New Perspectives on Foreign Direct Investment in Developing Economies
What Policy Makers Do Not Know

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Abstract: This study exposed the economic delusions of foreign direct investment FDI as proclaimed theoretically. It also examined the categories of FDI but with more emphasis on Market-seeking FDI which is the predominant portfolio flows performing in most developing economies. From our perspectives, foreign direct investment is a marketed-myth; a path thrown by glamour, gargantuan obsession which in particular has been deceiving even academic intellectuals. This study argued in support of the perspective that among all forms of FDI, market-seeking FDI is not right for developing countries’ requirements for stability. It displaces local businesses and establishes a ground for market dependency. Market-seeking FDI also does not foster growth, technology spillover and human capital formation as proclaimed theoretically. Ultimately, it is the kind of investment that flows in when there is growth and run away in times of crisis. Our arguments, particularly on such form of FDI was inspired from available statistics that over 70% of FDI portfolios operating in developing economies is for market-seeking rather than efficiency. The study recommends that policy makers in developing economies should discourage market-seeking FDI because it is detrimental to the growth of local firms and businesses and it does not foster growth and stability as articulated in economic literature.

Keywords: Market-seeking FDI (MSFDI), Externalities, Developing Economies

1. INTRODUCTION

Foreign direct investment FDI is widely considered an essential remedy for capital shortages where investment opportunities exist and as the element for achieving sustainable development. [1] Expect FDI to provide a stronger stimulus to income growth in host countries than other types of capital inflows especially after the recent financial crises in Asia and Latin America, developing countries were strongly advised to rely primarily on FDI, in order to supplement national savings by capital inflows and promote economic development. In addition to learning by experiences, the theoretical proclamations of FDI have it that it will not only provide jobs and rising income but also through externalities, will allow domestication of technology, improve the growth of local businesses through learning by doing and ultimately foster stability [2]. As a result, policymakers in developing countries rushed into FDI liberalization policies without considering the pros and cons and without any definite strategies. Foreign direct investment can be a blessing or a curse depending on its type and the economic maturity of the recipient country. For instance, there are different types of FDI; there is the market-seeking form of FDI, horizontal, vertical and conglomerate [3]. With reference to the former, market-seeking FDI is a form of foreign direct investment that is capital intensive, producers of consumer goods and services in the host economy. This type of FDI does not guarantee the much-advocated glories of FDI such as massive employment, technology transfer and economic growth and development rather; it encourages dependency, displacement of local entrepreneurs and overestimation of economic growth statistics of the host economy [4]. It is unfortunate that over 70% of FDI portfolio flows to developing economies are market-seeking FDI.

Other than the lack of economic compatibility of market-seeking FDI with developing economies; there is additional sufficient evidence empirically of a long list of negative consequences indicating the failure of FDI in producing its anticipated glories. However, for the fact that many developing economies are still romancing the body structure of increasing call for foreign direct investment, it is an indication that economists and policy makers have failed to recognize the detrimental side of it. Also, economists and policy makers in the developing world have not been able to recognize, criticize and reject such modern means of economic supremacy and instrument of colonization. It is important for economists to have clear notions about FDI because they are the ones who influence the policy makers.

There are a lot of inspirations that motivate the conduct of this article. First is the theoretical irrelevance of FDI fostering growth, domestication of technology and rising income...
through employment, production and investment expansion. Secondly is the practical experience of market-seeking FDI in developing economies and thirdly, it is the continuing growth of inadequacy of foresight to criticize FDI for adjustment, not only by policy makers in developing economies but also economists. Against this background, the paper seeks to reply answers to the following questions: (i) Is market-seeking FDI good for developing economies? (ii) Can market-seeking FDI foster growth in developing economies? (iii) Has the performance of FDI in developing economies produced the anticipated externalities? What should other aspects of FDI's consequences policy makers know and avoid in such economies? In the light of economic theories and documented experiences, those questions would be the reply from the logical point of views and available statistics.

The remaining parts of the paper after introduction are: section two provides conceptual and theoretical framework underpinning foreign direct investment, its glories and consequences. Section three provides the literature review and section four present the argumentations on why market-seeking FDI is not right for developing countries. Summary, conclusion and recommendations are all presented in section five.

1.1 Forms of Foreign Direct Investment FDI

When an individual established a business entity in a foreign country, that individual is regarded as a foreign investor. Also, the amount of capital either in monetary terms or machinery used in establishing a business entity in a foreign country is further regarded as the foreign investment [5]. The term foreign direct investment FDI refers to the long-term portfolio flows of capital or capital investment in an economy that is owned and control by individuals or group of individuals from other countries [6]. The economy that received FDI is regarded as host country and hosting for investors.

Literarily, there is no room for argument on whether or not foreign direct investment FDI can add value to the host economy; values in terms of capital flows, new technology, new management skills, promised jobs, production expansion and economic growth and most importantly, foreign investors provide access to export market [7]. Theoretically sound, foreign direct investment is an excellent policy instrument that can provide alternatives to capital shortages, boost local production, employment opportunities and rising income especially in developing economies. It is also important to recognize that not all FDI are created equal. This superseded the fact that FDI is of different categories. One way to differentiate forms of FDI is by the investor's motivations. For instance, John [8] identified four forms of FDI by motives. These include (i) natural resource-seeking FDI (ii) market-seeking FDI (iii) strategic asset-seeking FDI and (iv) Efficiency-seeking FDI.

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<tr>
<th>Forms of FDI</th>
<th>Motive</th>
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<tr>
<td>Natural resource-seeking</td>
<td>To exploit underutilize natural resources</td>
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<tr>
<td>Market-seeking</td>
<td>To produce imported-consumer goods in the host economies</td>
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<tr>
<td>Strategic assets-seeking</td>
<td>To acquire or merge existing business</td>
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<tr>
<td>Efficiency-seeking</td>
<td>Cheap labor and access to mineral resources</td>
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Source: Celcile, 2016

The natural resource-seeking FDI is motivated by investor interest in accessing and exploiting natural resources especially in developing economies. Market-seeking FDI, on the other hand, is motivated by investor interest in serving domestic or regional markets. Strategic asset-seeking FDI is motivated by investor interest in acquiring strategic assets such as (brands, human capital, distribution networks, etc.) that will enable a firm to compete in a given market through mergers and acquisitions. Efficiency-seeking FDI comes into a country seeking to benefit from factors that enable it to compete in international markets. Available statistics have revealed that of all the forms of FDI stated above, the most dominant form performing in developing economies is market-seeking FDI. However it is important to recognize that this form of FDI is totally incompatible with the fundamental requirements for growth and stability in developing nations. Even from the theoretical background of FDI, market-seeking FDI is articulated as very risky and capable of undermining the growth potentials of developing economies [9]. But the biggest wrong impression about FDI by the public and even policy makers is that FDI is FDI with no contrast. Perhaps that is why many developing economies today are still embracing with open arms foreign direct investment without pondering the possible pros and cons. Chart 1.1 and table 1.2 displays the statistical evidence by percentage on the relative quantum of FDI performing in developing economies.
In a survey conducted by PSC (2017), by quantifying the percentage of sectors and forms of businesses that operates by foreign investors, the found by estimate that about 20% is in the form of natural resource-seeking FDI, 73% for market-seeking FDI, 2% for efficiency-seeking FDI and 5% for strategic asset-seeking. By comparison, market-seeking FDI remained the most dominant and then, natural resource-seeking FDI which occupies 20%. For clearer picture of their report, table 1.2 is for substantiation.

### Table 1.2: Forms of FDI in Developing Economies

<table>
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<th>FORMS OF FDI</th>
<th>Percentage</th>
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<tr>
<td>Natural resource-seeking FDI</td>
<td>20%</td>
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<tr>
<td>Market-seeking FDI</td>
<td>73%</td>
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<tr>
<td>Strategic assets-seeking FDI</td>
<td>5%</td>
</tr>
<tr>
<td>Efficiency-Seeking FDI</td>
<td>2%</td>
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Source: PSC Survey, 2017

2. LITERATURE REVIEW

Though it is very rare to come across literature particularly on market-seeking FDI and its effect on the host economies, however, there is available literature on FDI as a whole that unites in their conclusion that the form of FDI flowing into developing economies has produced more negative externalities than positive. According to Trackman [10], foreign direct investment occurs when an individual, an entity or firm(s) private or public makes a physical investment in another country and have the direct control of the affairs of the business with the aim of achieving a number of objectives. It is also defined as a situation in which foreigners invest their capital in another economy especially in sectors that permit foreign participation [11]. However, FDI is different from foreign indirect investment. While FDI allowed foreigners to manage the operations of their business directly, foreign indirect investment exists when foreigners buy shares in the local capital market but the regulation of the business is done by the domestic investors.

George [12] argued that the rationales that prompt FDI can be interpreted under two motives. The world is economically divided into poor and rich nations and each of which has unique comparative advantages and disadvantages. Complementarity, therefore, is the only harmonizing force. With regard to the two principal motives between the host and hosting economies, the author argued that the domestic motives around FDI state that most countries of the world especially developing countries are faced with capital shortages and lack of technology which served as the major constraints to utilize their available resources. Therefore, the only alternative to removing such constraints is to invite foreign
investors who have technology and capital to invest in their economy. The foreigner's motive, on the other hand, states that countries with excess capital and limited market in their economy usually considered countries with capital shortages that have business opportunities as the alternative for putting up their excess capital since their domestic market is saturated. FDI therefore, provide the means for efficient allocation of resources among countries of the world.

Kevin [13] also added that the benefit of FDI is distributive to both foreigners and hosting economy. He argued that the host countries enjoy the first round benefit of capital inflows which would later permeate in spurring employment opportunities, rising income, capital formation, wealth creation and market expansion. It also indirectly enables the country to domesticate foreign technology and managerial skills, and above all, foreign companies provide more tax revenue to the government.

Mikailu and Tanko [14] proclaimed that foreign direct investment can be a blessing or a curse. They argued that many countries of the world are still asking questions about the practicality of FDI hypotheses. Many economies, therefore, are under the phobia to allow foreign investors to invest in their economy. This was induced by paying special consideration to the long run effect of FDI i.e. capital flight, stifled the growth of domestic industries and their displacement through competition. Bony [15] supported the view of [14] and argued that the impact of FDI on the host economy good or bad depends on the flexibility of economic liberalization, nature of government control, adequate infrastructure, qualities of human capital, availability of market and political stability, security, attitude of the citizens, climatic condition and macroeconomic stability in the country. If such factors mentioned above are in healthy condition, the positive impact of FDI cannot be overemphasizing.

According to Silas [15], a foreign direct investment that flows into developing economies is an instrument of destruction. In the light of dependency theory, he opined that, developing countries are poor because they have been systematically exploited through imperial neglect; over-dependence upon primary products as exports to developed countries; foreign investors' malpractices, particularly through transfer of price mechanics; foreign firm control of key economic sectors with crowning-out effect of domestic firms; implantation of inappropriate technology in developing countries; introduction of international division of labor to the disadvantage of developing countries; prevention of independent development, strategy fashioned around domestic technology and indigenous investors; distortion of the domestic labor force through discriminatory remuneration; and reliance on foreign capital in form of aid that usually aggravated corruption and dependency syndrome. Jhony [16] argued that the rationale behind FDI is to keep the disabilities of developing countries permanent. Similarly, the author argued in the light of dependency theory that FDI of multinational corporations distort developing nation economy via crowding out of national firms in order to ensure that the host country remained absolute depends on foreign companies. He added that in the light of dependency theories, the participation of developed countries into developing nations via their FDI or another means cannot be expected to produce a beneficial result.

Having reviewed the theoretical aspect of foreign direct investment literature, it is necessary to provide empirical evidence. Recent studies showed the inflow of FDI has been on the increase in recent years. Akinola [17] investigated the impact of foreign direct investment on economic growth in Nigeria using data for the period of 1970-2001. His error correction model (ECM) result shows that private capital and foreign capital have a small and insignificant impact on economic growth in Nigeria. This he attributed to capital flight. In another manner, labour force and human capital were formed to have a positive effect on growth. Sani [18]) found that there are Nigerians who live with the impression that Chinese businesses are detrimental to the growth of local companies. In Kano State, the local traders in textile materials are up in arms against their Chinese competitors. The traders fear that the Chinese may just bring their (traders) business crashing down, as they allegedly did in ruining the country's once-thriving textile manufacturing industry. Textile manufacturers in Nigeria still hold Chinese importers of textile materials largely responsible for the collapse of their enterprise.

3. WHAT POLICY MAKERS DO NOT KNOW

This section presents our argument on why market-seeking FDI is not right for developing economies in the light of economic common sense. In this section, the term FDI and market-seeking FDI are used interchangeably. Our arguments are based on economic logic rather than empirical. This article is perhaps the first type of its kind and we recognized the limitation of empirical backing and case studies. Across the spectrum, there is
available literature in support of the perspective that FDI foster growth, job creation and stability among others in developing economies. This section presents series of argument against such proclamations. We have argued that FDI is pro-cyclical; it displaces local business and established a ground for economic dependency among others.

1. FDI Does Not Promote Economic Growth

Lack of economic growth that is sustainable and the absolute lack of development remained at the pinnacle of developing economies concerned. On the other hand, the dear need to achieve economic growth and absolute development remained uncharted. The evolution of the idea of foreign direct investment FDI ignited hopes in anticipation as an instrument for balancing capital investment between the rich and poor nations. One of the immediately anticipated glories of FDI, as proclaimed by its proponents, is that it promotes the economic growth of the recipient economies. With additional capital injection from foreign investors, through increasing production and employment of labour and resources, FDI can add value to the gross domestic product (GDP) which is traditionally employed as the best yardstick for measuring economic growth. But the question is, have the ideals of FDI theoretical proclamations practically recorded? A number of empirical findings on whether FDI promotes economic growth or not have reported mixed evidence. Moreover to a large extent, FDI in developing economies does not promote economic growth.

In light of economic logics; it will be very easy to dismantle the theoretical foundation, claims and proclamation of FDI capable of spurring growth in developing economies. For instance, it will be totally irrational for any economy to include imported goods and services as part of local productivity for GDP computation. FDI, on the other hand, is a modern strategy of importation. The only difference with the orthodox style of import is transportation cost. Foreign investors operating in developing economies largely go into producing imported goods. That doesn't imply local productivity or import reduction. This is because the goods and services that were hitherto imported from foreign countries are still under the ownership and supply by foreign firms. Against this background, it will be very misleading to consider the output of foreign companies operating in an economy as part of the productivity of that economy either in the short term or long term.

To further substantiate the lack of credibility of FDI spurring growth in developing economies; foreign companies largely operate by producing consumer goods that are driven by local demand rather than capital goods for local consumption and export. Traditionally, consumer goods are produced for final consumption and in developing economies; their citizens are the ultimate tax payers of all production costs. In economics, however, production of consumer goods within an economy does not guarantee growth. In any event, FDI only increased the face value of a country's GDP in nominal terms, but in real terms, the monetary value of goods and services produced by the foreign firms do not belong to the host economy. Foreign investors can leave with their investment anytime especially if there are bad signals of crisis. The question is what would be the value of the GDP if foreign companies walk away after computation? FDI, therefore, is an absolute illusion in disguise.

2. FDI is Pro-Cyclical

As advocated by the proponents of FDI, it is not just an alternative to capital shortages in economies where investment opportunities exist but underutilize, but also it is an instrument that foster stability at all levels [19]. However, evidences from around the world have shown further that FDI does not foster growth and stability but a source of macroeconomic challenges especially in developing economies. For instance, it has been a tradition as a precondition; it is growth and stability in the host economies that attract foreign investors. This superseded the fact that foreign investment in the host economy is only there to enjoy the economic glories of growth. In other words, foreign direct investment only grows with the economy. On the other hand, foreign investors run away when there is crisis or signals of crisis. In such event, there is no need to argue whether FDI is pro-cyclical or not. Foreign investors leave the country when there is a crisis and further add to the crisis by taking their capital out of the economy and return when there is another round of stability and economic growth [20].

According to Silas [21], the foreign direct investment that flows into developing economies is an instrument of destruction. In the light of dependency theory, he opined that, developing countries are poor because they have been systematically exploited through imperial neglect; over-dependence upon primary products as exports to developed countries; foreign investors' malpractices, particularly through transfer of price mechanics; foreign firm control of key economic sectors with crowning-out effect of domestic firms; implantation of inappropriate technology in
developing countries; introduction of international division of labor to the disadvantage of developing countries; prevention of independent development, strategy fashioned around domestic technology and indigenous investors; distortion of the domestic labor force through discriminatory remuneration; and reliance on foreign capital in form of aid that usually aggravated corruption and dependency syndrome.

3. FDI Does Not Provide Jobs As Proclaimed Theoretically

Considering the fact that FDI is capital intensive and labor efficient, the chances for massive employment of citizens of the host economy are minimal. Even if they do, foreign investors do not provide the anticipated jobs as proclaimed. For instance, many studies have reported evidence that foreign companies operating in Nigeria and other developing countries only provide jobs in the areas of field labor, driving, security, retailing, accountancy and the like. These, however, would not allow access for domestication of technology as proclaimed [22]. Other than such constraints, it was also largely discovered that foreign investors that operate in key sectors of an economy such as mining and manufacturing, they usually come along with their high skilled laborers, the principal motive is not because there are no laborers with such skills in the host economy but to monopolize their ideas within themselves; to avoid the risk of having rivals in the future and to maintain market domination in the recipient economy [23]. This, however, contradicts one of the channels through which the recipient economy would benefit.

Furthermore, Jhony [24] argued that the rationale behind FDI is to keep the disabilities of developing countries permanent. Similarly, the author argued in the light of dependency theory that FDI of multinational corporations distort developing nation economy via crowding out of national firms in order to ensure that the host country remained absolute depends on foreign companies. He added that in the light of dependency theories, the participation of developed countries into developing nations via their FDI or another means cannot be expected to produce a beneficial result.

4. FDI displaces Local firms

Available statistics and events have it that as a result of FDI in most developing economies, foreign companies displace their local business counterparts in the host economy. In other words, foreign investors compete unfavourably with local businesses, thereby undermining the present and potential growth of domestic entrepreneurs. However, one does not need to be an economist to realize that the future of every economy is dependent on the performances of her local firms rather than foreign investors that are not reliable and dependable. The very sad issue today regarding FDI in most developing economies is the Chinese takeover of not only producing goods and services with comparative disadvantages in the host economies but also their local, cultural and traditional crafts. In other words, the Chinese and other foreign investors are not only playing in the formal sector but also in the informal sectors. Sani [25]) found that there are Nigerians who live with the impression that Chinese businesses are detrimental to the growth of local companies.

In Kano State Nigeria, the local traders in textile materials are up in arms against their Chinese competitors. The traders fear that the Chinese may just bring their (traders) business crashing down, as they allegedly did in ruining the country's once-thriving textile manufacturing industry. Textile manufacturers in Nigeria still hold Chinese importers of textile materials largely responsible for the collapse of their enterprise. In addition, foreign investors in most developing economies enjoyed higher preference advantages against local investors in the areas of bank credit, tax relief, adequate security and political protection [26]. In any event, FDI can have both crowding in and crowding out effects in host country economy depending on the prevailing condition. The main negative effect of crowding out effect is the monopoly power over the market gained by foreign companies. Countries that attract mostly domestic market-seeking investments will experience crowding out as the establishment of foreign subsidiaries results in tough competition with domestic firms. But for export-oriented investment, it might be less.

5. Profit Repatriation

It is perhaps needless to argue that when companies make investments in foreign countries their main objective is to maximize profit either via the cost of production minimization or market development. Cost of production is said to be cheaper in developing countries in the area of a cheap labor force, natural resource abundance or high-quality expertise. These allow foreign investors to enhance their economic performance. However, making a profit is not a crime but where the question arises is that they regularly repatriate their profits from investment to the account of their parent companies in the form of dividends or royalties transferred to shareholders as well as the simple transfer of
accrued profits. It also helps them avoid larger taxes by using transfer prices. However, this profit repatriation results in huge capital outflows from the host country to the home country and negatively affects the balance of payment of the former.

6. Dual Economy Effect

FDI, especially, made in the developing countries can lead them to have a dual economy, which has one developed sector mostly owned by foreign firms and underdeveloped sector owned by domestic firms. Since the country’s economy becomes overly dependent on the developed sector, its economic structure changes. Often this developed sector is the capital-intensive, while another one is labor-intensive. Therefore, dual economy effect hampers the economic development of countries as most of their citizens are located in the non-developed labor-intensive sector. This effect is visible in most oil-rich countries like Nigeria, where foreign investments made in the oil and gas sector resulted in the resource boom and left the agriculture and manufacturing sectors underdeveloped.

7. Exchange Rate Pleasure

One of the biggest requirements by foreigners before investing abroad is to make sure that the value of their currency is greater than the currencies of host economies. The motive for such is self-explanatory. For example, cost of production will be cheaper, importation will be expensive and it also guarantees maximum profit for the foreigners. Traditionally, if cost of production generally increases from the domestic sources, foreign investors through IMF and other partners would summon pressure for devaluation as condition for stay and for the continuing inflows of foreign capital. At the end of the day, it is the recipient country that shoulders both domestic and foreign economic shocks. This indeed is another trap engineered by the western world to keep the economic disabilities of developing countries permanent.

8. FDI an Agent of Economic Neo-Colonization

The form of foreign direct investment particularly MSFDI is one of the agents of neo-colonization. At the background, it is important to recognize that, the difference between colonization and neo-colonization lies in their distinctive methods; however their objectives are the same which is economic exploitations [27]. In a neocolonial state, the former colonial masters ensure that the newly independent colonies remain dependent on them for economic and political direction. The dependency and exploitation of the socio-economic and political lives of the now independent colonies are carried out for the economic, political, ideological, cultural, and military benefits of the colonial masters’ home states. This is usually carried out through indirect control of the economic and political practices. Foreign direct investment or market-seeking FDI is one of their economic agents for political influence and economic exploitations in most developing economies.

4. CONCLUSION, SUMMARY & RECOMMENDATIONS

The study concludes that it is not all forms of FDI that are relevant to the current and potential requirements of Growth and stability in developing economies. Specifically, market-seeking FDI is the most dangerous to stability, inclusive growth and survivability of local firms and businesses. Unfortunately, about 73% of FDI in developing countries is for market-seeking. This study argued in support of the perspective that among all forms of FDI, market-seeking FDI is one of the biggest sources of macroeconomic crisis. It also displaces local firms and business counterparts; it does not foster growth, technology spillover and human capital formation as advocated theoretically. Ultimately, it is the kind of investment that flows in when the economy is performing well and run away when there is crisis. For the fact that the idea behind FDI as a model was made purely for the consumption of countries with large economic disabilities, there is need for rethinking especially economists. It is not the question of benefits only, it is also a question of cost and benefit comparison. If FDI has produced anything good in developing economies, the cost has always remained greater than the benefits. It is unfortunate that even economists in the third world only concentrates on the side of benefits without thinking about the cost. Consequently, the following are recommendations:

(a) Firstly, economists should always remember that policy makers design and implement their economic policies from their recommendations. Therefore it is a duty to always put into consideration the pros and cons as well as the implications of marketed ideas and models by the western world for developing economies.

(b) Secondly, policy makers should know that it is not all forms of FDI that promote economic growth, employment, rising
income, poverty reduction and technology transfer. Although FDI categories have not been adequately documented in the literature, the popular impression is that any capital flow that is long-term is considered as FDI. The need to identify the motives is necessary for any portfolio flows.

(c) Thirdly, market-seeking FDI should be discouraged in sectors where local companies operate. This is because foreign companies possessed the advantages of producing quality products, cheap labor and local preference. As a result, many local businesses have no option than to shutdown and on the other hand, foreign companies can leave anytime.

(d) Fourthly, policy makers should specify to foreigners the sector they can operate. Usually, sectors with greater potentials that cannot be exploited by domestic factors of production, foreign investors can be invited for investment in such sectors.

(e) Finally, we suggest further research in this area to interested researchers to provide empirical evidence. We also suggest further enquiry, essays on intellectual discuss and argumentations on other implications of FDI as a whole and market-seeking FDI in particular.

References:


[23] A discourse on the contradictory nature of European Enlightenment period and its promotion of slavery and colonialism at the same time.


