The history of foreign direct investment economics essay

Finance, Investment

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The history of Foreign Direct Investment can be traced back to the yearss of the colonial epoch.

During the colonial yearss, there was the demand for an oversee investing every bit good as transportation of managerial accomplishments. This was due to the rough direction of the baby industries in Nigeria as at that clip.

Right from independency in 1960, Nigeria recognized the importance of externalfinancein make fulling or lending to make full the domestic nest eggs spread, the foreign exchange spread and the engineering spread in development. It was non, until 1957, when the state becomes autonomous that a more positive action towards foreign capital and peculiarly Foreign Direct Investment replaced the laissez faire policy of the pure colonial epoch. Get downing from the twelvemonth, five Acts of Parliament provided a bundle of inducements for foreign investors. These include broad revenue enhancement vacations, accelerated depreciation allowances, market protection, freedom to convey in and repatriate capital and net incomes, and a more favorable and competitoryenvironment. These were embodied in the

Industrial Development (Import Duties Relief) Act 1957, the Industrial Development (Income Tax Relief) Act 1958, the Customs Duties (Dumped and Subsidized Goods) Act 1958, the imposts (Draw back) Regulations 1959 and the Income Tax (Amendment) Act 1959.

DEFINITION OF FOREIGN DIRECT INVESTMENT

Foreign Direct Investment can be defined as an investing that is made to get a permanent direction involvement in a concern endeavor operating in a state other than that of the investor defined harmonizing to residence World Bank (1996) . M. Sornarajah (2010) defined Foreign Direct Investment as `` the transportation of touchable or intangible plus from one state to another for the intent of their usage in that state to bring forth wealth under the sum or partial control of the proprietor of the assets '' . Okomoh (2004) described Foreign Direct Investment as non merely for the transportation of capital but besides widening an endeavor from its place state into foreign host state. Practically, Foreign Direct Investment means exerting corporate control over international boundaries.

2. 3 THEORIES OF FOREIGN DIRECT INVESTMENT

Theory of Foreign Direct Investment can be traced back to Hymer (1960) in his work `` On Multinational Corporations and Foreign Direct Investment '' , where he stated that `` since autochthonal houses have better cognition of their local environment more than foreign houses, the latter will merely be able to vie if they possess other advantages to counterbalance for their disadvantages of operating in foreign sites '' . Besides, foreign direct investings are common where imperfectnesss exist in a market. This means that the theory of perfect competition is non likely to work in instances Foreign Direct Investment. Theory of Foreign Direct Investment can therefore handily be explained under two classs: Micro (Industrial Organisation) theories ; and Macro-finance (cost of capital) theories. Harmonizing to Caves (1971) , the focal point is normally on market imperfectnesss, every bit good as the aspiration of Multinational Corporations to spread out their market power normally on market.

Uniting micro and macro accounts, some theories had emerged justify Foreign Direct Investment from positions of the investment houses and the receiver economic systems.

Theory OF FIRM EXPLANATION

Harmonizing to this theory, following Caves explanation before stated, a house will go on to put at place until optimal degree of investing at place is reached and farther investing will do Fringy Cost to be higher than Average Cost and monetary value per unit of end product. This theory thrives good utilizing the microeconomic behavior of houses. The decision of the account is that every bit long as the projected accrued hereafter net income borders warrants present outgo, a undertaking is said to be feasible. This theory is non realistic as it does non set into consideration export selling and behavior of Multinational Corporations that operates under progressive markets

INTANGIBLE ASSETS EXPLANATION

The intangible assets explanation provinces that Foreign Direct Investment of the Multinational Corporations have some proprietary cognition or intangible assets such as engineering and techniques that guarantee efficiency, patents, designs, hallmarks, trade name names, trade secrets and know-how which other houses have no entree to. These assets possess similar features of 'public goods ' in the sense that they can be exploited by different houses (within the transnational system) without consuming their utility. Because of this property of 'Pareto Optimality ' , the usage of the proprietary assets can be optimized by spread outing abroad. For case, 'Coke ' trade name name is recognized world-wide and Coca-Cola will do more return from the hallmark when more workss are constructed. It is of import to observe production for export can non be an alternate to locating a fabrication workss because of the transit cost associated with export every bit good as possibility of trade barriers. On whether a licensing understanding would hold been another option, the finding of royalty payment is ever really subjective, while authorities of developing states do hold terrible influence on such an option ; and many Multinational Corporations are non normally ready to portion such assets.