

# The Impact of Foreign Direct Investment Inflow on the Socio-Economic Upgrading of Nigeria

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## Abstract

*The research determined if the inflow of foreign direct investment has a significant impact on the socio-economic upgrading of the Nigerian economy. Standard of living and job creation served as measures of socio-economic development. The methodology adopted involved the use of multiple regression analysis to assess secondary time series data from 1996 to 2020 sourced from the World Bank. The study revealed that foreign direct investment inflow has a positive effect on both employment generation and standard of living. The impact on job creation was significant while that on standard of living was weak. Thus the research was able to establish a positive relationship between foreign direct investment and socio-economic development in Nigeria. It was recommended that institutional frameworks be established and supported to enable foreign investors to operate profitably in the Nigerian economy. Another suggestion was for foreign firms operating in Nigeria to be given tax incentives to augment their ability to serve as engine of socio-economic enhancement of the host economy. Finally, the Nigerian government should tackle the problems of insecurity and inflation to foster macroeconomic stability, thus attracting the inflow of foreign direct investment.*

*Keywords:* foreign direct investment, socio-economic upgrading, Nigeria

*JEL classification:* O10, O11, O16, O17, O38, O43, P33, P45

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## 1. Introduction

Recent decades have witnessed an influx of foreign direct investment (FDI) into the African continent. According to the World Investment Reports for 2001, 2011 and 2021, published by the United Nations Center for Trade and Development (UNCTAD), foreign direct investment inflows into Africa were \$9.1billion, \$55billion and \$39.8billion in 2000, 2010 and 2020 respectively. The mobility of such huge financial resources has been characterized with the expectation of the enhancement of socio-economic indicators in the continent. This can be attributed to the fact that foreign direct investment is meant to stimulate the transfer of not only capital but also technology and skills (Šušić, 2018). The mobility of capital and technological know-how breeds augmented labour in the host economy. Effective labour is necessary to achieve economic growth and socio-economic upgrading.

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Foreign direct investment serves as an engine for economic growth and development through the transfer of technological expertise (Koojaropransit, 2012). The benefits of foreign direct investment should reflect in the improvement in the welfare of the citizens of the host economy.

Capital in the form of foreign direct investment serves as an engine for realizing sustainable development (Iheanachor and Ozegbe, 2021). Thus the inflows of foreign direct investment have been recognized as a necessary condition for attaining sustainable development goals such as eradication of poverty and hunger. If Africa ever hopes to see the end of poor standard of living and human deprivation, it has to resort to foreign direct investment.

The level of economic development of Africa has not been commensurate with the investment of foreign capital it has attracted. For example, the 2020 HDI (Human Development Index) Report by the UNDP (United Nations Development Programme) states that only 9 out of 54 African countries fall within the very high and high development categories. According to the report, 52% of African economies are confronted with low socio-economic development. The undesirable level of development should not come as a surprise as the scarcity of productive factors is an inherent nature of such continent (Jaspersen et al, 2000). Inefficient institutional frameworks, poor accountability and transparency are other factors responsible for the poor states of socio-economic indicators in African economies (Adegboye et al, 2020). This is expected as African nations are also characterized with challenges in institutional quality, accountability and transparency.

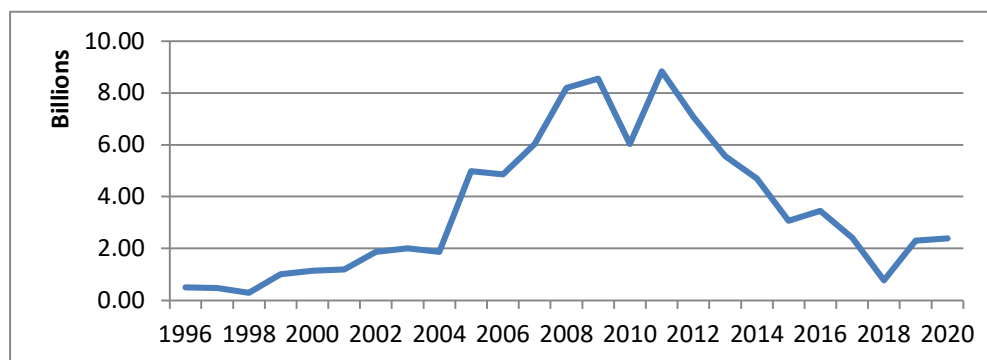
The Nigerian economy has attracted the interest of Development Economists over the years. This is because the nation has yet to attain the status of a developed economy even though it has been tipped as “The Giant of Africa”. Such situation calls for concern as the country has enjoyed massive investment of capital and technology by foreign firms. Nigeria ranked 3<sup>rd</sup> among the top 10 African nations in 2000 regarding FDI inflows with an investment of \$1.1billion (UNCTAD, 2001). In the next decade, the Nigerian economy experienced an increase of 445% in FDI to a value of \$6billion (UNCTAD, 2011). However, 2020 witnessed a decline in the FDI by 60% to \$2.4billion (UNCTAD, 2021).

The trend in the net inflows of FDI into the Nigerian economy is shown in Figure 1. Such trend is typified with upward and downward drifts. For example, there was an increase in FDI net inflow from 1998 to 2003, 2004 witnessed a decline in the net influx of FDI by 6.5%. The next year was characterized with a massive boost in net inflow by 166%. FDI net inflow was at its peak in 2011 with a value of \$8.8billion. Unfortunately, the high level of inflow could not be sustained. The next 4 successive years (2012 to 2015) was a period of consistent reduction in net inflow

of FDI. The cycle of increase and decrease was repeated from 2016 to 2020. Some would be quick to argue that even though the inflow of FDI over the years has been anything but stable, it should have culminated in the improvement of socio-economic indicators. According to UNDP's 2020 HDI Report, Nigeria has a HDI of 0.539 with a ranking of 161 out of 189 countries. The country is also classified under the "Low Human Development" category in the report. Another socio-economic measure that is indicative of economic development is the standard of living which can be measured by GDP (Gross Domestic Product) per capita.

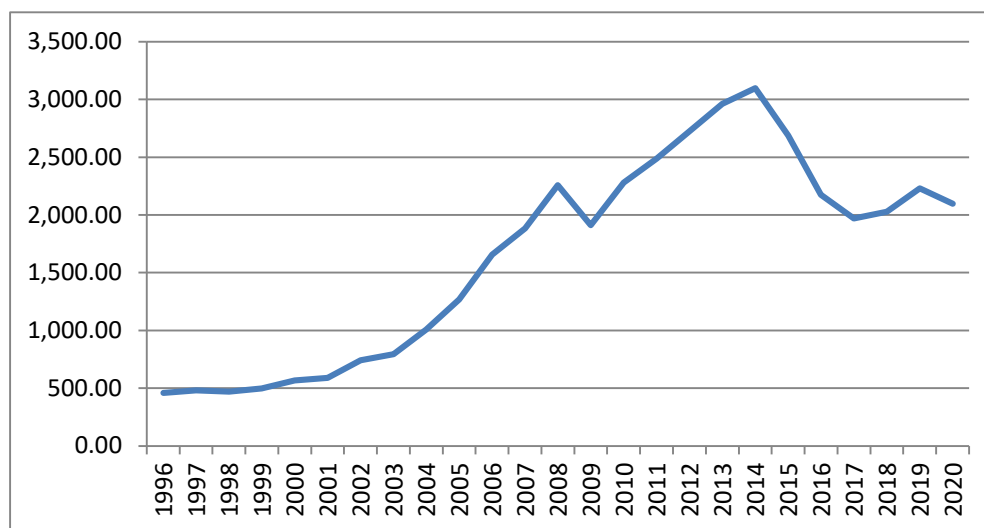
Figure 2 depicts the trend in Nigeria's GDP per capita. The country's journey to socio-economic upgrading has been an experience of upward and downward trends in its GDP per capita from 1996 to 2020. There was a consistent increase in GDP per capita from 1996 until 2009 when it declined by 15.38% from the previous year. It regained its steady rise from 2010 until 2015 from when there was a downward trend until 2018. 2018 to 2020 was a period of increase and decline in the standard of living. While FDI net inflow experienced an upward and downward pattern from 1996 to 2020, the same period was mostly characterized by a consistent rise in the standard of living. This shows that FDI inflow can have a positive impact on socio-economic development both in the short and long run. However, the economy has not been able to break out of the group of countries characterized with low level of development. This is according to World Bank's 2022 National Accounts Report on least developed countries even with GDP per capita attaining a peak of \$3,099 in 2014. Such statistics clearly shows that development has remained an elusive goal for the Nigerian economy.

**Figure 1. FDI net inflows into Nigeria from 1996 to 2020 (US\$)**



*Source:* World Bank (World Development Indicators) database

Figure 2. Nigeria's GDP per capita from 1996 to 2020 (US\$)



Source: World Bank (World Development Indicators) database

Despite the fact that the Nigerian economy has been a beneficiary of foreign direct investment over the years, it has not been able to escape the cycle of poor development. Several investigations have been conducted on the relationship between FDI inflow and growth of the Nigerian economy. Some of such studies include those performed by Oyegoke and Aras (2021), Alabi (2019) and Ajibola et al (2018). However, limited study has been done on the relationship between FDI inflow and socio-economic upgrading of the Nigerian economy. Such gap calls for certain relevant questions to be answered. Does the inflow of FDI have any impact on the socio-economic development of the Nigerian economy? Is there a relationship between FDI inflow and the enhancement of socio-economic indicators of Nigeria? To what extent does FDI stimulate socio-economic upgrading of Nigeria's economy? This study aims to provide answers to such questions.

Following this background, the rest of the article is structured as follows: the next section deals with the theoretical and literature review; the third section provides methodology and model specifications; and the fourth section discusses empirical results. The finally section concludes the article with some policy implications.

## 2. Theoretical Background and Literature Review

The theoretical framework serving as the foundation for this study includes the Eclectic Paradigm and Critical Minimum Effort Theories. The Eclectic Paradigm was developed as an extension of the Internationalization Theory and published by John Dunning (1979), hence it is also known as Dunning's Eclectic Paradigm. The

theory provides explanation on why a multinational firm would conduct business activities in a foreign country. Dunning was of the position that FDI is pursued as a path to maximizing certain advantages. These advantages include ownership, location and internalization (Dunning, 1979). Therefore the Eclectic Paradigm is also called the OLI (Ownership, Location and Internalization) Model. The theory analyzes the returns a firm would gain from engaging in foreign direct investment.

The ownership advantages include the competitive advantages a firm enjoys from foreign direct investment. Ownership advantages can be in form of technology, information, managerial expertise, human resource, capital and organization systems (Shenkar, 2007). The more these advantages look attractive, the higher the probability the firm will adopt FDI. The location advantages are those advantages the host economy offers the firm. They include low-cost labour, low-cost raw materials, large market, lower taxes and tariffs. Thus the firm can increase the level of employment in the host economy through FDI. The benefits a firm gains from maximizing its ownership advantages in foreign markets must exceed the returns from exploiting such advantages in its domestic economy (Wall and Ress, 2004). Internalization advantages include those benefits an organization enjoys when it decides to engage in production activities in a foreign market rather than outsource such operations. Such advantages are also gained when the cost of maximizing the ownership and location advantages through FDI is lower than the cost of exploiting those advantages through export.

The critical minimum effort theory was developed by economist, Harvey Leibenstein. He believed that developing economies are characterized by poverty as a result of being in an equilibrium state of low income per capita. A minimum level of investment is required to pull such economies out of the state of underdevelopment. This is what Leibenstein called the “critical minimum effort”. This level of investment stimulates increase in per capita income, thereby raising the standard of living. This enables the economy to be on the path of steady economic growth. He attributed the underdeveloped state of developing economies due to the insufficient amount of investment (Leibenstein, 1957).

The above theories support the idea that FDI is an engine for not only achieving economic growth but also for attaining sustainable economic development. The empirical analysis has not received final judgment when researcher like Gökmenoğlu et al (2018), Babasanya (2018), Ejiolor et al (2021), Aderemi et al (2021) among others have different conclusions. Gökmenoğlu et al (2018) for instance argued that a significant and positive long-run relationship exists between foreign direct investment and each of education and income in Nigeria. Meanwhile, the results recorded a significant but negative impact of FDI on life expectancy in the long run. This implies that the study produced contrasting results. Babasanya

(2018) explored the interaction between FDI and job creation in Nigeria. Ordinary least squares technique and co-integration tests were used to examine the relationship between the variables. Through the results of the investigation, it was discovered that FDI has a significant and positive influence on the creation of employment. It was also shown that there is a long run relationship between employment and FDI. Ejiofor et al (2021) analyzed the link between FDI and a socio-economic indicator such as employment creation in the Nigerian economy. The methodology adopted for the study included assessing secondary data using multiple linear regression and ANOVA test. The research work uncovered a negative and insignificant relationship between the inflow of FDI and job creation in Nigeria.

Aderemi et al (2021) evaluated the effect of FDI inflows on socio-economic indicators such as standard of living, literacy rate and life expectancy in Nigeria. The research methodology used involved the use of Autoregressive distributed lag (ARDL) and bounds test on secondary data. Findings reveal that net FDI inflows have a weak and negative effect on literacy rate and standard of living. It was also shown that there is a weak and positive relationship between net FDI inflows and life expectancy. Aigheyisi and Egbon (2020) determined if FDI has a beneficial effect on a socio-economic measure like income inequality in Nigeria. The Dynamic Ordinary Least Squares (DOLS) technique was used for the analysis. The study uncovered that FDI exerts a positive and strong impact on (increases) income inequality in the long run. Osabohien et al (2020) assessed if there is a relationship between FDI and employment generation in Nigeria. Fully Modified Ordinary Least Squares (FMOLS) and Co-integration techniques were used to examine the data. The investigation revealed that FDI has a positive and significant effect on employment generation in Nigeria. It also showed the existence of a strong link between the variables in the long run.

Fagbemi and Osinubi (2020) examined the influence of FDI on human capital index and life expectancy as socio-economic indicators in Nigeria. Nonlinear autoregressive distributed lag (NARDL), linear autoregressive distributed lag bounds test and vector error correction mechanism (VECM) and Granger causality test of secondary data were used for the investigation. Findings reveal that FDI is a positive determinant of human capital index and life expectancy in the short and long run. It was also shown that the impacts are only significant in the short run. Umeghalu et al (2019) investigated the effect of FDI on Nigerian's standard of living. ARDL was employed to analyze the secondary data gathered. Results indicated a positive connection between FDI and standard of living both in the short run and long run. They also reveal that the effect of FDI on standard of living in the short run is significant.

Okafor and Ihayere (2019) assessed the impact of FDI on Nigeria's maternal mortality rate (MMR), a socio-economic factor. The Vector Error Correction Mechanism (VECM) technique and Granger Causality test were employed for the analysis. The results showed that in the long run FDI determines MMR. It was also discovered that there is a significant and positive link between FDI and MMR. Findings also indicate the existence of a causal link between FDI and MMR. Iheanochor and Ozegbe (2021) investigated if a significant relationship exists between FDI and economic development in Nigeria and Ghana. Education, health and environmental indicators served as socio-economic measures. The results of the research showed a positive but insignificant relationship between FDI and the development of both economies. Abdisa (2018) assessed if FDI has a beneficial effect on the socio-economic indicators in the local environment in Ethiopia. A combination of qualitative (semi-structured interview and focus group) and quantitative techniques (frequency distribution) was used for the research. Findings show that FDI had both positive and negative effects on socio-economic conditions. The positive impacts include job creation and increase in real wage. The undesirable effects are gaps in the wages of skilled workers, insufficient compensation and loss of multiple streams of income for landowners.

Addo (2019) evaluated if FDI has a strong impact on the level of employment in the non-mining industry in Ghana. The methodology adopted for the study involved Multiple Linear Regression, ARDL and Granger Causality. Results indicate a positive and significant effect of FDI on job creation. They also show the presence of a long run relationship between the variables. The Granger Causality test revealed no causal relationship from FDI to employment growth and vice versa. Raza et al (2021) determined whether FDI plays a critical role in the socio-economic enhancement of developing countries. Panel data of 10 developing countries was analyzed with the use of ARDL model. HDI was used as proxy for socio-economic development. The results show that FDI has a strong and positive impact on socio-economic development in the long run.

Couto (2018) assessed the effect of FDI on income inequality in developing and developed economies. The methodology employed for the research involved using OLS (Ordinary Least Squares) to analyze panel data. The study showed that in countries characterized with the lowest level of development such as Ethiopia and Malawi, the inflow of FDI had reduced had a significant and negative impact on income inequality (reducing it). FDI exerted a strong and positive effect on income inequality in countries with lower and high level of development like India and Philippines and Netherlands and Japan respectively. In countries like South Africa and Argentina that fall within the upper middle income group, FDI was observed to have a significant and reducing effect on income inequality. Spinova and Ougate



(2018) investigated the relationship between the inflow of FDI and socio-economic upgrading of European countries. Life expectancy and income equality were used as proxies for socio-economic development. The results indicate the absence of a significant and positive effect of FDI along with its interaction terms on life expectancy. They also show the lack of proof that FDI exerts any influence on income inequality.

Raza et al (2020) analyzed the impact of Greenfield-FDI on the socio-economic development of Pakistan. The study made use of ARDL and Error Correction Mechanism (ECM) to assess the effect. Findings show that a long run relationship exists between FDI and the socio-economic variables of health, life expectancy index and Human Development Index (HDI). Another result was that FDI has a significant and positive impact on health in the short run. Le et al (2021) determined if there is a link between FDI and unequal distribution of income in Vietnam. The study was conducted considering the constraints of institutional and educational qualities in the country. The analysis made use of the Generalized Method of Moment estimation technique. The results reveal that FDI has increased the widening gap between income classes. It was also shown that a non-linear linkage exists between FDI and income inequality. An additional finding was that the educational and institutional qualities of each province in the country determine the impact of FDI on its level of income inequality.

Shinwari and Yongliang (2018) evaluated the effect of FDI inflow on the creation of employment in the Afghanistan economy. The study made use of the conventional and standardize ordinary least squares methods to assess the relationship. The study uncovered a long run relationship between FDI and employment. Another finding was that there was a weak but positive link between net FDI inflow and job creation. It was also discovered that a bi-directional causal relationship exists between the two variables both in the short run and long run. The reviewed literature shows that the impact of FDI on socio-economic development has been mostly positive and significant. Such effect cuts across different nations and continents. This is consistent with economic theory. However, there has been limited study on the impact of FDI on socio-economic development in Nigeria through indicators such as employment and standard of living. This work fills the gap of analyzing the dual effect of FDI on the 2 variables. The studies that focused on standard of living and employment as socio-economic measures only analyzed the effect of FDI on one of them. Standard of living and employment generation are critical socio-economic indicators as improvements on them can have a positive and ripple effect on other indicators like life expectancy, HDI and literacy rate.



### 3. Research Methodology

The research made use of secondary data sourced from World Development Indicator and World Governance Indicator. The period of study was from 1996 to 2020. 1996 was chosen as the beginning of the period of investigation because data on regulatory quality, one of the control variables is only available from 1996. For the first objective, GDP (Gross Domestic Product) per capita served as the proxy for standard of living. The relationship between standard of living and the independent variables (FDI inflows, gross domestic savings, trade openness and institutional quality) was assessed with multiple regression analysis. Trade openness and institutional quality are included as control variables in the models for both objectives. Regulatory quality was used as a measure of institutional quality because foreign direct investment is usually conducted through the private sector. Gross domestic savings (GDS) was added as it serves as a determinant of income per capita (Leibenstein, 1957). Below is the model for the analysis for the first objective:

$$\mathbf{GCP = f (FDI, GDS, TRD, REG)} \quad (1.1)$$

Where GCP is the GDP per capita

FDI is FDI net inflows (% of GDP)

GDS is Gross Domestic Savings (% of GDP)

TRD is Trade (proxy for Trade Openness)

REG is Regulatory Quality (proxy for Institutional Quality)

Re-writing equation (1.1) in a linear form, we have the equation as:

$$\mathbf{GCP = \alpha_0 + \alpha_1 FDI + \alpha_2 GDS + \alpha_3 TRD + \alpha_4 REG + \beta} \quad (1.2)$$

The data of the GCP parameter was converted into its natural logarithm form. This was done to minimize spurious results as a result of its large values. Therefore the new equation is:

$$\mathbf{\text{Log GCP} = \alpha_0 + \alpha_1 FDI + \alpha_2 GDS + \alpha_3 TRD + \alpha_4 REG + \beta} \quad (1.3)$$

Where,

$\alpha_0$  is the constant

$\alpha_1, \alpha_2, \alpha_3$  and  $\alpha_4$  are the parameter estimates

$\beta$  is the error term

Log is the Natural log.

The model has the following apriori assumptions  $\alpha_1 > 0, \alpha_2 > 0, \alpha_3 > 0$  and  $\alpha_4 > 0$ .

In achieving the second objective, LFPR (Labour Force Participation Rate) was adopted as the measure for employment. The effects of FDI inflows, exchange rate, trade openness and institutional quality on employment were analyzed with the regression technique. Exchange rate was included because studies that included such variable in their analysis such as those performed by Babasanya (2018) and Osabohien et al (2020) produced satisfactory results. Below is the model for the analysis:

$$\text{LFPR} = f(\text{FDI}, \text{EXR}, \text{TRD}, \text{REG}) \quad (2.1)$$

Where LFPR is the Labour Force Participation Rate

EXR is Exchange Rate

Re-writing equation (1.1) in a linear form, we have the equation as:

$$\text{LFPR} = \alpha_0 + \alpha_1\text{FDI} + \alpha_2\text{EXR} + \alpha_3\text{TRD} + \alpha_4\text{REG} + \beta \quad (2.2)$$

The data of the EXR parameter was converted into its natural logarithm form. This was done to minimize spurious results. Therefore the new equation is:

$$\text{LFPR} = \alpha_0 + \alpha_1\text{FDI} + \alpha_2\text{Log EXR} + \alpha_3\text{TRD} + \alpha_4\text{REG} + \beta \quad (2.3)$$

The model has the following apriori assumptions  $\alpha_1 > 0, \alpha_3 > 0, \alpha_4 > 0$  and  $\alpha_2 < 0$ . The data gathered for the study is adequate for testing the variables for stationarity and co-integration. The results of the unit root tests for the variables for both objectives are shown in Table 1.

## 4. Empirical Results

### 4.1 Unit Root Test

Table 1. Result of Unit Root Tests using Augmented Dickey-Fuller Test

Variable	t-Statistic (Level)	Prob* (Level)	t-Statistic (1 <sup>st</sup> Difference)	Prob* (1 <sup>st</sup> Difference)
Log (GCP)	-1.764361	0.3880	-3.030863	0.0468
FDI	-1.549138	0.4889	-7.463990	0.0000
GDS	-1.249537	0.6301	-6.545903	0.0000
TRD	-2.349512	0.1658	-5.772730	0.0001
REG	-2.391194	0.1576	-5.448650	0.0005
LFPR	-0.118726	0.9361	-2.703029	0.0887
Log (EXR)	-2.093059	0.2489	-4.737803	0.0011
*MacKinnon (1996) one-sided p-values				

The results of the unit root tests show that all of the variables were significant at the same level (1<sup>st</sup> difference). Therefore, there is no need to run ARDL (Autoregressive Distributed Lag) test. All the variables must be of the same order

to allow for co-integration. All the variables were not significant at level. This necessitates running a co-integration test on them.

#### 4.2 Co-integration Test

**Table 2. Result of Co-integration Test for 1<sup>st</sup> Model using Johansen Co-integration Test**

Hypothesized Number of CE(s)	Trace Statistic	0.05 Critical Value	Max-Eigen Statistic	0.05 Critical Value
None *	211.6492	69.81889	102.7573	33.87687
At most 1 *	108.8919	47.85613	61.17696	27.58434
At most 2 *	47.71494	29.79707	26.55466	21.13162
At most 3 *	21.16028	15.49471	14.44761	14.26460
At most 4 *	6.712668	3.841466	6.712668	3.841466
*denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon-Haug-Michelis (1999) p-values				

**Table 3. Result of Co-integration Test for 2<sup>nd</sup> Model using Johansen Co-integration Test**

Hypothesized Number of CE(s)	Trace Statistic	0.05 Critical Value	Hypothesized Number of CE(s)	Max-Eigen Statistic	0.05 Critical Value
None *	163.9872	69.81889	None *	91.82287	33.87687
At most 1 *	72.16434	47.85613	At most 1 *	40.51233	27.58434
At most 2 *	31.65201	29.79707		18.59993	21.13162
At most 3	13.05208	15.49471		12.35293	14.26460
At most 4	0.699153	3.841466		0.699153	3.841466
*denotes rejection of the hypothesis at the 0.05 level					
**MacKinnon-Haug-Michelis (1999) p-values					

The result of the co-integration test for the first model shows that there is a long run relationship between GDP per capita and the independent variables at 5% level of significance. Thus the model can predict the impact of changes in FDI inflow, savings, trade openness and institutional quality on the standard of living in the long run. The co-integration test for the second result produced a similar result. Therefore the second model can be used to predict what happens to employment in the long run when there are changes in FDI inflow, exchange rate, trade and institutional quality. This means both models can be used for policy formulation.

### 4.3 Regression

Dependent Variable: LOG(GCP)

Method: Least Squares

Date: 03/19/22 Time: 21:47

Sample: 1996 2020

Included observations: 22

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	9.406426	0.535557	17.56381	0.0000
FDI	0.137957	0.114480	1.205080	0.2447
GDS	-0.039854	0.009724	-4.098398	0.0007
TRD	-0.000778	0.012821	-0.060659	0.9523
REG	1.226957	0.450605	2.722913	0.0145
R-squared	0.721269	Mean dependent var		7.356424
Adjusted R-squared	0.655685	S.D. dependent var		0.605650
S.E. of regression	0.355385	Akaike info criterion		0.965489
Sum squared resid	2.147080	Schwarz criterion		1.213453
Log likelihood	-5.620376	Hannan-Quinn criter.		1.023902
F-statistic	10.99768	Durbin-Watson stat		1.913512
Prob(F-statistic)	0.000137			

Dependent Variable: LFPR

Method: Least Squares

Date: 03/21/22 Time: 09:40

Sample: 1996 2020

Included observations: 22

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	57.73055	2.215630	26.05605	0.0000
FDI	1.832998	0.254868	7.191938	0.0000
LOG(EXR)	-1.573627	0.277678	-5.667098	0.0000
TRD	0.088384	0.025274	3.497025	0.0028
REG	-2.737358	0.969586	-2.823222	0.0117
R-squared	0.928750	Mean dependent var		58.23745
Adjusted R-squared	0.911985	S.D. dependent var		2.665073
S.E. of regression	0.790655	Akaike info criterion		2.564805
Sum squared resid	10.62729	Schwarz criterion		2.812769
Log likelihood	-23.21286	Hannan-Quinn criter.		2.623218
F-statistic	55.39913	Durbin-Watson stat		1.860688
Prob(F-statistic)	0.000000			

The results of the regression analysis for the first model indicate a positive relationship between standard of living and each of FDI inflow and regulatory quality. A unit increase in FDI increases GDP per capita by 0.14%. For every unit increase in regulatory quality, there is a 1.23% increase in GDP per capita. The positive impacts of FDI and regulatory quality are consistent with apriori expectation. FDI is expected to enhance the standard of living through increase in employment and hence higher purchasing power. The effect of FDI on GDP per capita is insignificant while that of regulatory quality is significant. Another finding is that gross domestic savings and trade openness have a negative impact on standard of living. Trade openness was revealed to have an insignificant effect on standard of living while the impact of savings was strong. A unit increase in savings and trade openness lead to a reduction in GDP per capita by 0.04% and 0.001% respectively. The negative effects don't align with apriori expectations. This may be due to how the inflation rate erodes the positive impact that savings is meant to have on standard of living through interest rates in Nigerian banks. The negative impact of trade openness can be attributed to how imports exceed export and imports cannot be afforded by Nigerians due to their low purchasing power and high inflation rate. The low purchasing power can also be attributed to the devaluation of the Naira currency.

The R-squared of the first model denotes that approximately 72 percent of variations in standard of living are explained by all the independent variables in the model. The adjusted R-squared is 0.655685. This denotes that the model has a high ability to predict changes in standard of living as a result of changes in the independent variables. The value of the F-statistic of the model is also significant, meaning that all the independent variables in the model are jointly significant.

According to the findings of the regression analysis of the second model, FDI and trade openness exert a significant and positive effect on employment. This aligns with economic theory. FDI is expected to increase employment through the operation of multinational firms in the host economy. Trade openness enhances employment by increasing the ability of firms to hire workers through increase in profit. Each unit increase in FDI and trade openness yields an increase in employment by 1.83 and 0.08 units respectively. The result also uncovers a strong and negative link between employment and each of exchange rate and institutional quality. A unit increase in regulatory quality leads to a decrease in employment by 2.73 units while a 1% increase in the devaluation of the naira currency yields a reduction in employment by 1.57 units. The negative effect of exchange rate is consistent with apriori expectation. The negative impact of institutional quality can be attributed to how the Nigerian business environment governed by its policies is not conducive for the operation of multinational firms which leads to downsizing

and closing operation in Nigeria. Downsizing and closing operations lead to reduction in employment.

According to the R-squared of the second regression shows that all the independent variables in the model account for approximately 93 percent of changes in employment. The adjusted R-squared is 0.911985. This translates to the model possessing a high ability to predict changes in employment as due to changes in the independent variables. The Durbin-Watson statistics for both regressions denote the absence of auto correlation in the data; therefore the results are entirely reliable.

### **5. Conclusion and Policy Implications**

This research work studied the impact of the inflow of foreign direct investment on the socio-economic enhancement of the Nigerian economy from 1996 to 2020. Employment and standard of living served as socio-economic indicators. The link was analyzed with the use of multiple regression analysis. The investigation revealed a positive and significant relationship between foreign direct investment and employment. It also showed that foreign direct investment generates employment in the long run. It also uncovered that foreign direct investment exerts a weak and positive effect on standard of living. It also indicated that exchange rate and regulatory quality exert a negative effect on job creation. Another finding was that savings and trade openness have a negative impact on standard of living. An additional finding was that regulatory quality and trade openness each have a beneficial effect on peoples' welfare and employment generation respectively. The positive effects of foreign direct investment on socio-economic indicators of employment and standard of living in the short and long run agree with the findings of Osabohien et al (2020), Umeghalu et al (2019) and Babasanya (2018).

Considering the results of the study, the following recommendations are proffered: The Nigerian government should create a stable and enabling environment for multinational firms to profitably operate. Tax holidays and incentives should also be given to such firms. These strategies will enable firms to have more capital to hire more labour, thus increasing employment. Job creation will enhance the purchasing power of Nigerians to afford a better standard of living. Such measures will not only attract foreign direct investment into the country but also augment its impact on the socio-economic development of Nigeria.

There is also the need to build and support institutions that enhance the ability of private sector and multinational firms to thrive in the Nigerian economy. The government should adopt strategies to stimulate exportation of locally produced commodities and make them globally competitive. This will enhance the value of the Naira currency, thus improving the standard of living. It will also grant multinational firms in Nigeria more capital to employ more labour.

Monetary and fiscal policies should also be employed to reduce inflation. This will help to increase the purchasing power of Nigerians, thus stimulating better standard of living. It can also increase the financial ability of firms to hire more workers, thus generating employment. Curbing inflation will also improve the positive impact of savings on standard of living.

Finally, the Nigerian government should adopt measures and policies to achieve and maintain macroeconomic stability. It should also address the persistent issue of insecurity. This will increase the confidence of foreign investors, pulling foreign direct investment into the local economy.

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