Title: Effect of Chinese outward FDI on youth unemployment in sub-Saharan Africa

Author Names: Junqi Liu,Ellis Chukwumerije Nwagu,Rongbing Liu ,Qi Wang,Gouranga Chandra Debnath,Roni Bhowmik

Abstract: This paper investigates the effect of Chinese outward foreign direct investment (FDI) on youth unemployment in sub-Saharan Africa (SSA) by using a modified labour demand model to identify the investment sources that are helpful for reducing youth unemployment in the region. The model is applied to a panel of 42 countries for the period 2003–2021 using random-effect, and generalized method of moment (GMM) estimators for robustness check. Our results suggest that Chinese FDI has direct short-term reducing effect on youth unemployment in SSA. The direction of China's capital investment to infrastructure development and other labour-intensive activities leads to immediate reduction in youth unemployment. However, overtime, due to absence of linkages with domestic firms, and thus lack of demand effects, Chinese FDI becomes insignificant for employment creation. Our results also indicate that Other FDI does not lead to significant reduction in youth unemployment both currently and overtime. Our analysis gives partial support to the argument that the impact of Chinese FDI may differ from those of developed countries. Finally, we could not find evidence that the effect of FDI on employment depends on host country human capital and institutional quality. Several specifications of the empirical model are tested, and explanations are provided for the results. Policy implications are highlighted, especially the need to attract more job absorbing FDI and improve domestic absorptive capacity.

Keywords: Chinese FDI; Youth unemployment; Sub-Saharan Africa; Labour demand model; Panel data analysis; Random effects; GMM estimation

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