Foreign Direct Investment, Economic Growth and Unemployment in Nigeria

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Abstract

The rate of unemployment has always been calling for attention in most of the sub-Saharan Africa countries. The situation is also pertinent in Nigeria despite inflow of foreign direct investment (FDI) and rise in gross domestic product (GDP). The study investigates the impact of FDI and GDP on unemployment in Nigeria using time series data spanning 1981 to 2017; descriptive and inferential statistics of ordinary least square (OLS) method were used. Results of the analysis reveal there is growth and expansion in both FDI and GDP over the years, while further results from OLS show that both FDI and GDP have significant impact on unemployment rate in Nigeria for the period under study. In view of this, it is recommended amongst others that government should develop a reliable and attainable macroeconomic framework that will accelerate and ensure employment generation through the expansion and increase in FDI and GDP in the country.

Keywords: Economic Growth, Gross Domestic Product, Foreign Direct Investment, Marxist, OLS and Unemployment.

Introduction

In developing economies, foreign direct investment plays a cogent, magnificent and important role where it does not only provide job opportunities to the host country but also assists in the economy's growth, stability and development through increase in productivity level (all other things being equal). In emerging economy like Nigeria, where domestic financial markets are not fully developed, and foreign capital inflow plays an important role in the economy. It also serves as impulse for business expansion, accelerates employment generation as well as increase people's income which in turn aid capital formation through savings and finally increases aggregate productivity in the economy (Malik & Saima, 2013).

High rate of unemployment which has upheld an increasing trend over the years still remains one of the greatest challenges and obstacles hindering the attainment of economic growth in Sub-Saharan Africa economies (Bello, 2013). In Nigeria for instance, economists and policymakers had devoted great concern to the problem of unemployment since early 1990's as a result of fluctuations in employment generation in different sectors of the economy and corruption which prevails in all sectors. However, the three most significant macroeconomic elements of economic growth and development are increased productivity, even distribution of income and reduced unemployment. It's often postulate by analyst that a single-digit rate of inflation and unemployment i.e. between 0 – 9% will ensure economic growth and stability in an economy ceteris paribus.

Nigeria's economy has witnessed various type of unemployment; from cases of underemployment in which employees receive incomes that are not sufficient to meet their basic psychological needs e.g. food, clothing and housing. It is extended to what is termed disguised unemployment which

is very common; this is the case where employees take up jobs that are below their educational qualification, skills or stream of experience. There are also cases of structural unemployment which is common in recent time as a result of change in the structure of industries with the use of robots in place of labour in production process. The most challenging part is that of people who are able and seeking employment opportunities but cannot find any in both private and public sector (Oni, 2006; Akeju & Olanipekun, 2014). However, some individuals have potentials and skills as well as willing and ready to establish business enterprise on their own where they can engage themselves and probably others in one form of economic activity but are constrained by the poor macroeconomic environment. All these are factors hindering economic growth, limiting productivity and contributing to the high level of unemployment and poverty in Africa as a whole.

Nigeria as a developing country has more causes to allure foreign direct investment due to its capital base and labour composition so as to accelerate productivity of labour and also give room for a large number of labour force to be employed (Egbo, 2012). Similarly, Ozughalu and Ogwumike (2013) in their study revealed that all other things being equal, foreign direct investment should reduce unemployment as it increases real gross domestic product which will definitely reduce unemployment, implying that significant employment opportunities will be generated. In accordance with this, several other studies (such as Otepola, 2002; Ekperiware, 2011; Raheem, 1993; Onu, 2012) have established positive relationship between FDI and economic growth in Nigeria yet the problem and level of unemployment in Nigeria remains a mirage.

Since employment generation is one of the core benefits of foreign direct investment, it is very imperative to investigate the likely impact of the inflow of foreign direct investment towards unemployment reduction in Nigeria as well as the impact of economic growth on unemployment since foreign direct investment leads to economic growth.

Unemployment in Nigeria

There are many types of unemployment in Nigeria: structural unemployment, cyclical unemployment, frictional unemployment and classical unemployment. Structural unemployment is a type of unemployment that is caused as a result of technological change or advancement in the industry which leads to the use of machineries in place of labour that causes layoffs of employees in the economy. Cyclical unemployment is also known as Keynesian unemployment; it occurs when the aggregate demand of the country is not sufficient to give jobs to everyone who wants to work as a result of low aggregate demand which consequently discourage production and increase chances of workers being reduced (Restrepo, 2015).

Frictional unemployment occurs when the skills of the employees are mismatched with the underlying jobs, which can be caused due to ignorance on job opportunities; it can sometimes be like a structural unemployment but it is short-run in nature while structural unemployment has long-lasting effect. Classical unemployment arises when wage rate is above equilibrium prices which influence labour to rush for existing vacancies in the labour market (Bisiriyu, 2017).

Figure estimates published on unemployment rate by government agencies and international agencies are sometimes different from one another. The figure estimate published by National Bureau of Statistics, the Central Bank of Nigeria, CIA, the World Bank and the Nigeria Ministry of Finance appear to contradict each other from time to time (Asaju, Samuel & Silas, 2014). The reason for these differences and contradictions as pointed out by Obadan and Odusola (2010), is that, open unemployment was only recorded and published. Secondly, the agency (i.e. Nigeria Labour Force Statistical Survey) only considers people between 15 and 55 years of age in its

concept of labour force while other age compositions were neglected. Finally, they pointed that government agencies exclude full housewives and people in the informal sectors in their estimate of unemployment.

Premium Times newspaper published in December, 2018 reported that according to World Bank report in 2009, 28.51% which amounts 40million employable people in the county are unable to find a job. This number rose to 50million a year later as reported by World Bank (Premium Times, 2018). The situation of unemployment in Nigeria has become more worrisome and confusing to researchers due to controversies over whose figure is most correct, reliable or acceptable. These phenomena have also put government at a dilemma about the actual percentage of her unemployed populace. Whereas, the problem of accurate figure or percentage can be solved with a programmable database of the population as evident in some advanced nations of the world such as United States of America, United Kingdom etc. It's practically impossible to adequately and effectively plan for the problem one lack knowledge about its gravity and this account for one of the reasons unemployment problem has not been solved in Nigeria and other developing countries of the world.

For instance, in May 2013, the National Bureau of Statistics (NBS) put the figure of the unemployed in Nigeria at 23.9% (Emejo, 2013). While the then Minister of Finance and the Chairman of the Economic Team in Nigeria, Dr. Okonjo-Iweala put the figure at 37%; this shows a contradiction between government ministry and institution figures. Meanwhile, experts and critics have disagreed with both the NBS and the Minister, arguing that "research had shown that the current level of unemployment in Nigeria was above 40% and has tendency to rise to 50% at the end of the year" (Ogunmade, 2013).

However, in this 21st century, unemployment in Nigeria has cut across all sectors, industries, age structure, educational strata, geographical boundaries etc majorly as a result of mismanagement, poor policy formulation and implementation and a host of others. Recently, according to National Bureau of Statistics (NBS) (2019), Nigeria unemployment rate increased by 23% between the third quarter of 2017 and third quarter of 2018 while the percentage of labour force i.e. people who are able and willing to work increased by just 6% within the same period. Also, the statistics revealed that total number of people in employment (i.e. with job) increased by approximately 1% between the third quarter of 2017 and third quarter of 2018. As such, there is need for synergy of operation among government Ministries, Departments, and Agencies (MDAs) in order to tackle the developmental challenges that is ripping off the gains of Nigeria's high gross domestic product through unemployment.

Foreign Direct Investment

World Bank 1996 in Ekperiwe (2011) explained foreign direct investment (FDI) as an investment directed towards ensuring lasting management of about 10 percent of voting stock in business operating in a country other than that of the investor defined according to residency. Foreign direct investment can also be defined as an investment made by multinational companies or corporations to operate with their capital stock, techniques of production, technology, managerial skills, marketing expertise, products etc in other countries which are referred to as the host country in order to maximize and gain global profits for their products or services. It can also involve merger and acquisition of new investment in the host country and also transfer of capital from the headquarters usually cited at a developed country to their components around the world.

The main ideology behind foreign direct investment by companies and corporations is profit maximization. Companies and corporations believed they could seek lower input or resources cost, seek market share as well as compete towards sales growth in foreign countries market; and if all these are achieved, it boosts their profit maximizing level. Foreign direct investment could also be aimed at utilizing assets of foreign firms or supplying the foreign firms with input resources as the case may be (Onimisi, 2014).

According to the International Monetary Fund (IMF) (2008), foreign direct investment is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident firm in the economy of the host country. Foreign direct investment is an investment made to acquire lasting interest in enterprise operating outside of the economy of the investor. In order to qualify as FDI, the investor must afford the parent enterprise control over its foreign affiliate and such control exist when the parent company owns 10percent or more of the ordinary shares or voting power of an incorporated firm or equivalent for an unincorporated firm and if does not, it is known as portfolio investment (André, 2008).

Nigeria Economic Growth

Nigeria is a developing country in West Africa with population size of about 201 million at the end of 2019 as reported by United Nations in early 2020. The country was categorized as lower-middle income country by the publication of World Economic Situation and Prospects in 2014. It is ranked 30th in the world in terms of GDP as of 2018 by IMF and its emergent manufacturing sector is the third largest in Africa though being considered as underperforming.

Nigeria is currently a mono-product economy that depends heavily on crude oil though agriculture contributes significantly before the discovery of oil, contributing about 40% of the country's GDP. The country's agricultural production is a major employer of labour and the mainstay of the Nigeria's economy besides her dependence on oil. Commercial production of crude oil started in 1958 at Oloibiri, Niger Delta now Delta state which shifted the attention of both government and its citizens to the sector with a favourable economic growth.

In every economy, for sustainable development to be achieved there must be persistent economic growth i.e. economic growth serves as a catalyst of sustainable development. Jhingan (2006) viewed economic growth as an increase in output level of a country over a period of time. In his postulation, he further explained that it is related to a quantitative sustained increase in a country's per capita income or output accompanied by expansion in its labour force, consumption, capital and volume of trade. Economic growth can also be simply defined as increase in productivity of a country over a period of time which brings about a better standard of living of the citizens through improvement in infrastructure, health care facilities, housing, education etc.

Nigeria economic growth has witnessed several fluctuations as a result of mismanagement and corruption among others but economic reforms of the past decades seems to have put the economy back on track towards achieving its full economic potentials. The country's GDP at purchasing power parity in 2005 increased more than doubled from $170.7 billion to $413.4 billion in 2011 while the actual figure was close to $520 billion with the inclusion of the informal sector. Correspondingly, the GDP per capita increased by 116% from $1200 per person in 2005 to an estimated $2,600 per person in 2011 (Akeju & Olanipekun, 2014).

The economy is on track to becoming one of the 20 largest economies in the world by 2030. The economy vibrancy was witnessed in 2010 with increase in domestic output, due to sound economic

management policies and vast economic reforms. Growth since 2010 was attributed largely to the performance of non-oil sector output which grew by 8.5 percent and continue to rise since then complimented by a significant increase in oil sector output. Presently, the Nigeria's economy is the best on its continent despite fluctuation in GDP growth in recent years as a result of institutional changes, recession, policy implementation and mismanagement in the country.

Literature Review

Developing economies of the world such as Nigeria are characterized with limited availability of financial resources to business enterprise, low level of industrial base as a result of unfavourable political and economic atmosphere, lack of technical skills, high level of unemployment etc. Foreign direct investment and persistent growth could bridge the gap of economic development as well as foster employment generation. Shaar, Hussain and Halim (2012) in their study on the relationship between foreign direct investment and unemployment rate in Malaysia revealed that a negative relationship exists between foreign direct investment and unemployment rate in Malaysia from 1980 – 2010. In the same vein, Li and Liu (2012) conducted a study to investigate the relationship among Chinese employment rate, economic growth and inflation thus the result of the study showed that unemployment impacted negatively on growth while inflation impacted positively on growth in China over the period. Muhammed (2014) in his research on the effect of inflation and unemployment on economic growth of Pakistan concluded that there exists an inverse relationship between economic growth and unemployment.

Similarly, Ugwuegbe, Okorie and John (2013) investigated the impact of foreign direct investment on Nigeria economy between 1981 and 2009. The study adopted OLS method to estimate the impact between foreign direct investment and economic growth and found a positive but insignificant impact of foreign direct investment on economic growth. Also, Alobari, Paago, Igbara and Emmah (2016) descriptively analyzed the foreign direct investment, exchange rate and their implication on the growth of the Nigeria economy between 2007 and 2016. Their result found a relationship between foreign direct investment, exchange rate and economic growth in Nigeria.

The study of Matthew and Ogunlusi (2017) looked into the relationship between foreign direct investment and employment generation in Nigeria from 1981 – 2014. The result revealed a positive and significant relationship between foreign direct investment and employment generation in Nigeria. Nelson, Ekokeme, Okoyan and Dumani (2018) also in their research studied the impact of foreign direct investment on unemployment rate in Nigeria from 1980 – 2015. The study after analysis revealed a negative and insignificant relationship between foreign direct investment and unemployment in Nigeria.

From the reviewed literature and trend analysis above, the relationship between foreign direct investments, economic growth and unemployment in Nigeria is still ambiguous which calls for further research hence, the manifestation of this study.

Theoretical Framework

The issue of unemployment remains divergent and calls for theoretical debates among the economists and theorists. There are Keynesian Economic Theory of unemployment and the Marxist Theory of unemployment. However, to assess the multidimensional situation of unemployment in Nigeria, one of the two prominent schools of thoughts is applied. The Marxist theory was chosen for this study over the other because of the view the Keynesian hold that unemployment occurs when there is not enough aggregate demand in the economy to provide jobs

for everyone who wants to work; which is not true in Nigeria context as aggregate demand has always been on increase as a result of rapid population growth (United Nations, 2020).

Marxist Theory of Unemployment

Marxist theory was developed from the Theory of Surplus Values by Karl Marx in 1863. Karl Marx, (1863), in this theory, believes that unemployment is inherent within the unstable capitalist system and periodic crises of mass unemployment are to be expected. According to the Marxists, capitalism unfairly manipulates the labour market by perpetuating unemployment which lowers labourers' demand and bargaining power for fair wages. Workers are 'pitted' against one another at the service of increasing profits for owners. Karl Marx conceptualized that the only way to permanently eliminate unemployment would be to abolish capitalism which will force competition for wages, and then shift to the socialist or communist economic system (i.e. to allow competition). For the contemporary Marxists, the existence of persistent unemployment is a proof of inability of capitalism to ensure full employment.

The socio-economic distress that Nigeria citizens faced under colonialism led the populace to clamour for socialism as advocated by the Marxists. The socialist movement was initially a reaction against extreme poverty and inequality caused by capitalism on the masses. It lays great emphasis on the state embarking on a broad programme of welfare for the people, "the programme that would provide social insurance to protect the masses against unemployment and economic distress"; for instance, the post-independent Africa preached socialism. The NCNC government under Dr. Nnamdi Azikiwe and Dr. Michael Opara, preached "Welfarism and Pragmatic Socialism". The Action Group, under Chief Obafemi Awolowo advocated "Democratic Socialism". And in Ghana, under Dr. Kwame Nkrumah, many state industries were instituted (Udu & Agu, 2005).

However, the present day Nigeria seems to be taking a leap at mixed economic system due to low impact of socialism to bring about the desired real economic growth and development which had been advocated in literatures by public sector economist that the private sector cannot operate on its own to achieve economic growth and development without the interference of the government. Developing countries of which Nigeria is one are calling on both the government and private sectors to cooperate and develop the country's economy. Recently, the government adopted the public-private partnership initiative to achieve and accelerate some developmental objectives. Pivoting the economy cannot be left in the hand of the private sector alone; there is need for the government to participate fully. Asaju et. al. (2014) had strongly posited that full participation of government in running the economy through its fiscal policy will ameliorate Nigeria's numerous economic challenges especially poverty, unemployment and corruption which government had recently tailored programmes and policies towards such as the programme of Bank of Industry, Bank of Agriculture etc.

More so, other intervention programmes were introduced in Nigeria such as the Nigerian Directorate of Employment (NDE) with the goal of designing and implementing programmes to combat mass unemployment, Poverty Alleviation Programmes (PAPs), Subsidy Reinvestment Programme (SURE-P), YOUWIN programme, N-POWER etc, and subsequent injection of billions of naira into these programmes and other sectors to create more employment opportunities as claimed by the Federal Government can be seen as a leap into the Keynesian theory.

Methodology

This study employed time series data on economic growth measured by Gross Domestic Product growth, foreign direct investment inflow and unemployment rate using the International Labour organization (ILO) estimate for 1981 - 2017. The data were collected from secondary sources such as Central Bank of Nigeria, World Bank Data and International Monetary Fund Statistical Bulletin.

The data sourced were analyzed using both descriptive and inferential statistics. Descriptive statistics in the form of mean, median, minimum, maximum, standard deviation, skewness and kurtosis were used to summarize the features of the variables under study. Ordinary Least Squares (OLS) inferential estimates were also adopted.

The study adopts the model specification of Nelson et. al. (2018) who studied the impact of foreign direct investment on economic growth in Nigeria. The model was given as:

UER = f (FDI, CF)

The above model was modified to examine the relationship between foreign direct investment (FDI), economic growth and unemployment in Nigeria from 1991 to 2018. The modified model is written as:

UEM = f (FDI, GDP)……………………………….. 1

UEM which is the dependent variable was measured as a function of the independent variables, which are FDI and real RGDP. The ordinary least square regression equation based on the functional relation as stated in equation 1 is presented as;

$$UEM = a_0 + a_1FDI + a_2GDP + U \ldots\ldots\ldots\ldots 2$$

Where;

a_0	=	Intercept
a_1 & a_2	=	Regression Coefficient
UEM	=	Unemployment Rate
FDI	=	Foreign Direct Investment
RGDP	=	Real Gross Domestic Product
U	=	Error Term

Result of the Findings

Table 1 below presents some descriptive statistics for foreign direct investment (FDI), gross domestic product and unemployment within the period under review. It can be observed from the table that the average of FDI was about 1.974% with standard deviation of about 1.252% while GDP growth rate recorded mean of 3.208% with standard deviation of 5.610%. The higher value of standard deviation of GDP growth rate implies that generally Nigeria's economy had grown and experienced wide variation considerably over the period of analysis and this is evident in the wider gap between the minimum and maximum values of FDI and GDP growth respectively. The mean unemployment rate was about 4.074% with standard deviation of about 1% while the minimum and maximum unemployment rate experienced over the period under consideration are 3.42% and 6.23% respectively.

Table 1: Descriptive Statistics of Foreign Direct Investment, Economic Growth and Unemployment

Statistics	UEM	FDI	GDP
Mean	4.073852	1.794531	3.208542
Median	3.951000	1.641739	4.230061
Maximum	6.237000	5.790847	15.32916
Minimum	3.424000	0.257422	-13.12788
Std. Dev.	0.691288	1.252232	5.610974
Skewness	2.164773	1.306944	-0.878156
Kurtosis	6.821105	4.848466	4.453574
Jarque-Bera	37.51404	15.80091	8.012825
Probability	0.000000	0.000371	0.018199
Sum	109.9940	66.39763	118.7161
Sum Sq. Dev.	12.42486	56.49611	1133.389
Observations	37	37	37

Source: Authors' Computation

Table 2 below contains the multivariate regression results of the specified model for the study. The result shows that FDI has a negative coefficient (-0.2997). This means that a 1% increase in FDI will decrease unemployment rate by 0.29%. The t-statistic value is found to be partially significant at 1% critical level because the p-value is less than 0.05. The coefficient of GDP was found negative (-0.086) which implies that a unit change in GDP will decrease unemployment rate by 0.086%. The t-statistic value was also found to be partially significant at 1% critical level with p-value less than 0.05. Thus, both FDI and GDP has significant impact on unemployment. However, over the years Nigeria's economy has always attract foreign investors coupled with economic expansion which has resulted to the creation of more job opportunities to people in the country.

Generally, the adjusted R^2 of 0.304913 shows that the explanatory variables explained about 30% variation on the dependent variable. This result revealed that there are several other factors (micro and macroeconomic parameters) that are affecting unemployment in Nigeria aside FDI and GDP. Finally, the Durbin-Watson statistics of 0.711 which is greater than the adjusted R^2 of 0.304 affirms the model of the study is non-spurious and therefore can produce meaningful results.

The relationship between unemployment rate, foreign direct investment and economic growth is found to be significant in Nigeria for the years under review. The model reveals a negative relationship between FDI and unemployment and a negative relationship between GDP and unemployment, and generally indicates a significant relationship between foreign direct investment, economic growth and unemployment using the f-statistics probability value. The findings of this study corroborate with that of Shaar, Hussain and Halim (2012) that increase in foreign direct investment leads to a decrease in unemployment rate in Malaysia. It is also in line with the findings of Matthew and Ogunlusi (2017) that direct investment leads to employment generation in Nigeria meaning, the increase in foreign direct investment leads to a decrease in unemployment rate in Nigeria for the period of the study.

Table 2: Ordinary Least Squares Result
Dependent Variable: UEM
Method: Least Squares
Date: 06/04/20 Time: 13:40
Sample (adjusted): 1981 2017

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.089097	0.313587	16.22866	0.0000
FDI	-0.299752	0.105388	-2.844275	0.0090
GDP	-0.086124	0.030704	-2.805002	0.0098

R-squared	0.339919	Mean dependent var	4.073852
Adjusted R-squared	0.304913	S.D. dependent var	0.691288
S.E. of regression	0.584573	Akaike info criterion	1.868569
Sum squared resid	8.201410	Schwarz criterion	2.012550
Log likelihood	-22.22567	Hannan-Quinn criter.	1.911382
F-statistic	6.179599	Durbin-Watson stat	0.710626
Prob(F-statistic)	0.006842		

Source: Authors' Computation

Conclusion

The study investigates the impact of FDI and GDP on unemployment in Nigeria from 1981 to 2017 through the application of descriptive and inferential analysis of OLS with the objective of ascertaining the impact of FDI and GDP on unemployment in Nigeria over the years of analysis. The results of the descriptive statistics revealed that both FDI and GDP has been growing over the years. The results of the regression analysis showed that FDI and GDP has significant impact on unemployment in Nigeria. This affirms view of Malik and Saima (2013) that an economy that expands and experiences growth in FDI and GDP will impact such on its level of unemployment effectively, efficiently and in a significant direction.

Recommendations

Based on the findings of the study, it is therefore recommended that;

i. There is an urgent need for government to examine how FDI inflow is been channelled within the country by initiating far reaching effective control measures, strategies and more pro-active economic management coordination and implementation among the tiers of government as well as discourage foreign investment on all activities that can lead to less employment opportunities because of its impact on the economy.
ii. Also, government should develop a reliable and attainable macroeconomic framework that will accelerate and ensure employment generation through the expansion and increase in FDI and GDP.
iii. Government should establish an institution or agency that will monitor unemployment rate or rather equip the existing ones in the country to avert the problem of inconsistency of unemployment figure estimate as this will help government have broad view of unemployment in the country.

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