

Foreign Direct Investments and Employment Generation Nexus in Nigeria

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Abstract

This paper examines the relationship between foreign direct investment and employment generation in Nigeria using multiple linear regression model for data which covers the period from 2002 to 2012. To empirically establish the relationship, some variables are incorporated into the econometric model which include Employment level (100 – published unemployment level for the year review) as the dependent variable while the explanatory variables are FDI (percentage of nominal value of FDI in Nbn), GDP (annual GDP growth rate) and the nominal interest rate. From the empirical results, FDI exhibit negative relationship with the level of employment in Nigeria while GDP, interest rate are positively related with the level of employment but non of the explanatory variables significantly impact on the level of employment in Nigeria within the period of the study. Also the value of R² and R² as well as F-statistics reveals that all variables in the model do not significantly impact on the level of employment in Nigeria. The negative relationship of FDI with employment level calls for critical examination because if FDI has been established by many findings of researchers to have positive impact on GDP, it is expected that it should equally bring about reduction in the level of unemployment. At this, the paper recommends amongst others that government should put mechanism whereby the research institutions go in partnership with major industries in the country to develop skills that are adaptable in the contemporary job market and government should ensure that the needed infrastructural facilities are provided to attract more investors.

Keyword: *Employment, Foreign, Direct, Investment, Nigeria.*

1. Introduction

Foreign direct invest has been considered to have the capacity to augment the domestic investment in the host economy to bring about more opportunities arising from better utilization of both human and maternal resources which have attracted the foreign investment in the first place. In developing countries generally find themselves trapped in poverty which is entrenched by inability to fully harness their endowed human and material resources regard the inflow of foreign direct investment as important means of achieving economic development. According to Egbo (2012), developing country like Nigeria has some reasons to attract foreign direct investment such as raising productivity of given amount of labour and allowing a large labour force to be employed.

Similarly, Ozughalu and Ogwumike(2013), said it is expected that the foreign direct investment reduce unemployment because all things remaining equal, if the real gross domestic product increases, unemployment will fall, implying that significant employment opportunities will be generated. Most studies have established positive relationships between FDI and economic growth in Nigeria but the level of unemployment remain unabated for long time in Nigeria.

Otepolo(2002), Oyetayo, Arogundade, Adebisi and Oluwakayode(2011), Ekperiware(2011), Raheem(2013) and Onu(2012) all established positive relationship of FDI with the Nigeria's economic growth at various empirical findings.

In terms of growth, Nigeria is one of the fastest growing economies in the World with the average annual GDP growth of 21.172 in 2002, 10.335 in 2003, 10.585 in 2004, 5.393 in 2005, 6.211 in 2006, 6.972 in 2007, 5.984 in 2008, 6.96 in 2009, 8.724 in 2010, 7.2 in 2011 and finally 8.9536 in 2012 but the trends does not have direct bearing with the level of employment in Nigeria. This is in line with Sodipe and Ogunrinola(2011) that viewed that the relationship between unemployment and several macroeconomic variables in Nigeria and concluded that the shift in the composition of unemployment in Nigeria since year 2000 is very instructive as it has brought to fore the inadequacies of the received theory towards explaining the unemployment phenomenon in Nigeria. This is manifested in the rates of national and graduates unemployment in Nigeria. The national unemployment rate reduced slightly from 14.8 percent in 2003 to 13.4percent in 2004, 11.9percent in 2005 and increased to 14.6 percent in 2006, decreased slightly again to 12.7 percent in 2007. It maintained upward trend of 14.9 percent in 2008, 19.7 percent in 2009, 21.4 percent in 2010 and 23.9 percent in 2011(NBS, 2008, 2011). Similarly, ILO (2010) and NBS (2011) report that graduates unemployment continued to grow from 25.6 percent in 2003 to 38.0 percent in 2004 and exhibited steady rate of 32.3percent in 2005, 32.2percent in 2006, 32.1percent in 2007; it further increased to 37.5percent in2008, 39percent in 2009, 43.5percent in 2010 and decreased slightly to 42.7percent in 2011.

Since full employment is one of the core elements of economic developments, it is very imperative to find out the likely impact of the inflow of FDI to the employment generation in Nigeria. It has become necessary to establish the relationship between the two factors as it is beginning to get more acceptance that FDI brings about economic growth, investment as well as employment in the host countries especially the one would ordinarily believe that FDI inflow into the Nigeria's economy should reduce the unemployment level but has continued to increase even when the evidences to show that Nigeria economy has attracted more foreign direct investment in recent years. Nigeria is one of the major recipients of FDI in Africa, together with South Africa, Egypt, Morocco, Tunisia as there has been a steady increase in the net FDI inflows into Nigeria since the successful transition of the country to democratic government in 1999(Udejaja, Udoh and Ebong, 2008) on the developing nations that are often faced with problem of insufficient mobilization of both human and material resources of investment.

2. Conceptual Issues

2.1 Foreign Direct Investment

World Bank 1996 in Ekperiwe (2011) conceptualized. Foreign direct investment is an investment made to acquire a lasting management of about 10percent of voting stock in business operating in a country other than that of the investor defined according to residency. The logic behind the FDI is that companies could be seeking for lower resources cost, seeking market share as well as sales growth in foreign countries. It could be aimed at utilizing assets of foreign firms or supplying the foreign firms with input resources as the case may be. According to Shenkar (2007), foreign direct investment is the investment in real or physical assets, such as factories and distribution facilities. He asserted that it is not the foreign portfolio investment that has to do with investment in foreign financial instruments such as government bonds, mutual funds and foreign stocks.

In André (2008), FDI is an investment made to acquire lasting interest in enterprise operating outside of the economy of the investor. He added that the parent enterprise and a foreign affiliate form together a transnational or multinational corporation. 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).

2.2 Employment

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

2.3 Unemployment

This is used to describe a phenomenon whereby those who are qualified to work do not have a meaningful work to do within a given time. 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. Okigbo1986 in Ozughalu and ogwumike (2013) said that the taxonomy of unemployment include a condition of being out of job, an activity of searching for job, an attitude of desiring a job under certain condition and the need for a job. This means that these elements have to be present before someone can claim to be unemployed.

Unemployment is a serious challenges to the realization of the MDG's According to Eneji, Mailafia and Weiping (2013), it will be hard for Nigeria to attain vision 2020 without addressing squarely the problem of unemployment, poverty, inequality and the mono-product economy structure. They viewed that poverty and unemployment are undesirable circumstances that majority of Nigerians involuntarily find themselves and have to be addressed.

3. Review of Related Literature

FDI encourages the inflow of technology, skills and fills the gaps between the domestically available supplies of savings, foreign exchange and government revenue (Onu, 2012). It implies that more investment will be stimulated and thereby making the absorptive capacity of the economy to be increased and in the long run more employment of labour will be generated. From the classicalist point of view, unemployment and wage rate are negatively related showing that as there are more demand for goods and services, wages will increase and employment will be demanded for. According to Obadan and Odusola (2000), the growth of employment is demand determinants of long term growth of output also influence the growth rate of employment.

There seems to be a general consensus that more inflow of FDI brings about more economic growth and prosperity of nation's especially the developing economies. FDI when viewed from a macro perspective, are often regarded as generator of employment, high productivity, competitiveness and technology spillovers (Denisia, 2011). Also Carves (1996) in Denisia (2011) considers that the efforts made by various countries in mobilizing inflow of foreign direct investments are due to the potential positive that it would have on the economy and this, Denisia (2011) maintained that FDI would increase productivity, technology transfer, managerial skills, know how, international production networks, reducing unemployment and access to external markets. In Ozughdu and Ogwumike (2013), the foreign direct investment can boost the economic

growth of a country by crowding in other investment with an overall increase in total investment as well as creating spill over effects resulting from transfer of technology, knowledge and skills to domestic firms. They added that FDI can also stimulate economic growth by creating high degree of competitiveness, significant innovation and improvements in a country's export performance. A combination of these positive effects of FDI on a given economy will likely bring about reduced level of unemployment. According to Ozughdu and Ogwumike (2013), foreign direct investment is expected to provide the requisite capital, technology and investment that would propel significant economic growth and greatly generate employment.

It can be rationalized that countries with more inflow of foreign direct investment will have more growth prosperity as well as employment potentials than others with fewer FDI presences. This could be established in Onu (2012) who states that the emerging Tigers of Asia namely Thailand, Singapore, Malaysia, Taiwan, Hong Kong and Indonesia owe their successes to heavy inflows of FDI over the years.

Empirically, the relationship between FDI and economic growth has been severally established in both developed and developing countries with varying degrees of causal relationship which have been associate with marco economic factors as well as political conditions of the economy in question. Bende-Nabende (2002) in Oyatoye, Arogundade, Adebisi and Oluwakayode (2011) established a direct long term impact of foreign direct investment on output and equally found out that significant and positive relationship exist for comparatively economically less advanced Philippines and Thailand but negative in the more advanced Japan and Taiwan.

In Ekperiware (2011), positive correlation was established between the variables of foreign Direct Investment and economic growth in Nigeria but he came to the conclusion that the rate individual sector or variable's FDI affects economic growth differs as the way economic endowment will attract FDI from the rest of the world will be different. That is, sectors such as service, manufacturing, Agriculture etc. will attract the inflow of FDI at different degrees.

Also, Onu (2012) employed the econometric modeling of multiple linear regression to empirically determine the impact of FDI on economic growth in Nigeria using the data covering the period between 1986 to 2007 and came up with a positive relationship of FDI on GDP for Nigeria within the period of review. He rationalized that the increase in national savings and investment is a fundamental strategy for economic growth and that FDI as an engine of economic growth.

For the likelihood of the labour in Nigeria taking advantages of growth induced by FDI, Onu (2012) modelled public expenditure on education for human capital development to managerial skills and established negative relationship with GDP. He therefore associated the trend with the attitudes of Nigeria's government towards human capital development, that successive governments in Nigeria have paid little attention to human capital development. He further said that Nigeria has experienced as high percentage of brain drains during this period and having the implication of a situation whereby the stock of human capital has not sufficiently grown to take the advantage of foreign technologies necessary for economic growth.

The implication of the conclusion reached by Onu (2012) is that for a long term growth to be achieved or sustained in Nigeria, investment in human capital has to be taken seriously in the form of training and reward for labour. This is consistent with the popular believe which rationalized that the motivation associated with Udoji salary award and the subsequent spread to private sector also contributed to productivity improvement during the period.

For FDI to be beneficial to human capital development even when there are evidences of strong impact on economic growth, the host countries much be able to address the problem of labour market failures such as information asymmetry and the need to have competent workforce that will be able to compete favourably well in the international labour markets. According to Velde to (2001), governments need to establish investment promotion agencies to address information related market failures for investment to have information needed for investment. He added that

national or sectoral vocational training boards should address skills needs of potential investors at present or in the future with the supply of labour skills.

4. Theoretical Framework

Over time, literatures have tried to establish driving force of Foreign Direct Investment, the impact on the economy as well as the goal which multinational cooperatives seek to establish their subsidiaries outside the home countries. According to Saskia and Morgan (1998), dependency, modernization and integrative schools have theorized on FDI. The dependency school focuses on effect of foreign direct investment in development countries is adjudged to be positive by the proponent. The modernization school considers FDI as a prerequisite and catalyst for sustainable growth and development, and lastly, the integrative school looks at the FDI from the perspective of its causes and home countries. These are basically the institutional or bureaucratic structures structural bottlenecks and reforms, improvement and administration.

Shenkar (2007) identified some analysis as the current theories of FDI which include:

- i. Product Life-Cycle theory
- ii. Monopolistic Advantage theory
- iii. International theory
- iv. Eclectic paradigm

4.1 Product Life-Cycle theory

This was formulated by Vernon (1966) and was need to explaining certain types of foreign direct investment made by his companies in Western Europe after the World War in the manufacturing industries (Denisia, 2011). These are four stages of Product Life Cycle Theory which are innovation, growth, maturity and decline. The main thrust of the theory according to Shenker (2007), the manufacturer initially gain a monopolistic export advantage from the products innovations developed the U.S. market. He stated that though the production costs may be cheaper in foreign countries but the production will still be concentrated in the U.S. market at the new product stage Shenkar (2007) maintains that when the product becomes standardized, the U.S. investors will now have incentive to invest abroad to take the advantage of cheaper production cost and this will be made in another industries country where export sales are larger enough to support the economies of scale in local production and lastly at the meter stage all producers go into cost completion including firms imitating foreign firms. It is at this stage, the U.S initial producer shift production from the first country of FDI presence to a lower –cost country, sustaining the old subsidiary with new products (Shenkar, 2007).

4.2 Monopolistic Advantage Theory

This takes the forms of benefit which a firm derives from maintaining or monopolistic power. These advantages according Shenkar (2007) are basically superior knowledge and economies of scale. These determine the presence of FDI. The knowledge here in Shenkar (2007) are production technologies, managerial skills, industrial organization and knowledge of product economies of scale has to with investment where it is possible to reduce a cost per unit of services such as financing, marketing, and technological research which is termed horizontal investment by Shenker and the other aspect of economies of scale according to him is known as vertical investment in which each affiliate produces those products for which local production costs are lower.

4.3 Internationalization Theory

This was initially launched by Coase (1937) in a national context (Denisia, 2011). It found out that when transaction cost (cost of negotiating, enforcing and overseeing) a contract are high, firms can internally be substituted for markets. The implication according to Shenkar (2007), is that when the available markets fail to provide efficient environment in which the firm can profit by using its technology or production resources, the firm therefore result to produce an internal market through investment in multiple countries thereby creating the needed market to achieve its objectives. Internationalized requires

4.4 The Eclectic paradigm

This combines the factors that are key to the other theories of FDI namely ownership-specific (O), Location-specific (L) and internalization (I). The theory considers the three factors as important in determining the level and pattern of FDI.

According to Sean-Leigh (2007), ownership advantage must be present in a host country which is sufficient enough to counter disadvantage of competing with firms in disadvantage of competing with firms in their home country. He said that the advantages are effective production and marketing and at the same time having international competitive advantage over local firms. Similarly Shenkar (2007) identified natural resources endowments, manpower and capital, technology and information, managerial and marketing skills and organization systems to constitute ownership advantage. Talking about locational advantage, Wall and Ress (2004) opined that there must be increased profitability from exploiting a firm's ownership advantage in different locations than its domestic market which could result from either economic, market or cultural prospects benefits.

With internalization, firms have opportunities to fully exploit the ownership advantage which emanate from the knowledge of marketing a commodity or providing a service and also confer opportunity to keep that particular information secure in as much as he considers it to be core of their competitiveness (Sean-Leigh, 2004).

5. Model Specification

For the purpose of generating empirical results for the paper, an econometric modeling is formulated with assumption that the relationship is a linear form. It captures that Employment level is a function of FDI, GDP and Interest rate as thus:

$$\text{EmpL} = F(\text{FDI}, \text{GDP}, \text{I}') \dots\dots\dots \text{i}$$

Where

EmpL = employment level (100 – annual unemployment rate)

GDP = Gross Domestic Product (GDP annual growth rate is used)

FDI = foreign direct investment (percentage of Nbn value inflow of FDI is used)

Economically, each variable enters the model in the following manner

$$\text{EmpL} = F(\text{FDI}) \dots\dots\dots \text{ii}$$

Since, most studies link economic progress of host nations especially developing continent, it on this ground that this study assume that the inflow of FDI should under normal condition impact on employment generation in Nigeria.

Before employment can be generated, it is expected that GDP is enhanced by inflow of FDI in short run which brings about employment with the fact that market since is increased which will in turn bring about sustainable economic growth in the long run. This brings the variable GDP expressed in annual growth rate of GDP into the model to become.

$$\text{Empl} = f(\text{FDI}, \text{GDP}) \dots\dots\dots \text{iii}$$

Additionally, the interest rate determines the extent of further investment which could result from inflow of foreign investment in the host economy which on the other hand influences employment generation. Hence the need to include the rate of interest into the model to become

$$\text{Empl} = f(\text{FDI}, \text{GDP}, I^r) \dots\dots\dots \text{iv}$$

To econometrically formulate the model, we incorporate the variables into the Cobb Douglas production function in the form of

$$Y = AK^a \dots\dots\dots \text{v}$$

$$\text{Empl} = a_0 + a_1\text{FDI}_t + a_2\text{GDP}_t + a_3I^r_t + U_t \dots\dots\dots \text{vi}$$

where;

a_0 = autonomous employment level which is not influenced by variables in the model

u = the error term which captures some variables that could influence the dependent variable but are not included in the model.

t = subscript, indicating time, which could be t , $t - 1$, $t - 2$ depending on whether the present or lag values of variables are used.

6. Model Estimation and Discussion of Result

$$\text{Empl} = 78.363 - 0.068\text{FDI}_t + 0.135\text{GDP}_t + 0.198I^r_t$$

$$\text{Se} = (11.734) (0.938) (0.793) (0.838)$$

$$t\text{-statistic} = (6.678) (-0.072) (0.171) (2.236)$$

$$R^2 = 0.11$$

$$R^2 = 0.268$$

$$\text{Standard error of the estimate} = 4.51$$

$$F\text{-statistic} = 0.295$$

From the estimated results, it shows from the values of R^2 and $\overline{R^2}$ of (0.11) and 0.268 respectively that variables captured in the model can hardly address the problem unemployment in Nigeria. Also when the F-calculated is compared will theoretical value of F (0.295) at $v_1 = k - 1$ and $v_2 = n - 1$ degrees of freedom (6.55), it shows that the variables in the model do not simultaneously impact significantly on the level of employment in Nigeria.

When individual variable used on the dependent variable (employment level) non of the variables is significant when the t-ratio is used ($n - 11 < 30$) at 1%, 5% and 10% levels of significance. The implication is that FDI does not have correct sign calls for concern as other variables in the model (GDP and interest rate) exhibit correct signs based on the appriori expectation. This justify the conclusion by many researchers that Foreign Direct Investment in developing countries especially Nigeria does bring about more employment and it is consistent with Olayinka (2009) that found out that despite the volume of inflow of Foreign Capital into Nigeria's economy, that it has not translated into more employment that most foreign investments brought into Nigeria came with their man power and technical expertise which did not permit Nigerians to be gainfully employed. It can be said that Foreign Direct Investment in Nigeria has not only performed abysmally but at the same time labour disincentive.

7. Recommendations

- i. NDE, technical institutions as well as other higher institutions should go into partnership with multinational corporations in Nigeria such that industry begin to shape the curriculum for these institution such that skills needed to work in these established will be passed on the prospective graduate in their respective field of endeavours.
- ii. The growth recorded in the Gross Domestic Product of the country should be made to

address the problem of unemployment by ensuring the compliance with budget discipline to ensure that projected expenditures be made to deliver the desired objectives in the area of infrastructural development for more businesses and investments to take the advantage of.

- iii. The interest rate and loan repayment condition of banks should be made to accommodate all categories of people in Nigeria. It should be made flexible for perspective investors to access. It is only through this that employment will begin to be generated.
- iv. Foreign investors should be motivated into the real sectors of the economy such as Agric sector, manufacturing, steel and iron industries in Nigeria which have high prosperity to absorb large volume of workforce.

8. Conclusion

The performance of the inflow of FDI into the Nigeria's economy as well as economic growth may be growing but poverty level still remain unabated if some macro economic problems and infrastructural deficits are not adequately addressed in the country. In this regard, the interest rate commercial banks should be vigorously regulated by the Apex Bank to maintain a single digit rate especially for investors. Also, government should at all level provide basic infrastructures in the country. This will propel both domestic private and foreign investors to invest in Agriculture and its allied industries as well as processing and manufacturing industries which will ultimately usher in more employment and reduced poverty prevalence in the country.

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Regression Table

SN	Year	Unemployment	EmpL _t	FDI _t	GDP _t	I _t
1	2002	12.6	87.4	1.67	21.172	30.19
2	2003	14.8	85.2	1.79	10.335	20.88
3	2004	13.4	86.6	2.49	10.585	20.82
4	2005	11.9	88.1	3.25	5.393	19.49
5	2006	13.7	86.3	6.25	6.211	18.7
6	2007	14.6	85.4	7.6	6.972	18.36
7	2008	19.7	80.3	4.6	5.984	18.7
8	2009	19.7	80.3	5.6	6.96	22.9
9	2010	21.5	78.5	5.73	8.724	22.51
10	2011	23.9	76.1	2.69	7.2	16
11	2012	16.58	83.42	4.167	8.9536	20.855

Sources: (i) IMF (2011) World Economic Outlook, (ii) 2012 CIA Fact book, (iii) NBS (2010), CNB Annual reports and Statement of account (Various issues), (iv) Author's Calculation

