

Human Capital Development, Foreign Direct Investment and Industrialization in Nigeria

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Abstract : In the past three and half decades, aside from the fact that the contribution of the industrial sector to gross domestic product in Nigeria has nose-dived, its performance has also been highly unstable. Investment funds needed to develop the industrial sector usually come from both internal and external sources. The internal sources include surplus generated within the industrial sector and surplus diverted from other sectors of the economy. It has been observed that due to the small size of the industrial sector in developing countries, very limited funds could be raised for further investment. External sources of funds which many currently industrialized and some 'newly industrializing countries' have benefited from including direct and indirect investment by foreign capitalists; foreign aid and loans; and investments by nationals living abroad. Foreign direct investment inflow in Nigeria has been declining since 2009 in both absolute and relative terms. High level of human capital has been identified as one of the crucial factors that explain the miraculous growth of the 'Asian Tigers'. Its low level has also been identified as the major cause for the low level of FDI flow to Nigeria in particular and Africa in general. There has been positive, but slow improvement in human capital indicators in Nigeria in the past three decades. In spite of this, foreign direct investment inflow has not only been low; it has declined drastically in recent years. i) Why has the improvement in human capital in Nigeria failed to attract more FDI inflow? ii) To what extent does the level of human capital influence FDI inflow in Nigeria? iii) Is there a threshold of human capital stock that guarantees sustained inflow of FDI? iv) Does the quality of human capital matter? v) Does the influence of other (negative) factors outweigh the benefits of human capital? Using time series secondary data, a system of equations is employed to evaluate the effect of human capital on FDI inflow in Nigeria on one hand and the effect of FDI on the level of industrialization on the other. A weak relationship between human capital and FDI is expected, while a strong relationship between FDI and industrial growth is expected from the result.

Keywords : human capital, foreign direct investment, industrialization, gross domestic product

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