Foreign Direct Investment and Industrial Performance in Africa

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Abstract: The African region compared to other developing regions has been the most vulnerable as regards the impact of Foreign capital inflow on domestic industries performance. The flow of FDI is expected to result into improved investment, technological capacities and acceleration of industrial performance in domestic firms. The study examined how the flow of FDI to the African region has impacted the industrial performance of the region, using the proxy of industry value added. The study made use of pooled data from forty three African countries within the period 1996 and 2015. The method of analysis utilized for the study was the pooled OLS and the fixed effect least-squared dummy variable model, employed to estimate the impact of Foreign direct investment on industrial performance for the selected host countries. The study finds that Foreign direct investment is statistically significant in relation to industrial performance for host African countries but it is dissatisfying that the expected desired features of industrial performance, like increased domestic savings, investment, technology transfer and increased domestic productivity which will result into reduction in high level of import have not been realized. It is therefore recommended that the governments of host countries should put policies in place to encourage performance of industries domestically, to enhance sustained market participation and share of local firms in host economies such that dependence on external financial borrowing could be reduced and domestic investment incessantly increased resulting in improved industrial performance of host countries.

Key words: Foreign direct investment, industrial performance,主持非洲国家, data, domestic

INTRODUCTION

Africa has been dubbed the new investment frontier, thereby making attractiveness to become more visible to large corporations, institutions and investors. FDI into Africa accounted for 13% of global FDI and number of project 10%. In the year 2014, Foreign Direct Investment (FDI) into Africa increased by 64% to $87 bn while number of FDI projects declined by 6% to 660. This supports theoretical expectations that developing economies should attract investment due to relatively high rate of return on investment that they present. However, for the impact of FDI inflow to be felt by recipient regions of the world, there is need that they flow into the right sectors which will enable them to impact on domestic investment and also visibly seen in industrialization.

According to UNCTAD (1998), rate of return on investment for Africa has been attractive. Rate of return on US FDI in Africa were consistently higher than returns on US FDI in other developing regions like Asia, Latin America and the Caribbean. By 1990, however, Africa has fallen behind other developing regions and has stayed behind ever since. The African region like other developing regions of the world are characterised by limiting factors of skills, savings and investment. The flow of FDI should bring with it, Foreign skills and technology to reduce the skills limit by technology diffusion while investment will reduce the savings limit. A country can increase new capital formation and investment by domestic savings and inflow of capital from abroad. Since the FDI net inflow enhances investment, if sustained, it increases growth and per capita income. This subsequently would push domestic savings higher and likewise domestic investment is accelerated, thereby gradually closing the existing savings limit. This would create a resultant effect of reducing dependence on FDI as domestic industries spring up and become established and thereby enhancing domestic industrial performance in the region. Manufacturing, a crucial trigger for industrialization was

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among the top business functions by capital investment in the region in 2014. Capital investment in manufacturing accounted for 33% of total FDI in 2013, confirming manufacturing output is finally expanding as quickly as the rest of the economy. Sectors analysis of FDI in 2014 reveals that the coal, oil and gas sector received on average 38%; real estate 12%; renewable energy 11%; chemical 8%; communication 7%; building and construction 5%; metal 3%; textile 2%; warehousing and storage 2%; food and tobacco 2% and others 9%. Even though we clamor for economic development, what is more achievable within considerable limit of time is the strategy of industrialization. The relationship between industrialization and development is surprisingly diverse reasons why developing economies are committed to it, however, international economic system directed by orthodox economic doctrine strongly influences industrial progress in developing countries directly and indirectly, therefore, making it imperative to recognize the embedded incidence of both constraints and opportunities for the expansion of the third world industrial production (Rajesh, 1992).

The inflow of Foreign direct investment can promote the development of host domestic economic sector with discipline on macroeconomic policies. The entry of Foreign capital should increase competition, boost efficiency, enhance technological advancement, enhance domestic investment through industrialization and reduces overhead cost. This aids in stimulating economic activities, not only by reason of the Foreign investment but also by invigorating domestic investment which further engenders increase in economic activities, thereby ensuring maximal utilization of resources with the resultant effect of national growth and development. The stimulating environment for development has therefore been inaccessible despite the anticipated prospects, due probably to likely paucity of economic activities, coupled with macroeconomic instability and other social challenges which are peculiar to developing economies.

African economies in transition have increasingly seen flow of Foreign capital as a source of economic development and modernization, income growth and employment. Countries have liberalised their international capital flow regimes and pursued other policies to attract investment. They have addressed the issue of how best to pursue domestic policies to maximise the benefits of Foreign presence in the domestic economy. This is done by focusing on the overall effect of flow of capital on domestic investment and industrialization. The sector of inflow of Foreign direct investment is what determines level of impact on domestic investment and also domestic industry performance in the region. Foreign investors may make available the first booster of new technology to host countries while allowing the local industries to gain technological benefits through spillovers. There are various transmission channels for these technological spillovers. Essentially, they could be intra-industrial or inter-industrial in nature depending on the nature of investment of the Foreign investment. Foreign investment is not expected according to theory invest in host economy without their impact evident in spillover in the host economy in terms of development of domestic industries through spillover in technology capital and skill which evidently enables the domestic industries to develop their own tentacles visibly and embark on the journey of improved performance in their domestic environment. As much as developing economies pursue economic growth, what is more within reach is industrialization in such regions. Borrowing a leave from the industrial revolution era, the effect of industrialization has amounted into unprecedented sustained growth, improved standard of living and increase in income in the concerned regions. Foreign investment according to expectation theoretically should bring with it for host economies technological innovations, skills acquisition for the domestic firms, this further has coming along with it domestic generation of employment opportunities, creation of facilities, all these engenders growth of urban areas. Massive urbanization has been known to have consequences of better living standards, increased life expectancy, increased wealth, reduction in working hours and on whole improved livelihood for the host economies. This invariably vividly shows to us that the way for developing economies to go is to engage massive industrialization efforts which can be attainable by engaging Foreign direct investment in the manufacturing sector of the economy and ensuring they bring along with them required benefits to ensure development of domestic firms and the economy on whole.

Theoretical framework and literature review: The new growth theory was stimulated by Romer (1986); it emphasizes technical progress resulting from the rate of investment, size of capital stock and the stock of human capital. It views the economy by incorporating two important points; first, it views technological progress as a product of economic activity. Previous theories treated technology as a given, or a product of non-market forces. The new growth theory is often called “endogenous” growth theory because it internalizes technology into a model of how markets function. Second, the new growth
theory holds that unlike physical objects, knowledge and technology are characterized by increasing returns and these increasing returns drive the process of increased economic activities and growth. It is expected that as foreign fund flows into host economies, it brings along with it technological progress and managerial skills for domestic firms. FDI is required in developing economies to stimulate growth, economic activities and industrialization, however, looking at the situation of unrest, political instability, poor credibility, corruption and mismanagement, foreign investors may resort to repatriation and this competition effect may lead to shrinking of market share or exit of domestic firms. This predisposes us to the negative picture of Africa as regards inflow of foreign capital and ability to retain them in the economy not to even talk of emphasizing transfer of skills, capital and technology to domestic industries.

The theory of production spillover emphasizes on the demonstration effect where highly trained and skilled staff of foreign firms move to domestic firms. This forces domestic industries alike to upgrade production techniques to be competitive and productive (Blonstrom and Kokko, 1998; Crespo and Fontoura, 2007). By so doing, more industries spring up that are domestic and existing industries improve on their production techniques and are more vibrant and competitive, thereby, enhancing their performance in the market and also improving their market share. The need for technological innovation and development of domestic industries through productivity spillover in developing economies cannot be over emphasized. On the whole, improved economic activities result into development of domestic capital stock, creation of more employment opportunities even for the domestic industries, development of technical, managerial skills and largely transfer of technology for the benefit of domestic firms enabling density of domestic industries and improved industrial performance in the host economies. Foreign direct investment has been said to have negative effect on the manufacturing sector performance for developing economies that welcome the inflow of external capital. For example the study by Agu and Okoli (2015) the analysis indicates that FDI has a negative effect on the manufacturing value added in the long run. The study aimed at assessing the impact of foreign direct investment flow on the performance of the manufacturing firms in Nigeria. The study was based on the spillover theory Dunning Eclectic theory, data set utilized was the time series and method of analysis OLS, VECM. In the same vein, Adejumo (2013) aimed at examining the trend and relationship between Foreign direct investment and the value added to the manufacturing industry in Nigeria. The study was also based on the spillover theory-Dunning Eclectic theory; data set utilized was also time series and the method of analysis adopted was the autoregressive lag distribution technique. The study also found that FDI has a negative effect on the value added to manufacturing in the long run. The result is in agreement with the observed failure of Import Substitution Industrialization (ISI) in Nigeria where industrialization became highly import dependent rather than import substituting. The research study by Bitzer and Gorg (2005) aimed at investigating the productivity effects of inward and outward foreign direct investment using industry level data for 17 OECD countries. The data employed was panel data and the study was based on productivity spillover theory. Method of analysis was the GLS and FGLS. The study found that on average, productivity benefit from inward FDI, although, it was identified that a number of countries which, on aggregate, to not appear to benefit in terms of productivity. On the other hand a countries stock of FDI is, on average, negatively related to productivity.

The empirical findings in some research studies, however, indicate a positive effect of FDI on productivity. The research of Zamborsky aimed at investigating the impact of inward foreign direct investment on the host country using industry-level data for 11 OECD economies in 1987-2003. The employed the spillover theory Bitzer and Gorg (2005) and panel data was utilized. Method of analysis was the GLS, FGLS, industry and country average estimators. Though the research study found that FDI inflows have on average, negative impact on productivity in the host country in the sample of OECD economies, it however, found that FDI had a significant positive effect on productivity and notably on capital’s contribution to productivity in technologically advanced (“high-tech”) industries (such as automotive, electrical engineering and chemicals). FDI had a bigger, positive effect on productivity in large than in small OECD countries.

The research study of Prasanna (2010) examined the impact of inward FDI on the total manufactured exports of India and also analyzed the impact of inward FDI on the high technology manufactured exports. Employing technology spillover theory, panel data set and regression method of analysis, the study found that inward FDI has significantly contributed to better the export performance of India and that the Indian manufacturing has not contributed significantly in enhancing export performance during the same period. The study of Adenutsi (2007) aimed at analyzing the macroeconomic implications of
trade openness and Foreign direct investment on industrial performance in Ghana. The study was based on the theories of Industrial organization, Neoclassical, Eclectic and portfolio choice paradigms. Employing time series data set and unrestricted cointegration and vector error-correction models, the study found that industrial performance is largely impeded by trade openness, high lending rate of commercial banks and to a lesser extent corporate tax. The main positive determinants of industrial performance are raw material availability, previous level of economic performance, industrial wage and a moderate rate of inflation. The research of Idhiriu, Adam and Halidu aimed at determining the impact of FDI on industrial performance in Ghana with particular reference to industrial sector including mining and quarry, oil and gas. The study was based on the new growth theory and technology spillover. Utilizing time series data set, Johansen cointegration test, the study found that FDI, trade openness and gross fixed capital formation have long run positive effect on industrial performance in Ghana. However, exchange rate has long run negative effect on industrial performance. Also, Yao and Wei (2007) aimed at ascertaining the impact of FDI upon development process of newly industrializing economies. Employing the Endogenous growth theory, panel data set and the GMM approach, the study found that FDI is a mover of production efficiency because it helps to reduce the gap between actual level of production and a steady state production frontier. Being embedded with advanced technologies and knowledge FDI is a shifter of host countries production frontier. Due to its dual role of a mover of production efficiency and shifter of production frontier, FDI is a powerful driver of economic growth for newly industrializing economy to catch up with the world most advanced countries.

MATERIALS AND METHODS

The new growth theory; accentuates technical progress, improved economic activities resulting from the rate of investment, size of capital stock and the stock of human capital. Also, the theory of production spillover emphasizes on the demonstration effect which highlights transfer of skills and advanced technology, thereby, forcing domestic industries alike to upgrade production techniques to be competitive and productive. As these limits are eliminated for domestic firms, desired performance improvement is achieved to better place the domestic firms in a much desired position of contributing immensely to economic growth and consequently development. A test of the effect of Foreign direct investment on industrial performance for selected African countries is performed in a framework of cross-country regressions. This is done by utilizing the data of forty-three African countries for the period 1996-2015 on industry value added percentage of GDP (IVA) and FDI net inflows percentage of GDP, alongside with other determinants of industrial performance such as Gross Capital Formation (GCF), Real GDP (RGD), Trade percentage of GDP (TRD), Technology (TNG), Gross Domestic Savings (GDS), Domestic credit to private sector percentage of GDP (DCP), Employment to population ratio (EPR) and Labour Force (LAF). The dependent variable in the model is IVA while independent variables are FDI and other determinants as stated above. This model is specified to find out the resultant effect of FDI on industrial performance, alongside with other determinants of industrial performance. The model is stated as:

\[
IVA = f(FDI, RGD, TRD, TNG, GDS, DCP, EPR, LAF, GCF)
\]

Where:
IVA = Industry Value Added percentage of GDP
FDI = Net inflow of Foreign Direct investment percentage of GDP
RGD = Real GDP
TRD = Trade percentage of GDP
TNG = Technology
GDS = Gross domestic savings percentage of GDP
DCP = Domestic Credit to Private sector percentage of GDP
EPR = Employment to Population Ratio
LAF = Labour Force participation rate percentage of population
GCF = Gross Capital Formation percentage of GDP

\[\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7, \beta_8 \text{ and } \beta_9\]

are the coefficient. Stating Eq. 1 in linear form, we have:

\[
IVA = \beta_0 + \beta_1 FDI + \beta_2 RGD + \beta_3 TRD + \beta_4 TNG + \beta_5 GDS + \beta_6 DCP + \beta_7 EPR + \beta_8 LAF + \beta_9 GCF + \epsilon_i
\]

(2)

Stating Eq. 2 in panel form, we have:

\[
IVA = \beta_{0i} + \beta_{1i} FDI_{1i} + \beta_{2i} RGD_{1i} + \beta_{3i} TRD_{1i} + \beta_{4i} TNG_{1i} + \beta_{5i} GDS_{1i} + \epsilon_{1i}
\]

\[
\beta_{0i} + \beta_{1i} FDI_{2i} + \beta_{2i} RGD_{2i} + \beta_{3i} TRD_{2i} + \beta_{4i} TNG_{2i} + \beta_{5i} GDS_{2i} + \epsilon_{2i}
\]

\[
\beta_{0i} + \beta_{1i} FDI_{3i} + \beta_{2i} RGD_{3i} + \beta_{3i} TRD_{3i} + \beta_{4i} TNG_{3i} + \beta_{5i} GDS_{3i} + \epsilon_{3i}
\]

(+) (+) (+) (+) (+) (+) (+) (+) (+)

The signs under Eq. 3 are the Apriori expectations of the variables in the model. All data were taken from the
World Bank, World Development Indicators (WDI). These are for the specified period from 1996-2015 and for the 43 selected African countries.

RESULTS AND DISCUSSION

Pooled ols result analysis: Equation 3 was estimated to obtain the results in Table 1. The pooled OLS regression shows the result of the equation in column 2 where IVA is the dependent variable in the regression equation, estimating industrial performance. For the t-statistics, the result shows that the variables are significant as most of the values are 2, thereby, showing level of significance. The F-statistics has a value of 221.95 (0.0000) which shows that it is significant at 1 percent level in explaining the level of industrial performance. FDI net inflow is significant at 1% on industrial performance; however, the coefficients are minimal. This explains why even though FDI net inflow is expected to have significant impact on industrial performance, the impact is minimal and almost negligible for the selected African countries. Real gross domestic product, trade, gross domestic savings, domestic credit to private sector, employment rate, labour force participation, gross capital formation are all significant at 1%, however, the coefficients of are negligible especially in the case of real gross domestic product for the selected African countries. Technology, however is not significant on industrial performance.

Fixed effect least square dummy variable analysis: Also, on Eq. 3, estimation was performed to obtain the results in. The regression shows the result of the equation in column 3 where IVA is the dependent variable in the regression column, estimating industrial development. For the t-statistics, the result shows that the variables are significant as most of the values are 2, thereby, showing level of significance. The F-statistics has a value of 263.80 (0.0000) which shows that it is significant at 1% level in explaining the level of industrial performance. It can be noted from the results, therefore that for the regression where IVA is proxy of industrial performance, FDI net inflow is significant at 1% on industrial performance, however, the coefficients are minimal. This explains why even though FDI net inflow is expected to have significant impact on industrial performance, the impact is minimal and almost negligible for the selected African countries.

Table 1: Estimated regression result

<table>
<thead>
<tr>
<th>Variables</th>
<th>Pooled OLS</th>
<th>LSDV</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI</td>
<td>0.201***</td>
<td>0.155***</td>
</tr>
<tr>
<td></td>
<td>(0.000)</td>
<td>(0.000)</td>
</tr>
<tr>
<td>RDI</td>
<td>0.000**</td>
<td>-0.000**</td>
</tr>
<tr>
<td></td>
<td>(0.000)</td>
<td>(0.000)</td>
</tr>
<tr>
<td>TDR</td>
<td>0.230***</td>
<td>0.095***</td>
</tr>
<tr>
<td></td>
<td>(0.000)</td>
<td>(0.000)</td>
</tr>
<tr>
<td>TNG</td>
<td>0.046 (1.19)</td>
<td>0.042*</td>
</tr>
<tr>
<td></td>
<td>(0.236)</td>
<td>(0.693)</td>
</tr>
<tr>
<td>GDS</td>
<td>0.470***</td>
<td>0.145***</td>
</tr>
<tr>
<td></td>
<td>(0.000)</td>
<td>(0.000)</td>
</tr>
<tr>
<td>DCP</td>
<td>-0.210***</td>
<td>-0.095***</td>
</tr>
<tr>
<td></td>
<td>(0.000)</td>
<td>(0.000)</td>
</tr>
<tr>
<td>EPR</td>
<td>-0.559***</td>
<td>-0.165</td>
</tr>
<tr>
<td></td>
<td>(0.000)</td>
<td>(0.174)</td>
</tr>
<tr>
<td>LAF</td>
<td>0.408***</td>
<td>0.379***</td>
</tr>
<tr>
<td></td>
<td>(0.000)</td>
<td>(0.002)</td>
</tr>
<tr>
<td>GCF</td>
<td>-0.509***</td>
<td>-0.116***</td>
</tr>
<tr>
<td></td>
<td>(0.000)</td>
<td>(0.000)</td>
</tr>
<tr>
<td>Constant</td>
<td>21.025***</td>
<td>-5.111</td>
</tr>
<tr>
<td></td>
<td>(0.000)</td>
<td>(0.434)</td>
</tr>
<tr>
<td>R²</td>
<td>0.7030</td>
<td>0.9437</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.6998</td>
<td>0.9402</td>
</tr>
<tr>
<td>F-stat</td>
<td>221.95 (0.0000)</td>
<td>263.80 (0.0000)</td>
</tr>
<tr>
<td>No of countries</td>
<td>43</td>
<td>43</td>
</tr>
<tr>
<td>Dummy countries</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Number of observations</td>
<td>844</td>
<td>854</td>
</tr>
</tbody>
</table>

*Author's compilation (2016). Impact of FDI on industrial performance. Absolute t-statistics are displayed in parenthesis beside the coefficient estimates while probability values are in brackets under the coefficient estimates. *Indicates significance at 10%, **significance at 5%, ***significance at 1%

coefficients of are negligible especially in the case of real gross domestic products for the selected African countries. Technology, however is not significant on industrial performance at 10% level of significance. Employment to population ratio, however, is not significant on industrial performance.

Summary of main findings, recommendations and conclusion: This study has investigated Foreign direct investment and industrial performance with evidences from selected african countries. The impact of the net inflow of Foreign direct investment has been ascertained in relation to the proxy of industrial performance. The estimated result of the model reveals that Foreign direct investment is significant at 1% on industrial performance as highlighted in Eq. 3 which is emphasized in Table 2-4, however, the coefficients’ negligibility are indication that the impact of FDI in the region has not been fruitful over the years.

While majority of previous studies focused on economic growth, this study takes a step further to find the impact of Foreign direct investment on industrial performance. We found Foreign direct investment to be significant and positively related to industrial performance, although at a minimal magnitude.
The flow of foreign direct investment into the economy should, ceteris paribus, increase domestic investment and economic activities to have net beneficial impact on the host economies in terms of stimulating local industry activities over the years to result into improved activities and hence performance of domestic industries which represent investment domestically. The anticipated and accelerated activities expectations of flow of foreign capital similar to theoretical arguments should complement their flow as it is evidently observed in other developing regions of the world where industry performance is endeared by flow of FDI. In particular, it is expected that with the increase in net inflow of FDI into these host African countries, the level and types of manufacturing of goods and production of services should increase which should, in turn, result into reduction in the importation of manufactured goods and services to assist in closing the domestic investment and foreign exchange gaps. This should result by multiplier effect into improved performance of the domestic firms, further resulting in the gaps of production factors to be increasingly limited. But disappointingly, this expected industrial performance impact has failed to materialize in most of these selected African countries, contrary to what has been seen achieved in some other regions like India and South East Asia. This explains the negligible impact and this also is evident in reality as selected countries in the region that have incessantly enjoyed the inflow of FDI have evidently remained on the same level of performance in domestic industrialization.

Technology, one of the prominent independent variables and also employment to population ratio were not significant at one time or the other. This shows the rate of unemployment in the region which is also an evidence of low domestic industrialization appreciation which if were otherwise, the level of unemployment would have abated over the years, alongside domestic savings and investment. This would have been improved by
increase in income due to more gainful employment and in the countries studied. Technology also was not significant on industrial performance. This goes a long way to elucidate the level of technology in the region as continued backward compared to other developing regions where there is incessant development in technology. This is also, a pointer and indication of reduction in the technology gaps. However, for the region, the technology gaps have widened rather than close for the selected African countries and the period under review. This shows that there is insufficient technology transfer as it did not even impact at all on the level of industrial performance in the region.

CONCLUSION

We can conclude from the results of this study that though there exists a positive significant relationship between net inflow of Foreign direct investment and industrial performance, however, this is yet to be at such a reasonably high level as to translate to increase in domestic industry performance. Restoring of some closed industries, general overhaul of defunct or dying domestic firms would possibly result in increased industrial performance, improved domestic production and hence, reduction in the high level of importation of manufactured goods. Thus as net inflow of Foreign direct investment increases, the resultant increase in income invariably does not significantly impact the domestic and industrial sector with the expected increase in investment. Nonetheless, the flow of Foreign direct investment should bring about industrial performance by accelerating domestic investment, level of production, income, savings and so on which cannot ordinarily be evident for the African region except strict guiding policies are put in place to protect domestic firms, encourage healthy competition, build up the capacity and level of market share owned domestically to such as can sufficiently guarantee geometric improvement in production, thereby, resulting into a steady decline in importation and gradually also, dependence on external financing. The growth in income, savings, investment and technology, channeled into the domestic firms should increase value added and improved exploit of the domestic industry which is if sustained will result in industrial performance over time. This consequently should result into higher living standard of the region as well as ability to sustain further this advancement of the domestic industry activities. As the impact of technology cannot be overemphasized in any country striving to improve domestic industry performance, research and development is therefore the way to go for the region. This if pursued concertedly with expected transfer of technology on the part of FDI will beef up the currently degraded technology level in the region and appreciate considerably over the years to enable the domestic firms to be able to compete considerably with Foreign counterpart industries. This also, will reduce the level of unemployment as the improved engagement of domestic firms will create opportunity for more employments and in turn increased income, savings, investment and technology. These we can specify as the desired cycle of improved performance of domestic industries and it further strengthens the domestic industry, enhance their performance and consequently improve living standard of the African region.

RECOMMENDATIONS

Countries that welcome the flow of Foreign direct investment need to do so with appropriate policies to channel the flows to sectors of critical importance. This is to ensure that the direction of flows falls within the overall development plan of the country. Industrialization as a basic need for developing countries suggests that flow of FDI need to be directed into the manufacturing sector. It is expedient also that as the domestic sector is developed with evidence of increases in income, improved technology transfer, reduction in level of unemployment among others, it should be sustained to ensure lasting developmental impact such that will be translate into visible advancement in technology of host economies, open avenue to create domestic industries that will have the acumen to perform adequately well compared to their Foreign counterparts in production, technology, even in employment of labour and consequently all production factors to situate the kind of activities in domestic firms that will bring about tangible performance in the domestic industries. From the results of this and other studies, however, it is clear that while governments are usually enticed by the attractiveness of Foreign direct investment for the positive spillovers that it can generate, governments should be cautioned that the desired spillover effects are not automatic and that the presence of FDI alone is insufficient to reap the desired benefits for the specific local economy. Concerted efforts should therefore be made by government to ensure that policies are put in place to guide Foreign investor’s activities in ways that will favour domestic firmss in forms of transfer of technology, creation of useful linkages that will further enhance their performance and level of productivity to significantly have a considerably large share of the market. We consider it appropriate to reiterate here our earlier relevant policy recommendation that governments should be wary of focusing on FDI attraction alone but should rather make sure that the targeted FDI has the preferred efficient and economic spillovers by focusing on policies that enhance the desired benefits of FDI which in
the context of the present study is inter Alia, higher level of industrial performance. Noting that the developmental impact of FDI is not automatic, the desired policy framework should seek to encourage the inflow of FDI that are aligned to the country’s developmental goals.

REFERENCES


