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IMPACT OF FOREIGN DIRECT INVESTMENT ON EMPLOYMENT GENERATION IN NIGERIA

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ABSTRACT

This study examined the impact of foreign direct investment on employment generation in Nigeria by applying annual time series dataset over the period 1980 – 2023. The study used Autoregressive Distributive Lag Model (ARDL) for the analysis of the parameters. The variables employed includes employment, FDI, inflation rates, interest rates, economic growth, and population. The results of the empirical finding revealed that FDI influence the level of employment in Nigeria in both short run and long run respectively. This implies that FDI enhances the level of employment in Nigeria. FDI can be a significant engine of economic development, helping to create jobs, develop skills, generate revenue, and promote overall economic growth, according to the economic implications of the positive relationship between FDI and employment generation in Nigeria. But authorities must make sure that FDI is properly regulated and that the advantages are shared fairly among the populace.

Keywords: Foreign Direct Investment, Employment, ARDL, Interest rates, inflation rate

1. INTRODUCTION

Foreign direct investment is one of the key components of an open and efficient international economic system, as opposed to strictly regulated economies. It has been argued in the literature that there is no country sufficient on its own, including the developed countries of the world. In this wise, countries of the world required one level of foreign investment or the other to complement the capacity of local investment for more employment creation, growth and development (Osabohien et al., 2020). The effects experienced spread over a wide range, from influencing production, generation of employment, change in income levels, import and exports, impact on economic growth, balance of payments and general welfare of the host country (Mehra 2013). According to Oluwatoyin and Temiloluwa (2017) one of the most considerable and sensitive parts of development in a third world nation is foreign direct investment (FDI).

The combination of skills and capital brings about a positive multiplier effect on economic growth which later leads to development if sustained overtime and employment generation (Oluwatoyin and Temiloluwa, 2017). The encouragement of cross-border investments is one of the attributes of globalization drive. This necessitates the need for countries to require foreign investments to complement the capacity of domestic investment for creating employment as well as achieving economic growth (Osabohien, et al., 2020). Nevertheless, every economic system seeks to achieve full employment which is seen as the main macroeconomic focus of the government in order to attain economic growth and development. The goal of increasing the level of employment among other

macroeconomic objectives is important in many developing nations where unemployment and underutilization of resources has led to rising rate of poverty (Anisiobi et al., 2022). Foreign direct investment represents a veritable source of foreign exchange and technological transfer, especially to a developing economy like Nigeria (Akubueze, 2020).

FDI is seen as the biggest means of external finance to developing countries, compared to remittances, private debt and portfolio equity, or official development assistance (UNCTAD, 2019). Higher FDI inflows can ease capital constraints and contribute to output and employment growth as well as a major driver of economic growth and development. Foreign direct investment plays an important role in employment generation. It provides firms with new marketing channels, cheaper production facilities, access to new technology, products skills and financing. For a host country which receives the investment, it can provide a source of new technologies, capital, processes, products, organizational technologies and management skills, and as such can provide a strong impetus to economic development (Anisiobi et al., 2022).

Foreign direct investment (FDI) is often seen as the main factor in developing economies, which has resulted in a rise in employment rate, economic growth and development (Jibir & Abdu, 2017). FDI does not only guarantee the transfer of intangible assets to another country; nevertheless, it also plays an important role in the growth and development of indigenous entrepreneurship and makes the spillover of knowledge possible. Such spillovers of knowledge contribute to the creation of new enterprises in the host country (Osabohien et al., 2020). The issue of employment is very germane to any economy; this is why one of the main macroeconomic objectives of any country is to attain full employment (Salami & Oyewale, 2013). Low level of foreign direct investment and capital formation could lead to low economic activities which can be attributed to the reason of high unemployment rate in Nigeria (Johnny et al., 2018).

However, this study differs from the work of Oluwatoyin and Temiloluwa (2017) in several ways. While they used the Vector Error Correction Model (VECM) for their analysis, this study utilizes the Autoregressive Distributed Lag (ARDL) model and includes additional variables, such as population and economic growth. Moreover, their research was conducted in 2014, whereas this study covers a period extending to 2022. By spanning a longer timeframe and incorporating more variables, this study aims to provide a more comprehensive analysis of the impact of Foreign Direct Investment (FDI) on unemployment in Nigeria. ARDL allows for different lag lengths for each variable, providing flexibility in capturing the dynamics between variables. This is in contrast to VECM, which requires a pre-determined lag length for all variables (Pesaran et al., 2001).

The ARDL model has the advantage of being applicable even if the variables are not stationary at the same level or differencing order. This is a notable benefit compared to the VECM, which generally requires all variables to be integrated of the same order, specifically I(1) (Pesaran & Shin, 1999). Additionally, ARDL facilitates the examination of both short-run and long-run dynamics simultaneously, whereas VECM primarily focuses on long-run relationships and often necessitates further procedures to analyze short-run dynamics (Pesaran et al., 2001). Moreover, incorporating population as a control variable in the analysis helps to distinguish the direct impact of FDI on employment from the effects stemming from population changes. This approach enhances the precision of the results by ensuring that the influence of FDI on employment is not obscured by variations in population size (Aisen & Veiga, 2013). Nevertheless, this study also differs from the work of Anisiobi et al. (2022) as this current study incorporate addition variables such as population, inflation rate, and interest rate in to the model.

Furthermore, FDI is very important for countries to reduce their rates of unemployment. Therefore, knowledge on foreign direct investment, economic growth, government revenue, increased tax, and living standard and its application will help determine its success on employment creation in every economy (Solomon et al., 2021). Abdulhakeem et al. (2019) Unemployment is one of the major problems affecting Nigeria's economy and its' society, the rate of unemployment has increased over the years and FDI inflow have been crucial for reducing unemployment rate. It is therefore to this end that study seeks to examine the impact of foreign direct investments on employment generation in Nigeria. The paper is divided into five sections, section one is introduction, section two deals with literature review, section three present the research

methodology, section four is results and discussion, and finally section five present the conclusion and recommendations.

2. LITERATURE REVIEW

2.1. Concept Foreign Direct Investment

Mehra (2013) FDI is not limited to a simple transfer of money, but has now extended to being defined as a measure of foreign ownership of domestic productive assets such as factories, land and organizations and other intangible assets like technologies, marketing skills and managerial capabilities. Babasanya (2018), foreign direct investment known as direct investment is investment into production or business by an individual or company of another country, either by buying a company or expanding operations of an existing business. It is seen as a passive investment in the securities of another country such as stocks and bonds. Todaro and Smith (2003) defined foreign direct investments as an overseas investment by private multinational corporations. It consists of mergers and acquisitions, building new facilities, reinvesting profits earned from the operations of the foreign business (Adeleke, Olowe & Fasesin 2014). Okafor (2019) defined FDI as a multinational issue whereby an investor who resides in the domestic country, seeks for a long-term influence in the control of an affiliate firm in the recipient country. Foreign direct investment also includes opening of a subsidiary, acquiring an existing foreign business, or through a means of merger or joint venture with a foreign company (Aladelus & Olayiwola 2021). Foreign direct investment is a direct investment made by individual or company in another country into a production or business interest, either by directly establishing a business or expanding the operations of an existing business or by buying a company in the target nation (Johnny et al., 2018).

2.2 Concept of Unemployment

Unemployment can be defined as the situation whereby those who are willing and able to work are unable to find job. According to Ozughalu and Ogwumike (2013), unemployment is a situation where people who are willing and able to work at the prevailing wage rate and cannot find jobs. According to International Labour Organization (ILO) (2009), unemployment is a situation whereby one does not work for pay or profit but as actually sought work within a pre-specified period. That is, unemployed workers are those who are currently not working but are willing and able to work for pay, currently available to work and have actively searched for work. According to Bakari (2012), unemployment is conceptualized as a situation whereby a worker or workers are involuntarily out of work. This means that workers are willing and able to work, but cannot find any. Osabohien et al. (2020) the problem of unemployment has been a major concern across the developing economies of the world. This problem of employment which has eaten deep into developing economies is one of the major reasons for the macroeconomic objective of full employment level.

2.3 Empirical review

2.3.1 Foreign Direct Investment and Employment Generation

In recent study by Anisiobi et al. (2022) investigate the impact FDI and employment generation in Nigeria within the period 1991 to 2021. The paper used the autoregressive distributed lag (ARDL) model for its regression analysis. The study finds that foreign direct investment has a positive and significant impact on employment generation in Nigeria. Ali et al. (2022) empirically investigate the effect of FDI on employment creation in FDI Recipient nations from 1991 to 2020 using panel data. The study applied system GMM to empirically test the hypothesis and the finding reveal statistically significant and positive relationship between FDI and employment generation in both developing and developed countries.

Also, Olaleye (2021) empirically analyze the influence of foreign capital inflow on selected macroeconomics variable for the period of 1990 – 2021 in Nigeria. Applying ADRL to run the data, the survey reveals that there is positive and significant impact between FDI and unemployment rate. Rakhmatillo et al. (2021) established the impact FDI on employment creation in Uzbekistan for the period cover 2000 – 2020. Applying VAR model to regress the data and result suggested that FDI have positive and statistically significant on job creation.

In another latest study by Osabohien et al. (2020) conduct a survey on the role of FDI and the level of employment generation in Nigeria the survey covers the period of 32years (1985 to 2017). The data was analyze using Fully Modified Ordinary Least Squares (FMOLS)

and the Johansen co-integration econometric approach, the result of the study shows that FDI have positive and significant influence on employment generation. Karimov et al. (2020) analyze the influence of FDI on unemployment rate in turkey using time series data set for period cover 1980 to 2017, econometric tools such as unit root test, Johansen co-integration test, Granger Causality test were used to run the data. The result shows that FDI have great impact in reducing unemployment rate.

3. METHODOLOGY

This work is a time series analysis which used secondary dataset for the estimation of the parameters from 1981 to 2023. The dataset on all the variables such as employment, foreign direct investment, inflation rates, interest rates, economic growth, and population were source from the statistical bulletin of World Bank Indicator and statistical bulletin of the CBN. The dataset type is secondary data.

This study adapted econometric model in line with the work of Anisiobi et al. (2022) with modification. The preferred model is specified as:

$EMP = f(FDI\ INFR\ INR\ GDP\ POP)$ …… (1)

Where: *"EMP"* represents the employment, *"FDI"* is foreign direct investment, *"INFR"* denote inflation rates, *"INR"* is interest rate, *"GDP"* represent economic growth and *"POP"* is population. Thus, the equation above can be rested into mathematical model as follows:

$EMP = \beta_0 + \beta_1 FDI + \beta_2 INFR + \beta_3 INR + \beta_4 GDP + \beta_5 POP$ …… (2)

Thus, the above mathematical equation model can also be transformed into econometric model by capturing the error or disturbance term.

$EMP = \beta_0 + \beta_1 FDI + \beta_2 INFR + \beta_3 INR + \beta_4 GDP + \beta_5 POP + \delta_t$……. (3)

Where β_0 is the Constant term, β_{1-5} represent Parameters to be estimated, δ_t connote the Error term or Disturbance term. Equation (4) can be restated to capture the natural log as:

$lnEMP = \beta_0 + ln\beta_1 FDI + \beta_2\ lnINFR + \beta_3 lnINR + \beta_4 lnGDP + \beta_5 lniPOP + e_t$ … (4)

Where: *lnEMP is* the logarithm of employment, *lnFDI* connotes the logarithm of foreign direct investment, *lnINFR* represent the logarithm of inflation rates, *lnINR* is the logarithm of interest rate, *lnGDP* represent the logarithm of economic growth and *lnPOP* denote the logarithm of population.

The paper applied inferential tests statistics for the analysis of the parameters. The inferential statistics includes Multicollinearity test, unit root test, Autoregressive Distributed Lag Model (ARDL) estimation technique, diagnostic test and stability test for the analysis of the parameters.

A statistical technique called a unit root test can be used to identify the stationary or non-stationary nature of a time series variable. When a time series is said to be stationary, it means that its statistical characteristics, such its variance and mean, stay consistent across time. In econometrics, unit root tests are frequently utilized to evaluate whether or not financial and economic data exhibit stochastic tendencies (Dickey & Fuller, 1979).

$$\Delta Y_t = \beta_1 + \beta_2 t + \delta Y_{t-1} + \sum_{k=1}^{m} Y_i \Delta Y_{t-1} + \mu_t \ldots . (5)$$

Where: ΔY_t = First difference of Y_t, Y_{t-1} = Lagged value of Y_t, δ = Test coefficient, μ_t = Error term, β_1 = Constant, β_2 = Coefficient of time variable. The Phillips Perron test (1988) approach makes a correction to the t statistic to account for the serial correlation. The PP test can be specified as:

$\Delta PD_t = \partial_t + \beta_t + (\rho - 1)\gamma_{t-1} + \varepsilon_t$…….. (6)

Where: MP_t = Public debts, ∂_t = intercept, β_t = linear time trend, Δ = first difference operator, ε_t = the error term.

An econometric model called the Autoregressive Distributed Lag (ARDL) model is employed in time series analysis to determine the long- and short-term correlations between variables. It captures both short-term dynamics and long-term equilibrium relationships by enabling the addition of lag values for both the independent and dependent variables. The ARDL model is especially helpful in examining correlations between variables that could show disparities in how quickly they

react to shocks or systemic changes. In macroeconomic analysis, finance, and other domains where time series data is widespread, it is frequently used (Pesaran et al., 2001). The Model was advocated by Pesaran and Shin (2000) and then by Pesaran *et al* (2001). This approach has an advantage that it does not necessitate entire variable to be integrated of the same order I (1). It is applicable if there is a mixture of I (0) and I (1). The ARDL equation (2) is given as follows:

$$\Delta lEMP_t = \beta_0 + \sum_{i-1}^{n} \beta_1 \Delta lEMPL_{i-1} + \sum_{i-1}^{n} \beta_2 \Delta lFDI_{i-1} + \sum_{i-1}^{n} \beta_3 \Delta lINFR_{i-1} + \sum_{i-1}^{n} \beta_4 \Delta lINR_{i-1} + \sum_{i-1}^{n} \beta_5 \Delta lGDP_{i-1} + \sum_{i-1}^{n} \beta_6 \Delta lPOP_{i-1} + \alpha_1 lEMP_{i-1} + \alpha_2 lFDI_{i-1} + \alpha_3 lINFR_{i-1} + \alpha_4 lINR_{i-1} + \alpha_5 lGDP_{i-1} + a_6 lPOP_{i-1} + \mu_i \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (7)$$

Where: n is optimal lag length, Δ is the Difference operator, β_0 represents the Constant Parameter, β_1-β_6 denote the coefficient of the first difference lagged value of long run dynamic and β_1-$\beta_6$is the coefficient of the short run dynamic of the parameter.

There are some basics assumptions that have to be fulfilled for any analysis to be applicable. When the analysis did not correspond to these basic statements, the forecast and inference possibly will turn out to be spurious and bias which may result to increase in type I and type II error. Thus, it becomes imperative to conduct diagnostic tests to confirm the breakdown of the regression model in an attempt to correct the breakdown. This diagnostic test includes normality of the residuals and Heteroskedasticity test.

4. RESULTS AND DISCUSSIONS

4.1 Unit Root Test

Table 4.2: Results of the Augmented Dickey Fuller (ADF) Unit root Test

Augmented Dickey Fuller Test (ADF)								
	Level				First Diff.			
Varbl.	Inter.	P-val.	Trend	P-val.	Inter.	P-val.	Trend	P-val.
LEMP	-2.330	0.168	-2.164	0.496	-11.08***	0.000	-11.12***	0.000
LFDI	-3.032**	0.040	-2.989	0.147	-9.673***	0.000	-9.656***	0.000
LINFR	-3.63***	0.009	-4.116**	0.012	-6.818***	0.000	-6.731***	0.000
LINR	-2.121	0.237	-2.561	0.299	-4.885***	0.000	-4.842***	0.001
LGDP	-2.948**	0.049	-3.102	0.119	-12.5***	0.000	-12.35***	0.000
LPOP	-0.601	0.859	-5.27***	0.000	-0.822	0.802	-0.234	0.990

Source: Author's Computation, Eviews 12, Significant at 1% (***), 5% (***), 10(*)

Table 4.2 revealed that some of the variables are stationary at a level and some are stationary after first difference which is in conformity with the autoregressive distributed lag model (ARDL) requirement. The coefficient value and p-value of all the variables were said to be negative and statistically significant at most 5% level. Therefore, the null hypothesis that there is no stationarity among the variables is rejected and accepts the alternative hypothesis that there is stationarity among the variables.

4.4.2 Cointegration Bound Test (ARDL)

Having determined the stationary of the time series variables, the next thing is to check for presence of co-integration amongst the parameters. The essence of the co-integration bound test is to ascertain whether there is long run connection between the variables.

Table 4.3: Co-integration Tests (Bound Test Result)

Test Stat.	Value	Sign. Level	Upper Bound (1)	Lower Bound (0)
F-Statistics	6.9	1%	4.2	3.1
K	5	5%	3.4	2.4
		10%	3.0	2.1
Significant at 1% (***), 5% (***), 10(*), Source: Eviews 10				

Source: Author's Computation, Eviews 12

Table 4.3 illustrates the present of co-integration among time series variable. This is for the reason that the F-statistic of 6.9 exceed the critical value of the upper bound I (1) of 4.2, 3.4, 3.0 at 1%, 5%, 10% and the lower bound I (0) of 3.1, 2.4, 2.1 at both 1%, 5%, 10% level of significance. Thus, the null hypothesis that there is no co-integration is rejected and accepts the alternative hypothesis that there is co-integration among the variables at most 5% level of significance. The implication is that employment, foreign direct investment, inflation rates, interest rates, economic growth, and population, all have equilibrium condition that keep them together in the long run.

4.2.4 Long run and short run ARDL Estimation Test

This section presents the results of the long run and short run impact of foreign direct investment on employment generation in Nigeria. The result is shown in Table 4.4.

Table 4.4: ARDL Estimation Test

SHORT RUN ARDL				
Dependent Variable: LEMP				
Variables	Coefficient	Std. Error	t-Statistic	P-value
ΔLFDI	0.0107	0.0055	2.3664	0.0356**
ΔLINFR	0.0109	0.0050	2.1890	0.0491**
ΔLINR	-0.0079	0.0057	-1.3865	0.1908
ΔLGDP	0.0037	0.0021	1.8287	0.0924*
ΔLPOP	-18.824	13.373	-1.4076	0.1846
LONG RUN ARDL				
Variables	Coefficient	Std. Error	t-Statistic	P-value
LFDI	0.0950	0.0410	2.1890	0.0391**
LINFR	0.0656	0.0360	1.8240	0.0931*
LINR	-0.0963	0.0329	-2.9320	0.0126**
LGDP	0.0149	0.0212	0.7052	0.4941
LPOP	-0.4973	0.2294	-2.1680	0.0510**
ECM	-0.3148	0.0370	-8.5053	0.0000***
R2 = 0.98, Adjusted R2 = 0.93, Durbin Watson = 1.8796, F-statistics = 23.119 (0.000)				

Source: Author's Computation, Eviews 12, Significant at 1% (***), 5% (***), 10(*)

Table 4.4 shows the short run and long run estimation of the impact of foreign direct investment on employment generation in Nigeria. The empirical results confirm that there is a positive and significant statistically short run and long run association between foreign direct investment and employment generation in Nigeria. A 10% increase (decrease) in foreign direct investment will result to about 0.10% increase (decrease) in employment generation. This implies that foreign direct investment improves the level of employment in Nigeria over the period of the study. The positive relationship between foreign direct investment (FDI) and employment formation implies that FDI has the potential to play a significant role in driving economic development by fostering the creation of jobs, skill enhancement, income generation, and overall economic growth. It is imperative that authorities guarantee that foreign direct investment (FDI) is adequately regulated and that the advantages it brings about are dispersed fairly among the populace.

Results also indicates that, in the short run and long run, the inflation rates significantly influence the trajectory of employment generation in Nigeria. A 1% increase (decrease) in inflation rates will lead to about 0.07% increase (decrease) in the level of employment. This infer that the significant and positive relationship between inflation rates and employment generation in Nigeria indicates a nuanced interaction among macroeconomic factors. Policymakers must meticulously weigh the trade-offs and unintended repercussions of their policy decisions to safeguard macroeconomic stability and foster enduring economic growth.

Likewise, there is a negative and statistically significant long run relationship between interest rates and employment generation. A 10% increase (decrease) interest rates will lead to about -0.10% decrease (increase) in employment in Nigeria throughout the period of the study. The significant and negative long-term association between interest rates and employment highlights the crucial role of monetary policy in shaping economic activity and job opportunities. Policymakers need to meticulously evaluate how interest rate adjustments impact employment trends and aim to find an equilibrium between fostering economic expansion and preserving price stability.

There is a negative and statistically significant long run relationship between population and employment generation in Nigeria. A 1% increase (decrease) in population will bring to about -0.50% decrease (increase) in employment in Nigeria over the period of the study. Overall, Nigeria's population growth and employment generation have a negative long-run relationship, which emphasizes how critical it is to remove structural limitations and encourage equitable economic growth. To promote sustainable development and better living conditions for all residents, policymakers must take a comprehensive strategy that takes into account labor market dynamics as well as demographic trends.

Nevertheless, the result of the Error Correction Model (ECM) is negative and statistically significant which implies that the model is a good fit. This suggests that foreign direct investment and employment generation do converge to long run equilibrium. The ECM result confirms that there is long run association between foreign direct investment and employment. The regressor result produced an R^2 of 98%, this means that 98% of the changes in foreign direct investment are explained by the variables capture in the model while the remaining 2% represents other variable not capture in the model, but accounted for by the error term. This shows a very goodness of fit of the regression.

The adjusted R^2 coefficient determination of 93% means that the model can accommodates more variables conveniently without the R^2 declining beyond 93%. Also, the F-statistics coefficient of 23.119 (0.0000) and is regarded as commendable being positive and statistically significant. This implies that there is statistically significant association between dependent variable and the explanatory variables. The overall F statistics of 0.0000 is rightly sign and statistically significant at 1% level. The Durbin Watson of 1.8796 revealed that there is no evidence of autocorrelation among the variables or chosen data.

Table 4.5: Results of the Diagnostic Test

Tests	F-statistics	P-value
Heteroskedesticity	0.5986	0.8666
Serial Correlation LM	0.0394	0.9615
Normality Test	3.2849	0.1935

Source: Author's Computation, Eviews 12

Table 4.5 indicated the result of the diagnostic test. The test was carried out using Heteroskedasticity, serial correlation, and Normality test. The primary rationale to test for Heteroskedasticity, serial correlation, and normality test is to detect violation of assumption of the linear regression, which is one of the suppositions required for linear regression to be valid. The F-statistics value of 0.5986, 0.0394, 3.2849 and the probability value of 0.8666, 0.9615, 0.1935 therefore since, the F-probability value are greater than 0.05 for Heteroskedasticity, serial correlation, and normality test, the null hypothesis of no serial correlation is accepted and reject the alternative hypothesis that there is serial correlation is rejected.

5. CONCLUSION AND RECOMMENDATIONS

This paper examines the long run and short run impact of foreign direct investment on employment generation in Nigeria. The study employed time series regression ARDL for the estimation of the parameters. Result of the short run and long run estimation shows that there is a positive and statistically significant relationship between foreign direct investment and employment in Nigeria. This implies that foreign direct investment inflow improved the level of employment generation in the country. All things considered, the positive relationship between employment and foreign direct investment (FDI) in Nigeria indicates that luring in foreign capital can be a useful tactic for fostering economic expansion, generating employment, and raising standards of living. Nonetheless, it is imperative that decision-makers guarantee that foreign direct investment (FDI) supports sustainable development and that the populace shares in its advantages fairly.

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