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FOREIGN DIRECT INVESTMENT ON EMPLOYMENT GENERATION IN NIGERIA

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Abstract
The study looks at how foreign direct investment affected employment generation in Nigeria for the past 24 years, from 1999 to 2022. Ex-post research design was used in the study. The Central Bank of Nigeria statistical bulletin was used for the study's data collection. The Augmented Dickey- Fuller (ADF) test was used in the study's unit root test and pre-test analysis. Regression was utilized after analyzing the unit root test. The study discovered a positive and considerable effect of foreign direct investment on employment generation in Nigeria. The study suggested that Government should make concerted efforts to attract more of foreign investors into Nigeria so as to encourage production and generate employment opportunities. Government of Nigeria should ensure that FDI are in major sectors of the economy such as oil and gas, manufacturing and banking.

Keywords: Foreign Direct Investment, Employment Generation, Nigeria and Employment Creation

Introduction

The impact of FDI as a tool of employment creation in developing economies can- not be undermined. Over the years, FDI has been positively and significantly contributing towards economic growth and development through job opportunities and technological transfer in many developing nations (Timothy et al, 2022). Unemployment has been high or rising in several developed countries; at same time, their outward foreign direct investment (FDI) has been increasing as well. This coincidence has fuelled concerns that FDI outflows may be one of the causes of unemployment (Jamuna, 2020).

Salami (2013) stated that the relationship between foreign direct investment and other macro-economic variables (that is, Gross Domestic Product (GDP), employment generation, exchange rate and so on) in Nigeria is yet unclear and also recent evidence shows that the relationship may be country and period specific, therefore gives room for more studies to be done in examining the relationship between foreign direct investment itself and other macro-economic variables. According to World Bank (2013), reports stated that the level of job creation does not have a proportional movement with the level of working population in Nigeria. As observed in National Bureau of Statistics bulletin (NBS) published in 2010, the youths within the range of 15 and 24 had an unemployment rate of 40 percent.

According to World Bank Development Indicators (WDI) (2021), Nigeria attracted approximately $89,570.52 million in FDI inflows with an average of 1.41 percent from 1996 to 2020. It is expected that these capital inflows will boost socio-economic activities; however, taking the trade as a percentage of GDP as an example, the average is 36.63 percent, which is far below expectations, especially when compared to countries such as South Africa, which has traded as a percentage of GDP at 51.59 percent, Egypt at 46.37 percent, Kenya at 48.89 percent, and Rwanda at 38.73 percent. In terms of economic performance, GDP growth averaged 4.87 percent, which is still below the level that can generate significant economic performance indicators and is one of the reasons why unemployment (percentage of the total labor force) and inflation averaged 5.00 percent and 12.21 percent, respectively (Abubakar et al 2023).

The variable was investigated in earlier studies by Babasanya (2018) Ajayi et al (2019); Adeyemi et al (2020) Timothy et al (2022). None of the studies that were examined used the years 2019, 2020, or 2022.

The main goal of this study is to look at how the foreign direct investment in Nigeria is affected employment generation in Nigeria. More specifically, this study wants to know how foreign direct investment in Nigeria affects employment generation. This study's focus is solely on how foreign direct investment affected employment generation. The study lasted for 24 years, from 1999 to 2022. This time frame was chosen because it coincided with when Nigerians heavily utilized adopted democracy which gave birth to export promotion and import substitution strategy in Nigeria.

The following hypothesis was stated in a null form:
H_{O1}: There is no significant effect of foreign direct investment on employment generation in Nigeria

Concept of Foreign Direct Investment

Foreign direct investment (FDI) can be described as a flow of capital and technology know- how from one (home) country to another (host) country (Ajayi et al, 2019). Foreign direct investment is net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. Also, it is the sum equity capital, reinvestment of earnings, other long term capital, and short term capital, as shown in the balance of payments (IMF, 2007) cited in Adeyemi et al (2020).

According to Opusunju and Akyuz (2022) foreign direct investment is an investment by foreign firms or affiliate into the host country by transferring their capital, knowledge, expertise and technology into the host country in order to generate profit and paying certain economic obligation such as taxes and also reinvesting their capital, providing equity capital to the host country and ensure good intra company loans. Foreign direct investment (FDI) can be defined as the financed by a loan gained in a host country, payments in exchange for equity (patents, technology, machinery etc.), and other methods (Isaac et al 2023).

Concept of Employment Generation

The term employment is used to describe a situation whereby able-bodied men and women who are qualified by the condition to work in any given society can gainfully secure jobs whereby he or she will not be exploited on securing the job and equally optimize his or her capability in terms of his marginal labour production. The full employment of labour does not imply that there is no allowable unemployment percentage level but if it is not within the framework of the accepted level considered as full employment for either the developed or developed countries as the case may be, it will not be a serious case for policy decisions (Adeyemi et al, 2020).

Employment is a relationship between two parties, usually based on a contract, one being the employer and the other being the employee. It is also defined as situations whereby able-bodied men and women who are qualified by the condition to work in any given society can gainfully secure jobs whereby he or she will not exploited on securing the job and equally optimise his or her capability in terms of his marginal labour production (Babasanya, 2018). The term employment is used to describe a situation whereby able-bodied men and women who are qualified by the condition to work in any given society can gainfully secure jobs whereby he or she will not be exploited on securing the job and equally optimize his or her capability in terms of his marginal labour production (Abaukaka, 2014).

Empirical Studies

Timothy et al (2022) examine the effect of FDI on employment in ECOWAS sub region between 1990 and 2019. The study utilizes a panel autoregressive distributed lag model to analyze the short run and long run relationship between FDI and employment across ECOWAS sub region. In the short run, the impact of FDI on employment is negative and statistically not significant. Meanwhile, in the long run FDI has a positive and statistically significant impact on employment rate. This implies that FDI has the capacity to generate employment in countries in ECOWAS sub region.

Ajayi et al (2019) investigate the impact of Foreign Direct Investment (FDI) on the employment and unemployment rate in Nigeria. The study use yearly data on employment and unemployment rate collected from CBN Statistical Bulletin, National Bureau of Statistics and World Bank Indicators for the period 1960 – 2014 to achieve its objective and all analysis were done with E-view 9.5. The study employed Vector Autoregression (VAR) to model the employment and unemployment rate in Nigeria. The findings of the study suggested that FDI had a significant and positive impact on employment, FDI Granger-cause employment, employment Granger-cause FDI, unemployment Granger-cause employment and employment also Granger-cause unemployment. Also, unemployment Granger-cause FDI and FDI Granger-cause unemployment. This implied that FDI has a significant role on employment rate in Nigeria and this should not be minimized.

Adeyemi et al (2020) examine the role of foreign direct investment on employment generation in Nigeria. The objectives of this study include: to investigate the impact of FDI on employment; to examine the long-run linear relationship between FDI and employment in Nigeria; and to determine the direction of causality between FDI and employment level. The study therefore employed multiple regression, Johansen co-integration and causality to ascertain the specific objectives of the study. The instrument used for this study is secondary data. The data for the study was obtained from CBN Statistical Bulletin, 2019, National Bureau of Statistics, 2019, and World Bank indicators, 2019. Stata- 12 statistical package was used for the estimation. The result of the multiple regressions suggests that wage has a negative and significant impact on employment, while Gross Domestic product is significant and positive as well. The study further shows that foreign direct investment has a significant but negative impact on employment, Also, the result shows that, real exchange rate is a negative and non-significant determinant of employment in Nigeria while, inflation rate is a positive but not a significant determinant of employment. The ADF statistic confirms that the long run relationship is significant at 1%. The results show that, FDI significantly causes employment but employment does not significantly cause FDI.

Babasanya (2018) examined the relationship between foreign direct investment and employment generation in Nigeria between the period of 1999 and 2016. To empirically establish the relationship, some variables are incorporated into the study such as employment rate as the dependent variables while the independent variables include foreign direct investment, gross domestic product and exchange rate. Findings showed that foreign direct investment has a positive relationship with employment rate in Nigeria.

Labour demand theory

The aggregate demand for labour is one of the most important relationships in macroeconomics. Most studies implicitly adopt a neoclassical framework for the formulation of the demand for labour schedule, and hence, according to theory, the aggregate demand for labour is assumed to be negatively related to real wages and positively related to output. The dependent variable is usually total employment or hours worked while independent variables are either real wages, or some other measure such as real unit labour costs, and real gross domestic product. The demand for labour is affected by several variables including wages, economic growth, domestic investment, technology and government (Massoud, 2008). Demand for labour is a derived demand. If there will be a demand for goods and services, there will be a demand for labour as well.

The theoretical model on which this study is based is the labour demand theory. The building of the model showing the impact of FDI on employment is based on the assumption that FDI, where it generates and expands businesses, it can help stimulate employment and raise wages (Zeqiri et al).This research focuses on the labour demand theory because the theory tries to analyze links between the demand for labour and a variety of economic factors. This theory best suits this study because it intends to investigate whether FDI adds to the overall employment generation in Nigeria which the labour demand theory captures.

Methodology

The study adopted Ex-post facto research design and this is because the study tried to find out the cause-and-effect relationship between the variables. The study relied on reports from Central Bank of Nigeria for secondary data and the reason is that data obtained from Central bank of Nigeria are unique. The study surrogated manufacturing employment generation as employment level or rate. Employment rate (ER) is expressed as a function of foreign direct investment (FDI). The functional form of the first model can be expressed as:

ER= f (FDI)………… (1)

Where:

ER= Employment (numbers of labour force)

FDI= Foreign Direct Investment

The structural expression of the model can be stated as:

$ER_t = b_0 + b_1FDI_t + u_t$…………………… (2)

Where: b_0= Intercept of the model; b_1= Coefficient of FDI in the model; u= Error term; t=Time trend.

Based on theoretical postulation, it is expected that the coefficient of FDI to be positive. That is ($b_1>0$). Effort was also made to log the necessary data as revealed in equation 3 below.

$LER_t = b_0 + b_1LFDI_t + u_t$…………………… (3)

Where, L is defined as natural logarithms of the variable in question. IMR was not logged since they are in rate. When a data is expressed in rate or differenced there is no need to log the data again since it has been scaled down (Gujarati, 2004).

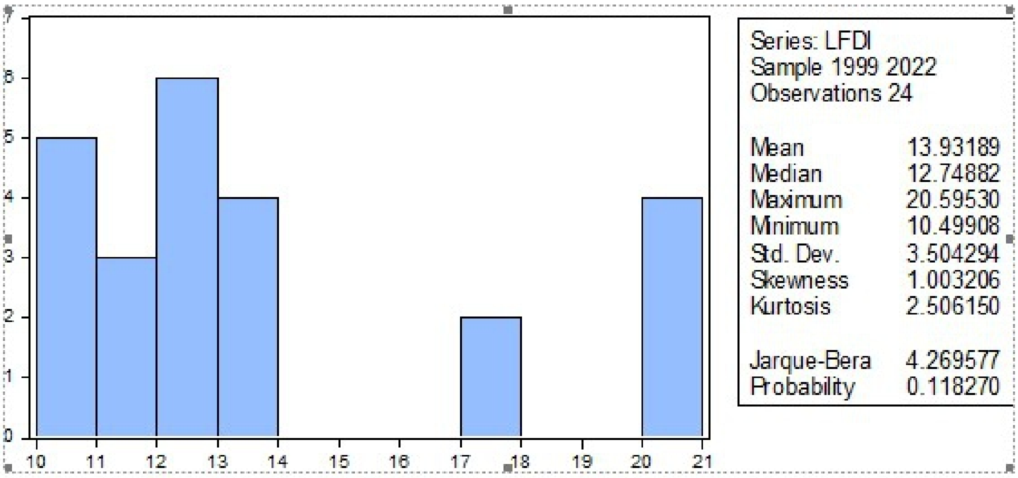
Result and Discussion

Table 1: Descriptive Statistics

	FDI	EMG
Mean	1.30E+08	2010500.
Median	346989.4	2010500.
Maximum	8.80E+08	2022000.
Minimum	36282.10	1999000.
Std. Dev.	2.88E+08	7071.068
Skewness	1.840568	9.89E-17
Kurtosis	4.519443	1.795826
Jarque-Bera	15.85947	1.450035
Probability	0.000360	0.484316
Sum	3.13E+09	48252000
Sum Sq. Dev.	1.90E+18	1.15E+09
Observations	24	24

The descriptive statistics shows that the average scores for FDI and EMG are 1.30 and 2010500 respectively and the Jargue-Bera probabilities on FDI shows that the data are not normally distributed since the probability is less than 5% but EMG indicated that data are normally distributed. The maximum value of EMG is higher than FDI which implies that more EMG influence FDI in Nigeria

Table 2: Histogram Test of Normality



However, the data set were logged and the probabilities were greater than 5% which implies that the histogram test of normality shows that data are normal since Jargue-Bera value is 2.613 and probability value of 0.27 which indicated that data are normally distributed.

Unit-Root Test

In order to properly examine the trend relationship and the nature of stationarity between the variables of interest, the Augmented Dickey- Fuller (ADF) test for unit root was employed. The test for stationary is important so as to avoid misleading or spurious results. The decision rule for the Augmented Dickey-Fuller (ADF) test is as follows: if the calculated value of The Augmented Dickey-Fuller (ADF) test statistic is greater than the critical value at a particular significance level, the alternative hypothesis of stationarity is accepted. Conversely, if The Augmented Dickey- Fuller (ADF) test statistic is less than the critical value at a particular significance level, the null hypothesis of non-stationary is accepted. Thus, such series will have to be re-differenced till it/they become stationary.

Table 2:

Unit Root Test

Variable	Level of stationarity	ADF-statistic	Significant values 1%, 5%, 10%	Order of Integration	Prob.(5%)
LFDI	constant	5.91	-3.76, -3.00, -2.64	1(1)	0.00*
LEMG	constant	6.02	-5.58, -4.24, -3.59	1(2)	0.01*

Source: Author's Computation using E-view 9.00
Probability values are indicated by *

Because the values of its ADF test statistics at first differences are greater than their corresponding critical values at 5% level of significance, Table 2 indicates that the LFDIand LEMG are stationary at first difference and stationery at second different but not stationary at level. Additionally, the variables are incorporated into the orders 1(1) and 1(2), indicating that the regression model is more acceptable and suitable for the investigation.

Table 7: Regression Result

Dependent Variable: LEMG
Method: Least Squares
Date: 07/24/23 Time: 16:44
Sample: 1999 2022
Included observations: 24

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	14.50151	0.001427	10163.77	0.0000
LFDI	0.000889	9.94E-05	8.936863	0.0000

R-squared	0.784033	Mean dependent var	14.51389
Adjusted R-squared	0.774217	S.D. dependent var	0.003517
S.E. of regression	0.001671	Akaike info criterion	-9.870884
Sum squared resid	6.14E-05	Schwarz criterion	-9.772713
Log likelihood	120.4506	Hannan-Quinn criter.	-9.844840
F-statistic	79.86752	Durbin-Watson stat	0.501203
Prob(F-statistic)	0.000000		

Source: E-view output, 2017
Decision rule: 5%
Since the f-statistics is significant at the 5% level of significance, the regression result demonstrates that the model is appropriate for the investigation. The outcome also demonstrates that the amount of foreign direct investment inflow in Nigeria has a positive and large effect on the employment generation in Nigeria. Given that the P-value is less than 5%, this effect is substantial. We can therefore rule out the other hypotheses and draw the conclusion that the amount of foreign direct investment inflow in Nigeria has a unique and considerable effect on employment generation in Nigeria.

Only 78% of the variation in foreign direct investment inflow in Nigeria can be used to describe employment generation in Nigeria, according to the R2 value of 0.78, while 22% can be attributed to other factors that were not taken into account in the regression model, or error term.

Discussion of Finding

The study discovered a positive and considerable effect of foreign direct investment inflow in Nigeria on employment generation in Nigeria. This study shows that foreign direct investment inflow in Nigeria contribute significantly to employment generation and also have positive contribute to the growth of employment in Nigeria. The study is in line with the findings of Timothy et al (2022); Adeyemi et al (2020) who found a positive and significant effect of foreign direct investment on employment generation in Nigeria. The study is supported with labour demand theory which indicates that the impact of FDI on employment is based on the assumption that FDI, where it generates and expands businesses, it can help stimulate employment and raise wages (Zeqiri et al).This research focuses on the labour demand theory because the theory tries to analyze links between the demand for labour and a variety of economic factors. This theory best suits this study because it intends to investigate whether FDI adds to the overall employment generation in Nigeria which the labour demand theory captures.

Conclusion and Recommendations

According to statistical findings, there is a positive and considerable effect of foreign direct investment inflow in Nigeria on employment generation in Nigeria. This study shows that foreign direct investment inflow in Nigeria contribute significantly to employment generation and also have positive contribute to the growth of employment in Nigeria

The study recommended that ,

Government should make concerted efforts to attract more of foreign investors into Nigeria so as to encourage production and generate employment opportunities. Government of Nigeria should ensure that FDI are in major sectors of the economy such as oil and gas, manufacturing and banking.

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