

Unlocking the Employment Potential of Foreign Direct Investment and Challenges in Local Workforce Integration in Tanzania: A Case Study of Kibaha District

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Abstract

This study determined the contribution of FDI in creating employment opportunities in Kibaha district, Coast Region -Tanzania. Both probability and non-probability sampling were used to obtain 84 respondents for survey and 8 key informants for in-depth interviews. Quantitative data were analyzed through SPSS whereas qualitative data were analyzed through content analysis. Findings indicate that FDI play a great contribution or significant role in creating employment opportunities in Tanzania. From the findings, 58.3% of respondents shows that FDI provides employment on a large scale; 33.3% shows that FDI contributes employment on an average or moderate scale, and the remaining 8.4% shows it contributes on a small scale. Furthermore, the results elucidate various type of employment opportunities offered by FDI which are direct and indirect involvement. Under direct employments there were permanent base contract (50%); casual labor (25%) and temporary basis/seasonal employment (25%). Indirect employment was also mode of employment on FDI where by cover those citizens who were employed by respective FDI as a result of their presence near the area. Includes motorcyclists who transport first-category workers and employees, as well as food service providers. Several challenges that hinder FDI in employing Local citizens namely were also determined which were; Language barriers; lack of enough skilled labor; lack of trust among local employees and job dropout without prior information from the employee. As the study has been acknowledged that FDI have critical significant contribution on creating employments opportunity in Tanzania. .

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The number of youths who are not employed in both government and local private sectors can be employed in FDI firms. Therefore, a need for encouraging private sectors especial FDI to invest in the country is very important. Good environment for attracting FDI in the country is highly needed.

Keywords: Foreign Direct investment; Employment; Local work force.

1. Introduction

In recent years, foreign direct investment (FDI) has played a significant role in many countries' development, particularly in developing countries. Though the concept is so old, it is still expanding in some countries such as Tanzania, despite the fact that it first emerged in the 1980s. Foreign direct investment (FDI) is an important source of investment in developing nations [1]. It supplements and complements insufficient domestic investment levels caused by low savings and is thus required for the long-run growth of these economies in a certain country (Ibid).

At the macroeconomic level, FDI is expected to bring fresh capital for investment, contribute to the country's balance of payments, increase the country's capital stock, and perhaps contribute to future economic growth. However, there are a variety of expenses connected with FDI. expenses associated with countries competing for FDI, market failures in the investment process, and potential divergences between foreign enterprises and national interests are among the expenses [2].

Foreign finance is also suggested to produce employment opportunities, transfer contemporary technology, improve efficiency, develop and elevate the capabilities of local suppliers, and integrate Africa into the global economy [3]. To eliminate these perceived benefits, developing countries must continue to implement favorable policies, such as reforms in investment policy, financial markets, and fiscal and non-fiscal incentives to raise these essential inflows [4].

Furthermore, developing countries are aware of the development opportunities associated with private capital inflows, and as a result, many have increasingly put in place the environment required for attracting foreign private capital flows, such as liberalizing their economies, adopting an appropriate macroeconomic policy framework by improving infrastructure and public service delivery, controlling inflation, and addressing government issues [5]. Foreign direct investment has been increasingly popular as a tool for economic growth and strengthening in underdeveloped nations [6].

Investment expenditure is a major contributor to a country's productive capacity and, hence, the rate of output growth and employment [7]. Foreign direct investment (FDI) accounts for the majority of total investment in the Caribbean, while having little by global standards, because domestic savings are typically insufficient to cover local financing needs. Indeed, FDI inflows to nations such as Bermuda and the Cayman Islands have regularly outperformed GDP growth over the last two decades [2].

The majority of FDI flows are sourced from primary industries (mostly mining and oil exploration) and tertiary activities, primarily tourism and international business and financial services. The majority of FDI in the region comes from the United States (with Bermuda receiving the most US investment) and Asia. Despite the diverse

theoretical benefits of FDI, the majority of empirical research has concentrated on its impact on economic growth, with conflicting results [2].

However, in China and stated that one of the most desirable outcomes of attracting FDI is the possibility for job creation in the host country. Unfortunately, a review of the literature revealed only one previous study on the role of FDI in job creation. This study discovered a strong relationship between FDI and employment, as well as FDI and exports. According to the authors, a 1% increase in FDI increases employment by around 3% and exports by almost 9%, implying that FDI provides an outlet for surplus productive capacity and labor in the receiving country [8].

Similarly, [9] notes that it appears that this goal was met in the 20 English- and Dutch-speaking Caribbean countries studied, as employment in FDI industries nearly doubled between 1990 and 2000. Furthermore, the statistics in his study indicate that the proportion of the labor force engaged in FDI industries is increasing, and that both the level and growth in productivity (output per three people) are greater in these industries. These stylized facts were generated, first using correlation estimates and panel causality tests, which demonstrated a positive causal association between FDI and employment for the 20 English- and Dutch-speaking Caribbean nations evaluated across the full sample population [10].

Because of the constraints of these methodologies, a more comprehensive strategy is required. As a result, panel techniques were used to estimate a labor demand equation. The empirical findings support the prior conclusions, suggesting that FDI has a positive and significant relationship with employment. However, the greatest impact tends to occur within the first year and then steadily fades [10]. According to the literature on the relationship between FDI and economic growth, this positive outcome between FDI and employment may be conditional on other factors in the host country. As a result, the effects of trade openness, better absorption, and financial growth were considered, and it was discovered that FDI flows have a greater impact on employment [11].

One of the main challenges for the Tanzanian government is the creation of jobs through FDI [12]. Broad-based improvements in human welfare are impossible to attain without a significant growth in modern-sector employment. People will continue to seek a meager livelihood in agriculture or other informal industries if such jobs are not created. Tanzania has made various initiatives to attract foreign direct investment (FDI) over the last two decades. It was believed that, among other things, FDI would benefit the country by helping to create more jobs, reduce poverty, and finally encourage economic growth, but this was not the case.

Foreign direct investments were intended to ensure mutual benefits between partners, as expressed in the national investment policy and the Investment Act of 1997 of Tanzania. The rise in foreign direct investment in Tanzania highlighted the question of whether the country possessed a competitive advantage, particularly in terms of employment prospects. Many foreign direct investments are stationed in Kibaha area, these FDI firms includes Keds Tanzania Co. Ltd, Pwani Steel. Hong Yu Steels (T) Company Limited, Kiluwa Steel Group Company Limited, Prance International Co Limited, Grain Processing and Storage Co Limited, GF Vehicle Assemblies Limited, Three Stars Tanzania Limited just to mention few, however the return on their contributions to the establishment of employment possibilities is unknown.

In Tanzania, however, there is still debate on whether there are clear statistics or empirical studies on the impact of FDI on employment generation. Abbas & Xifeng (2016) in their study on the impact of foreign direct investment on employment and the Zanzibar tourism industry contended that there is a positive relationship between FDI and employment in Zanzibar, as well as a positive relationship between FDI and tourism [13]. Also, Mpanju (2012) conducted a study on the impact of FDI on employment creation in Tanzania from 1990 to 2008. These studies, which relied solely on secondary data from public sources such as UNCTAD's World Investment Reports, EAC official publications and reports, and BOT and NBS publications from [14]. According to the study, FDI inflows helped to create jobs, transfer technology to local enterprises, and transfer managerial know-how. Furthermore, the studies demonstrated a strong or positive link between FDI and employment. However, the majority of findings relied far more on secondary data from public sources than primary data. This resulted in a methodological gap in aspect of data collection tool.

Therefore, it was necessary for the researcher to determine the contributions of FDI to employment creation for local citizens, specifically identifying the presence of FDI firms in the area, their contributions to employment creation, the legal framework regarding employment generation for the local community, challenges that they may face in employing local citizens in Tanzania, and constraints to linkages and knowledge exchange between local and foreign companies. This raised the researcher's interest in exploring more about these foreign direct investments based on the level of employment opportunities created in Kibaha District, Tanzania.

2. Theoretical Review

One of the FDI theories that attracted the attention of world economists after WWII was the international life cycle theory. Vernon R. (1966) developed this theory. The author combined product cycle micro-theory with trade theory. Vernon argued that the production cycle has four stages: innovation, growth, maturity, and decline" [15]. Vernon (1966) stated his views by noting that "in the early stages of a product's life, production is undertaken in the home country because producers need easy access to inputs and to maintain quick communication with suppliers and competitors." At this point, the product is substantially differentiated, and demand is quite inelastic." Producers then begin to export the product to developed countries with similar demand and supply characteristics to their own country [16].

[15,17] consider such hypotheses to be practical and significant for the explication of FDI; however, they admit that such hypotheses contain a reference, particularly for highly technical items and services associated with income elasticity of demand. Furthermore, according to this theory and hypothesis, the role of human capital is critical in the decision to establish production in the host country.

"Labor costs will become an important consideration in production in the advanced stages of standardization, and as a result, least-developed countries with low-cost labor will now offer a competitive advantage as a production location [16]." Three stages of product development are crucial in explaining this theory: first, preliminary production by innovating companies in their home country close to customers, where companies can charge high prices because demand for new products is inelastic, second, product maturity, resulting in "export of the product to countries with the next-highest level of income as demand emerges in these developed countries," and third,

complete production process, which is no longer an exclusive possession of the innovating company that being the case FDI in developing countries with lower level of incomes, in order to save costs and learn feasible cost advantages. The cost advantage analysis of the stages reveals that FDI and human capital become major considerations, particularly when products and services reach the stage of maturity and standardization. In this situation, FDI is viewed as a defensive action by enterprises to preserve a competitive position against both domestic and foreign investors. To comprehend foreign direct investment, one must first grasp the fundamental motives that drive a corporation to invest abroad rather than export or outsource manufacturing to domestic firms. The main value of this international product life-cycle theory is that it gives a theoretical explanation for both foreign direct investment and the building of an environment conducive to local community employment. Vernon's theory is more relevant to FDI's market entry and contributions. With FDI in a foreign country, the host country has the opportunity to create a favorable climate for other opportunities, such as hiring members of the local population. This hypothesis can be used to explain the occurrence of FDI in a country as well as its effects in another dimension.

2.1. Conceptual Framework

The conceptual framework (figure 1) is based on research contributions by earlier researchers (including [3,5]). This model is composed of one independent variable namely foreign direct investments (FDI). To be more specific, we took into account one important measurement of economic development as the dependent variable: employment generation/creation. We also used one moderating variable for this research, i.e. trade policy regimes.

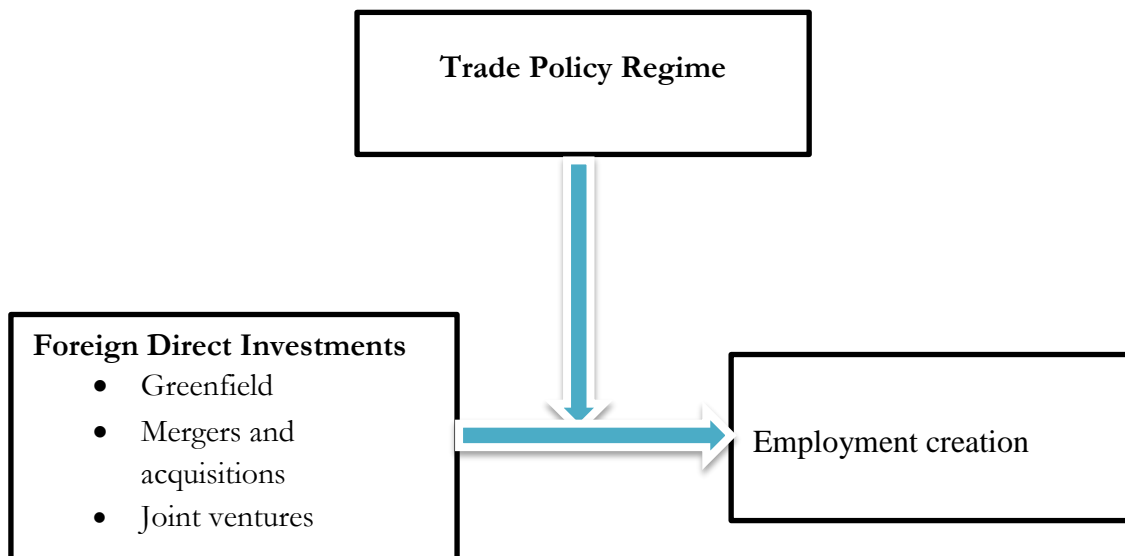


Figure 1: Conceptual Framework

3. Methods

This study was conducted in Kibaha district in Coast region, Tanzania, in October 2023. Kibaha district was selected because the area has a significant concentration of FDI, it is accessible due to an international route that goes from Dar es Salaam to most regions in Tanzania and neighboring countries, it has a large investment area, and it is near the Dar es Salaam port for shipping goods. For these reasons, the area has attracted many FDI

investors to locate their investments within the district. Cros sectional research design in line with mixed method research design were adopted where by both qualitative and quantitative data were collected concurrently. The study sample was drawn through purposive sampling technique and simple random technique. Purposive sampling was adopted to select respondents that were involved on KII as follows: three government officials from Kibaha district headquarters (DAS Kibaha district, Kibaha Town Council Business, Industries, and Investment Officers, and Kibaha district Business, Industries, and Investment Officers). Also, five respondents who are human resource managers from five selected FDI firms. Simple random sampling was adopted to select 84 out of 533 respondents to administer questionnaire. A such sample size was obtained by using the mathematical model formula developed by Taro Yamane (1967). This formula demands the study population be known to the researcher before computing [18].

$$n = \frac{N}{1 + N(e^2)}$$

Where n is the sample size, N is the population size and e = level of significance or error term which is equal to 0.1.

N=533

$$n = \frac{533}{1 + 533(0.1^2)}$$

$$n = \frac{533}{1 + 5.34} = 84.202212$$

Sample size for this study was 84

Data were collected through direct administration of questionnaire and key informant interviews. Quantitative data were analyzed using Statistical Package for Social Science (SPSS), in which descriptive statistics including frequencies and percentages were computed. Qualitative data were subjected to content analysis where they were sorted and categorized according to emerging and recurrent issues, and were boiled down to small sets of underlying themes. The qualitative results were reported such that they supported quantitative results obtained through the questionnaire.

4. Results and Discussions

4.1 Demographic and Socio-economic Characteristics

The study findings indicate that over three quarter (91.7%) of the respondents were 39 years or younger (Table 1). This suggests that a predominantly young population in the study area implies both opportunities and challenges for FDI in creating employment opportunities in Tanzania. It underscores the potential for a dynamic

and trainable workforce but also highlights the need for policies and initiatives that address the specific needs and challenges associated with a younger workforce. The findings also show that there were more male (64%) than female (36%) who are the administered the questionnaire. This implies that it is possible that more men chose to participate in the survey due to their occupational preferences or prior experiences. Some job sectors in Tanzania influenced by FDI may be perceived as more appealing to males, while others might be less accessible or attractive to females. Almost more than a half (56.3%) of respondents had attended college/university education with less than a half 46.7% attending either secondary no primary education. The findings suggest that those with college/university education may be better prepared for employment in sectors influenced by FDI that require specialized skills, while those with lower levels of education may need additional training and support to participate effectively in such sectors.

Table 1: Demographic characteristics of the respondents (n= 84)

Variables		Frequency (n)	Percentage (%)
Age Category (Years)	Below 29	45	53.7
	30 - 39	32	38
	40 – Above	7	8.3
Sex	Male	54	64
	Female	30	36
Education Level	Primary Education	18	21
	Secondary Education	19	22.7
	College/ University Education	47	56.3

4.2 Availability of employment opportunity

Respondents were asked whether FDIs contribute to increase the availability of employment opportunities in the local community. The findings revealed that, (88%) of respondents replied yes, implying that FDIs contribute to employment opportunities for local residents, particularly in the study area. While (7.1%) of respondents replied no, the remaining (4.8%) stated they were not sure about the statement.

4.4 The scale/size of employment opportunities

The study intends to understand to what extent FDI provides job opportunities in the local community. The results show that (58.3%) of respondents said FDI provides employment on a large scale, while (33.3%) said FDI contributes employment on an average or moderate scale, and the remaining (8.4%) said FDI contributes employment on a small scale.

4.3 Type of employment offered by FDI

The study intends to understand what type of employment is offered by FDI in Kibaha district; and this type of employment were divided into two categories: direct employment and direct involvement with FDI and indirect employment or involvement with FDI. This category included those who were directly required to provide labor services to investors, but it was further subdivided into three subgroups. The first group, according to the respondent, is direct employment or with a permanent base contract, which accounts for (50%) of total employment. The second group was casual labor, or those working on a temporary basis, which accounted for (25%), and seasonal employment, which accounted for about (25%). The second reported category was indirect employment. Other citizens who were employed by respective FDI as a result of their presence were included in this category. This group includes motorcyclists who transport first-category workers and employees, as well as food service providers, around these FDI, where cafeterias are built and first-category workers receive food and beverage services. Furthermore, the researcher was able to observe that the employees in both categories were busy working in their respective areas by using the observation method.

Table 2: Contribution of FDI in creation of employment opportunities to local citizens

Variables		Frequency (n)	Percentage (%)
Availability of FDI employment opportunities			
	Yes	74	88
	No	6	7.1
	Not Sure	4	4.8
Scale/size of employment opportunities			
	Large Scale	49	58.3
	Average Scale	28	33.3
	Small Scale	7	8.4

4.5 The challenges facing FDI to employ Local citizens

The study intended to examine whether there are any challenges which add difficult to FDI in employing Local citizens in Tanzania. The study found that there are some challenges that hinder FDI in employing Local citizens. Multiple response questions were asked to the respondents and the following were the results from the data collected:

4.5.1 Language barriers

Findings revealed that the major challenge that reported by the respondents was language problem (37.7%); this exists between investors and Tanzanian employees. Language used as a medium of communication were not conversant for both employees and investors. Lack of effective communication between foreign investors and local stakeholders, including the workforce, suppliers, and customers leads to misunderstandings,

misinterpretations, and reduced operational efficiency.

4.5.2 Lack of enough skilled labor.

The findings reported that the investors get the challenge to employ Tanzanians or local citizens because many Tanzanians lack the required knowledge and skills in their investments. For example, it was found that some of the equipment and machines needs skilled and well-trained personnel to operate. Most of laborer's found to be unskilled especially in production operations.

4.5.3 Lack of trust among local employees

The findings also pointed faithfulness as another challenge, report from the respondents revealed that some of Tanzanians are not faith when assigned to take care and control an office or department tend to steal some of products or may forge the document for the personal gain. As a result, has necessitated FDI owners to conduct inspections to employees particularly those who work in production department every day when signing off from the duty is the investor, this tends to discourage the investors to employ Tanzanians.

5. Conclusion

It can be concluded that FDI in Tanzania has a significant and critical role in job creation. The study findings revealed that the presence of a good legal framework that protects Tanzanians right to get employment from the established FDI has been enforced by the Non-Citizen (Employment Regulation) Act of 2015 with its revised provisions for 2019 and 2022. Government strategies pertaining to investment, especially foreign investments, have been reflected in the study. Furthermore, this study underscored the challenges that face FDI or foreign investors to employ local citizens and suggested some advice to improve the investment climate in Tanzania since FDI plays a great role in contributing employment to local citizens.

The findings of this study indicate that though FDI contributes much to the creation of employment opportunities in Tanzania, the investment sector is not doing well to attract investors. Therefore, the government, through the responsible ministry and other government departments, has to simplify the process and procedure of investment in the country; this will help absorb the large number of unemployed youths in the streets since the government by itself cannot manage to employ them all.

6. Recommendation

The ongoing problem of unemployment in Tanzania must be engaged by the establishment of strong and large private institutions including foreign direct investment which will need large number of personnel in their productions. As the study has been acknowledged that FDI have critical significant contribution on creating employments opportunity in Tanzania. The number of youths who are not employed in both government and local private sectors can be employed in FDI firms. Therefore, a need for encouraging private sectors especial FDI to invest in the country is very important. Good environment for attracting FDI in the country is highly needed.

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