Youth Unemployment in the Southern African Development Community: What role does Foreign Direct Investment Play?

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Executive Summary

Youth unemployment has been high in many countries around the world despite efforts made by different governments in order to improve the economic well-being of the youth. The chart below shows graphs of youth unemployment in Southern African Development Community (SADC) countries. As shown in the graphs, youth unemployment in SADC countries has remained higher with other countries going beyond 30 percent.

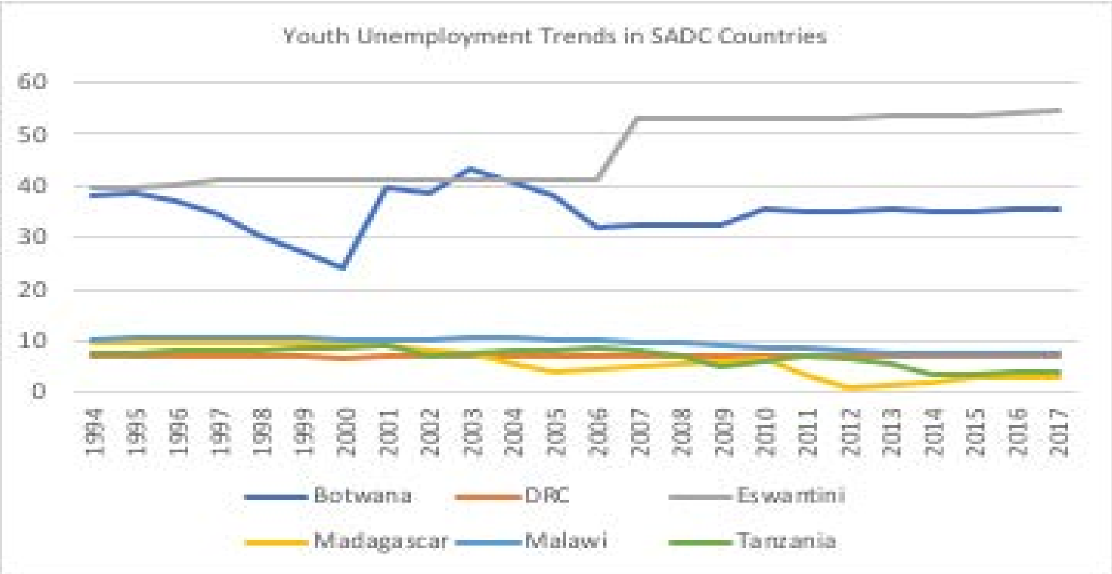

Chart 1: Selected SADC Countries with high youth (persons aged 15-24 years) unemployment rates from World Bank Data

As a way of dealing with the problem, research in other countries and regions has revealed that Foreign Direct Investment (FDI) is essential for job creation, and it is believed that if SADC countries can attract more FDI inflows, youth unemployment will decline in the region. Currently, the SADC region receives a large percentage share of FDI inflows in the continent and below is a chart of FDI inflows which present these inflows following an increasing and decreasing trend.

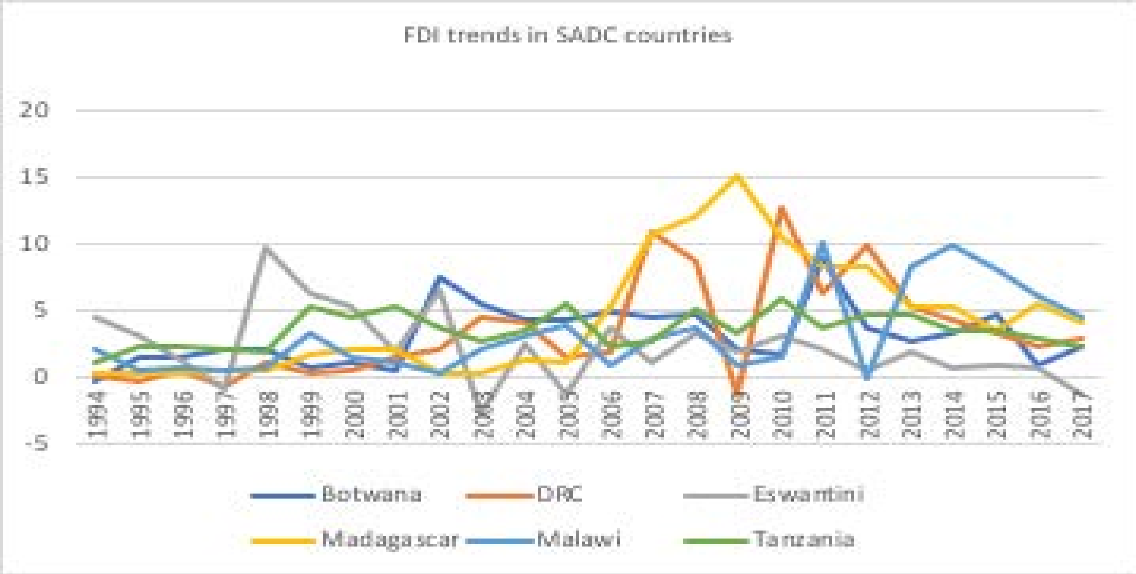

Chart 2: Selected SADC Countries with FDI inflows (% of GDP) from World Bank Data.

There are two types of foreign direct investment namely Greenfield investment and Mergers and Acquisition (M&As), where the latter has significant employment effects compared to the former. Unfortunately, literature shows that SADC countries have attracted more of M&As rather than Greenfield investment.

The Data Speaks

The main finding from the study is that FDI has a statistically insignificant negative impact on youth unemployment in the six SADC countries (Botswana, Democratic Republic of Congo (DRC), Eswatini (Swaziland), Madagascar, Malawi and Tanzania) studied. Instead, youth employment depends positively on external debt and economy-wide (GDP) growth. The data also shows that youth unemployment is made worse when imports are higher. These findings suggest that the best way to employ more youth (reduce youth unemployment) is to implement macroeconomic policies that encourage long run growth, even if it is leveraged by external debt, while attracting more Greenfield investments.

An investigation of the effects of FDI on youth unemployment in the SADC region was conducted by the Author of this policy brief using secondary data from the World Bank World Development Indicators (WDI). A theoretical model and an empirical model were adopted from existing literature with slight modifications and panel data estimation techniques were applied on the cross-sectional time series data. Due to estimation problems that arose in the data, the Feasible Generalised Least Squares (FGLS)-Parks estimation techniques was employed as it controls for all the detected data problems.

The findings therefore suggest that we cannot take it for granted that FDI reduces youth unemployment in the SADC region as the type of FDI is critical when the employment creation effect is to be appreciated.