Research Proposal

**Research Question**

***“How does foreign direct investment (FDI) influence employment rates in Africa?”***

**Introduction**

In Africa, foreign direct investment has both its advantages and several drawbacks. Many African states benefit from FDI since it promotes the economic well-being of the host country by creating employment opportunities for its citizens (Tshepo, 2014). Such important gains push developing countries towards creating an environment that encourages FDI. Even though many states welcome foreign investment, research also shows some downsides that may be experienced especially in the long run. For example; creating stiff competition for local companies who may find it difficult to compete with foreign corporations which will in turn undermine the small and medium sized enterprises within that nation (Özcalik, 2016). The research proposal seeks to understand the role played by FDI and the influence it has on the employment rate in Africa.

**Justification of study**

The growing levels of unemployment in Africa are a worrying trend that must be addressed in good time with a view to reversing the trend for the better (Thomsen and House, 2005). Effective solutions for the problem such as increased FDI, are only discoverable once there is clear understanding on factors necessary for increased job creation (Wahid, Sawkut, and Seetana,2009). The flow of FDI is influenced by the political and economic risk variables of the host nations (Pal, 2008). According to Loots and Kabundi (2012), political and economic stability will naturally attract foreign investment. However, many African nations have over the struggle with both economic and political instability making them risky FDI destinations (Asiedu,2002).

**The Proposal Structure**

The paper begins with a clearly defined research question followed by the introduction under which the justification of the study is detailed. Then follows the theory and literature review where the theoretical and conceptual framework, findings from the existing literature and the existing knowledge are covered. Next comes the research methodology section where matters relating to the method selected, relevant sources of information, and the ethical considerations are covered. A discussion detailing the data analysis tools that will be used is then covered and the proposal concludes with a conclusion.

**Theory and Literature Review**

The study utilizes the following resources for the purposes of literature review:

1. John H Dunning theory of eclectic paradigm
2. Musila, Jacob W., and Simon P. Sigué. *"Accelerating Foreign Direct Investment Flow to Africa.”*
3. Cleeve, Emmanuel. "How Effective are Fiscal Incentives to Attract FDI to Sub-Saharan Africa?"
4. Tshepo, Masipa. “The Impact of Foreign Direct Investment on Economic Growth and Employment in South Africa: A Time Series Analysis.”

**Summary**

FDI can be described as a capital outlay that creates a long-standing relationship between a resident firm and the host country. Companies must verify certain factors even before there is any consideration to invest into a foreign place. In 1979, John H Dunning came up with a theory known as the eclectic paradigm. Based on his findings he concluded that direct foreign investment is largely influenced by three factors which are; location advantage, ownership advantage, and internalization advantage which give a firm huge incentive to invest as it guarantees competitive advantage (Dunning and Gray 2003). Based on the type of investment agreement, FDI can also be classified as either inward or outward as well as horizontal or vertical (Musila and Sigué,2006). The first category is based on the flows whereas the second group is based on how Multinational Corporations (MNCs) distribute their production processes globally (Cleeve,2008). Other forms of taxonomies are determined by the motive creating three overall categories which are efficiency-seeking, resource-seeking, and market-seeking (Tshepo,2014). Before investing, companies will naturally utilize various analysis methods to determine present optimization variables that yield cost minimization and revenue maximization within the host country.

**Findings from Existing Literature with regards to the research question.**

Even though many African countries would benefit from foreign investment there is currently very little of it due to certain factors. MNCs are attracted to invest in LDCs where the wage demand is low (Wang and Bio-Tchané,2008). The availability of human capital and local skills not only attracts FDI but also result in the reaping of benefits from the relationship by the host country (Ndikumana and Verick,2008). Even though many countries lack technological advancement foreigners are attracted since in most cases there is always an influx of labor resource. Other incentives meant to boost investment include favorable policies which offer subsidies for a specific period. As a result, many investors now feel secure injecting some of their money into such economies. For such countries FDI reduces unemployment since locals get jobs.

**The Existing Literature Gap**

The existing literature has been concerned with how FDI influences employment in developing countries around the world (Asiedu,2006). This research study will, therefore, address the existing gap in the literature by focusing on the existing FDI and the factors surrounding the subject. Some African countries are richer in oil than others and some have lower wages, factors as such determine the levels of FDI in the host country. The research focuses on finding variables unique to most African countries which will be analyzed to determine how such countries will improve in their current level of foreign investment.

**Methodology**

The study will employ an exploratory and descriptive research design. Ideally it will adopt both formats with the aim of verifying the hypothesis which states that FDI has a direct effect in reducing the existing high unemployment rate in Africa. In addition, it will also utilize comparative analysis whereby economies such as South Africa and developing countries in East Asia will be used as a bench mark for the African nations to discover unique variables, existing niche and the challenges within the African continent. Additionally, comparison will also involve countries that are growing economies in seeking out similarities or concepts that will be used to formulate effective recommendations. The research will determine and identify challenges that may hamper the motives behind foreign investment.

**Relevant Sources of Information**

This study will utilize existing related research studies as a basis which will guide all research activities. Other materials include scholarly journals, books and web pages from the online covering ways in which FDI influences employment in Africa will prove to be invaluable. All sources used must fit within the economic dimension with regards to how the FDI affect overall economy which in turn reduces unemployment as a result. Therefore, information used will be to test the relationship and correlation between FDI and the increasing rate of unemployment.

**Ethical Implications**

In conducting research, researchers are expected to maximize public good and minimize any potential harm. The researcher will ensure that the data collected for use in this research is appropriately credited to the source and that the findings of the study are used purely for academic purposes.

**Discussion/Reflections**

***Data Analysis Tools***

The collected data will be analyzed using available secondary sources to do comparative analysis using previous research findings (Adams, 2009). Ideally, the method is instrumental as it can pin point existing associations between the rate of employment in Africa and FDI (Cissé, 2014). Using historical information, the research may be used to make futuristic projections depending on varying variables. The study seeks to merge present information on FDI about Africa.

**Conclusion**

Foreign direct investment promotes the economic well-being of the host country by creating employment opportunities for citizens. Political stability is also promoted through FDI, as higher employment levels leads to higher GDP which in turn results in less corruption (Kim, 2010). This research study will help to review different elements to develop an analysis of the heterogenous relationship between FDI and employment across African countries. Specifically, how FDI can help to increase the level of skills amongst the African working population which in turn will lead to productive efficiency, as human capital increases. Today, investors are slowly turning their attention to Africa due to factors such as resources, a growing market as well as favorable policies which give them a competitive advantage.

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