beneficial to host countries (Davies and Guillin, 2014; Doytch and Uctum, 2011; Ramasamy and Yeung, 2010; UNCTAD, 2016; 2015). The main concern is whether the service sector in Nigeria benefitted from these upward movements of FDI in services. Consequently, given the increasing position of FDI in services globally, eliciting its drivers is paramount in ensuring that Nigeria's FDI policies are effective and strategic.

Firm-Specific Advantages

Firm Specific Advantages (FSAs) can be described as assets and skills specifically associated with a firm, which include foreign market experience, firms size, expertise, and patents (Dunning, 1988, 2001; Ekeledo and Sivakumar, 1998; 2004; Cantwell and Narula, 2001; Rugman, 2010; Narula, 2010). The significance of these FSAs to the achievement of multinational firms activities in their global operations is well established in international business theory (Curran and Ng, 2018).

Some studies (Buckley, 2017; Curran and Ng, 2018; Dunning, 1980, 1988) have posited that the firm specific advantage may be greatly impacted by the host country's characteristics. The capacity of foreign firms to exploit their FSAs may be hindered with certain features in the host country which may erode their FSAs. Some of these challenges were experienced by foreign firms operating in an emerging market in a recent study (see Curran and Ng, 2018). Hence,

these advantages should be looked at from the angle of the competitive environment in Nigeria. However, adaption and continuous improvement of firms' capabilities is crucial for managing threats to exploiting their FSAs in such market (Curran and Ng, 2018). For this study, we will conceptualise FSAs as (i) technology and information; and (ii) intangible assets.

Country-Specific Advantages

There is plethora of reasons for foreign investors to be interested in the Nigerian market. According to CBN (2015) the country has a fast-growing service sectors which is projected to have a sustained growth. Some of the division of the service sector that has been growing rapidly include telecommunications, (15%) tourism (19.5%) and real estate (7.3%) for periods from 2008 to 2015.

In recent years, multinational firms have started to recognise the enormous potential of developing one of Africa's emerging digital or technology driven economy. The quick adaptation to new technology is propelling the of consumer services. It has transformed both personal and business connections and interactions, leading to improved productivity of business operations. In 2017 alone, African technology starts-up were able to attract \$195m, which was a 51% significant improvement from the funds raised in 2016 (Disrupt Africa, 2018; Shapshak, 2016). Accordingly, in this study the county-specific variables include infrastructure, market size, investment promotion, agglomeration and human capital.

Hypotheses Development

Technology and Information

Forced technology transfer practices and possible intellectual property theft often deter multinationals from investing or operating in emerging markets (Branstetter, Fisman and Saggi 2011, Gustafsson and Segerstrom 2011). Consequently, some multinationals especially high-tech firms keen to retain control over their technology tend to invest in economies that enables them to keep their proprietary knowledge intact. Thus, Buckley (2018) argues that to ensure control level that is high, a firm need to adopt an FDI entry mode that guarantees that especially when dealing with issues regarding property rights protection. The extent to which the companies are able transfer these advantages to Nigeria will determine the level of advantage they have over competitors in the industry.

H1: The degree of transferability of firms' technological intensity has significant effect on inflow of Services FDI into Nigeria.

Intangible assets

The amount of intangible assets as detailed in some empirical studies often influences entry mode choice of investing companies (Li, Eden, Hitt and Ireland, 2008). Multinational firms from developed economies may decide to invest via wholly owned subsidiaries instead of joint ventures to protect proprietary intangible assets and potential opportunities. More so, some businesses with high level of intangible assets (say services) are prone to frequent changes in technology and competition (Narula and Pineli, 2017).

The relevance of foreign market experience as a determinant of FDI is open to debate in the literature. Some scholars asserted that it is of importance for locations that are physically distant (Johanson and Vahlne, 2009). It may be more important for international services firms especially in dealing with customer relationships due to obvious differences in culture and

business practices. Hence, this presents the need for further understanding particularly in the context of FDI in services.

H2 The more robust the intangible assets possessed by a firm, the more likely that the service sector in Nigeria will be chosen as a destination for FDI

Infrastructure

The level of infrastructure development in host countries to an extent affects the productivity of investments, costs of doing business and FDI inflows (Asiedu, 2002, 2004; Demirhan and Masca, 2008; Kaliappan et al., 2015; Kok and Ersoy, 2009; Suh and Boggs, 2011; Williams and Deslandes, 2008). Infrastructure includes physical structures such as roads, seaports, railways, and telecommunications. However, in some cases, the FDI motive and the sector where a company operates influence the decision despite the existence of inadequate infrastructure. For instance, companies operating in the service sectors are more concerned with ICTs related aspects that directly affect the services offered to customers rather than physical infrastructure (Ahmad et al., 2011).

H3 The level of infrastructure in Nigeria has a significant impact on the inflow of FDI in services.

Market Size

Generally, a large market size offers companies economies of scale and efficient utilisation of resources (Chakrabarti, 2001). Market size is often measured by GDP, which sometimes have negative effect in attracting FDI when the motive is market-seeking in economies with low income (Osei, 2014; Villaverde & Maza 2012). Some authors argue that FDI in services is more aligned to market seeking FDI than export led investment (Riedl, 2010; Kolstad and Villanger, 2008) due to the simultaneous nature of production and consumption of most service offering.

Market size has been noted as a crucial factor in determining FDI in the service sector in several empirical literature studied (Jeong, 2014; Ramasamy and Yeung, 2010; Buch and Lipponer, 2004; Moshirian, 2001; Chakrabarti, 2001). Market-seeking Multinational Corporations underscore market size, growth potential of the market and customer buying power (Yang, et. al., 2000). Also, some identified the influence of younger population as an attraction due to potential for future market (Anyanwu, 2012; Asiedu, 2006; Deher et al, 2013).

H4: Market size has a positive and significant impact on Inward Services FDI irrespective of the type of service.

Investment promotion and aftercare of service firms

The creation of investment promotion agencies (IPAs) in most economies is to derive benefits from inward FDI (Anderson and Sutherland, 2015). It is regarded as a strategic tool for FDI promotion by countries globally from an institutional approach (Chowdhury, Sharma, and Yu, 2022). Some studies showed a positive and significant effect of IPAs on inflow of FDI (Bobonis and Shatz, 2007; Lim, 2008; Morisset, 2003). For instance, the result of a study conducted by Morisset (2003) to find out the relationship between FDI promotion and inward FDI revealed that policy advocacy was the potent effort used in stimulating inward FDI, while image building was also effective. Consequently, IPAs investment promotion effort should be built on clear aims and objective. Nonetheless, others scholars reported that IPAs are not main

drivers of FDI into an economy (Coughlin and Segev, 2000; Head and Ries, 2010; Wilkinson and Brouthers, 2000; Wint and Williams, 2002).

H5: Investment promotion and aftercare efforts influence the attraction and sustenance of inward services FDI.

Agglomeration

According to Osei, Omar and Joosub (2020) agglomeration is seen as having a significant effect on FDI positively because it provides the means for firms concentrated in that area or region to complement each other and collectively carry the burdens, which may include deficiency in institutions, infrastructural challenges and the lack of other utilities. Stating further that country of origin has limited influence on the decision to influence in certain markets.

The relevance of agglomeration in relation to services FDI is open to debate, while there appears to be a consensus on its impact on FDI for manufacturing and other related sectors (Desmet and Rossi-Hansberg, 2009). Conceivably, improvements in technologies associated with communication and information, rapid rate of innovations and knowledge spillovers will drastically influence investment in this sector in Nigeria.

H6: Agglomeration is significant and positively related to inward services FDI.

Human Capital

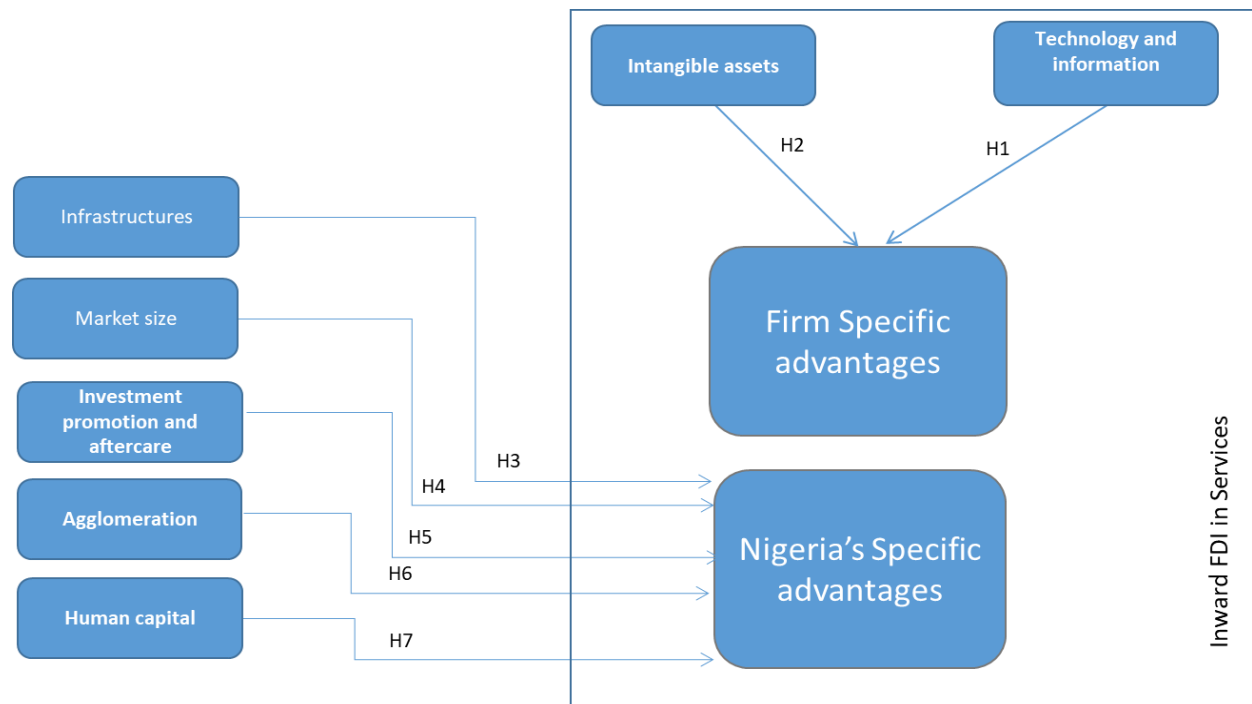
The attraction of inward FDI and operations of international companies is influenced by the quality of human capital (Demirhan and Masca, 2008; Suliman and Mollick, 2009), expressed as skilled labour and educational level (Kravis, 1988; Mody et al., 1999; Miyamoto, 2003).

The constant improvement of human capital could lead to further inflow of FDI. For example, a study by UNCTAD (2000) reported that Ireland commitment to development of human resources led to the attraction of massive inflow of FDI. This shows a relationship between inward FDI and level of human capital (Noorbakhsh et al., 2001; Castiglione et al., 2012).

Interestingly, the attraction of FDI can be as a result of various qualities of human capital. The measurement varies from literacy rates to levels of educational qualification to life expectancy (Basu and Guaringlia, 2007; Zenili, 2014), since improved efficiency and productivity is mostly linked to education level of the workforce, owing to the capacity to develop and adapt to innovative skills required in some sectors (Brooks et al., 2010).

H7: Host locations with high level of human capital attract inward services FDI.

Inward FDI attraction in Nigeria's service sector conceptual framework



Conclusion

From the above conceptual framework driven from the literature, the challenge for the service sector is to identify key FDI determinants that will lead to attraction of inward FDI in Nigeria. For our future empirical study, the task will be to evaluate these key FDI determinants identified and the findings applicable to other host countries.

Plan for developing the paper

We will collect and analyse the data, write the findings and discussion. Then present the contributions, implications, and recommendations.

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