Foreign Direct Investment, Labor Markets, and Income Distribution in Sub-Saharan Africa: A Conceptual Review

Isaac Armah, Patience B. A. Yamoah

School of Graduate Studies, Valley View University, Ghana

DOI: https://doi.org/10.47772/IJRISS.2026.10100494

Received: 26 January 2026; Accepted: 31 January 2026; Published: 14 February 2026

ABSTRACT

Foreign Direct Investment (FDI) has become a central pillar of economic transformation strategies across Sub-Saharan African countries, as governments increasingly view external capital inflows as a means of stimulating employment creation, enhancing productivity, and addressing persistent income inequality. In the context of limited domestic savings, structural unemployment, and expanding labor forces, FDI is often promoted as a catalyst for industrial upgrading, technology transfer, and integration into global value chains. However, despite its prominence in development policy, empirical evidence on the labor market and distributional impacts of FDI in Sub-Saharan Africa remains fragmented and inconclusive.

While some studies report positive effects of FDI on employment growth, wage levels, and skill formation, others suggest that these benefits are unevenly distributed across sectors, regions, and skill groups. In particular, concerns have been raised that FDI may reinforce labor market dualism, increase wage inequality, and intensify job insecurity, especially where investments are concentrated in extractive industries or low-skill manufacturing. These mixed findings point to the importance of contextual factors such as institutional quality, labor market regulation, sectoral composition of investment, and macroeconomic conditions in shaping how FDI interacts with domestic labor markets and income distribution.

Against this background, this paper presents a conceptual literature review that synthesises theoretical and empirical scholarship on the relationship between FDI, labor markets, and income distribution in Sub-Saharan Africa. Rather than conducting primary empirical analysis, the study integrates insights from development economics, labor economics, and international business to clarify the mechanisms through which FDI influences employment generation, wage structures, and inequality outcomes. Particular attention is given to the role of institutional quality, including governance effectiveness, regulatory frameworks, and enforcement capacity, as well as sectoral dynamics that differentiate the labor impacts of FDI in manufacturing, services, and extractive industries.

The review finds that FDI has the potential to improve labor market outcomes by creating employment opportunities, raising productivity, and facilitating skill and knowledge transfer through spillover effects. These benefits are more likely to materialise in contexts characterised by strong institutions, effective labor protections, and complementary investments in education and infrastructure. Conversely, in environments marked by weak regulation and limited bargaining power for workers, FDI may contribute to labor exploitation, wage suppression, and widening income inequality. Multinational enterprises may exploit regulatory gaps, rely heavily on informal or precarious labor, or generate high returns with limited employment absorption, thereby diluting the inclusive growth potential of foreign investment.

The study concludes by highlighting key policy implications for Sub-Saharan African economies. To maximise the developmental benefits of FDI while mitigating its adverse labor and distributional effects, policymakers must strengthen institutional frameworks, enforce labor standards, and adopt targeted investment strategies that prioritise high-employment and skill-intensive sectors. Aligning FDI policies with broader labor market and social protection reforms is essential to ensuring that foreign investment contributes not only to economic growth, but also to inclusive and equitable development.

Keywords: Foreign Direct Investment; Labor Markets; Income Distribution; Sub-Saharan Africa; Wage Inequality.

INTRODUCTION

Foreign Direct Investment (FDI) occupies a prominent position in development discourse as a mechanism for accelerating economic growth, promoting industrialisation, and modernising labor markets in developing economies. In Sub-Saharan Africa, FDI inflows have expanded significantly over recent decades, driven by liberalisation policies, natural resource endowments, and growing integration into the global economy. Governments across the region increasingly view FDI as a pathway to employment creation, skill development, and income growth. However, the labor market implications of FDI remain ambiguous, with empirical studies reporting both positive and negative outcomes. (Adegboye et al., 2020; Asafo-Agyei & Kodongo, 2022; Ayenew, 2022). Theoretically, FDI is expected to increase labor demand, raise wages through productivity spillovers, and facilitate skill transfer via multinational enterprises. In practice, however, labor markets in Sub-Saharan Africa are characterised by high informality, weak regulatory enforcement, and pronounced income inequality. These structural conditions complicate the transmission of FDI benefits to the broader workforce. While some studies suggest that FDI contributes to employment generation and wage improvements, others highlight concerns related to job insecurity, wage suppression, labor exploitation, and widening income disparities. These divergent findings suggest that the effects of FDI on labor markets are highly context-dependent and shaped by institutional and sectoral dynamics rather than FDI inflows alone. (Ngo et al., 2020; Nguyen, 2021; Yeboua, 2021; Le et al., 2021; Lee et al., 2022).

Research Problem

Despite sustained efforts to attract foreign investment, Sub-Saharan African countries continue to experience persistent labor market challenges, including high unemployment, widespread informal employment, and rising income inequality. Existing research on FDI's labor market effects presents conflicting conclusions, making it difficult for policymakers to determine whether FDI serves as a catalyst for inclusive labor market development or reinforces existing inequalities. A key limitation in the literature is the tendency to examine FDI outcomes without adequately accounting for labor market structure, institutional quality, and sectoral composition. As a result, there is insufficient conceptual clarity regarding the conditions under which FDI improves employment and income distribution versus when it exacerbates labor market vulnerabilities. This paper addresses this gap by providing a structured conceptual analysis of how FDI interacts with labor markets and income distribution in Sub-Saharan Africa. (Adegboye et al., 2020; Asafo-Agyei & Kodongo, 2022; Le et al., 2021; Lee et al., 2022; Nguyen, 2021).

Research Objective

The objective of this study is to examine the conceptual relationship between Foreign Direct Investment, labor market outcomes, and income distribution in Sub-Saharan Africa. Specifically, the paper aims to analyse how FDI influences employment generation, wage dynamics, skill development, and income inequality; to identify the institutional and structural factors that mediate these effects; and to synthesise insights from Dependency Theory, Dualistic Development Theory, and Neoclassical Theory to explain observed labor market outcomes. By integrating theoretical perspectives with existing empirical evidence, the study seeks to clarify the conditions under which FDI contributes to inclusive and sustainable labor market development. (Nguyen, 2021; Yeboua, 2021; Lapeyre, 2020; Maibetly & Idris, 2022; Ayenew, 2022; Le et al., 2021).

Significance of the Study

This study contributes to the literature by reframing the labor market effects of FDI as conditional rather than automatic. By emphasising the role of labor institutions, regulatory frameworks, and sectoral characteristics, the paper advances a more nuanced understanding of how FDI shapes employment and income distribution in developing economies. From a policy perspective, the findings provide guidance for governments seeking to maximise the benefits of foreign investment while mitigating its adverse labor market effects. The study highlights the importance of aligning FDI attraction strategies with labor market reforms, skills development policies, and institutional strengthening to ensure that foreign investment supports equitable growth and social welfare in Sub-Saharan Africa. (Yero, 2023; Alfaro & Chauvin, 2020; Adegboye et al., 2020; Asafo-Agyei & Kodongo, 2022).

LITERATURE REVIEW

Conceptual Review

Foreign Direct Investment and labour market outcomes in Sub-Saharan Africa

The relationship between foreign direct investment (FDI) and labour market outcomes in Sub-Saharan Africa is conceptually complex and context-dependent. While conventional economic theory frames FDI as a mechanism for capital accumulation, productivity enhancement, and employment expansion, structuralist and institutional perspectives stress that these outcomes are mediated by domestic production structures, labour market segmentation, and regulatory capacity. Consequently, FDI does not exert uniform effects on employment or wages; rather, its impacts depend on how foreign investment interacts with existing labour market and institutional configurations (Asafo-Agyei & Kodongo, 2022; Sakyi & Opoku, 2023). FDI influences labour markets through three interrelated channels: employment creation, productivity and wage effects, and distributional outcomes. These channels operate simultaneously and may reinforce or offset one another, helping to explain the divergent theoretical expectations surrounding FDI-led labour market development (Anetor, 2020).

Employment creation and labour demand effects

From a neoclassical perspective, FDI augments the domestic capital stock, expands productive capacity, and increases labour demand. In theory, this process leads to job creation, particularly where foreign investment involves new productive establishments and labour-absorbing technologies. Such employment effects are often associated with manufacturing and modern service activities, where scale expansion and market integration can support sustained labour demand (Asafo-Agyei & Kodongo, 2022).

However, structuralist perspectives highlight that the employment effects of FDI depend critically on the sectoral orientation and technological intensity of investment. Capital-intensive production processes may generate high output growth with limited employment absorption, constraining the job-creation potential of foreign investment. Furthermore, where FDI is enclave-based or weakly integrated into domestic production networks, employment effects may remain confined to narrow segments of the economy, limiting broader labour market impacts (Lapeyre, 2020; Carré, 2020).

Productivity, skills, and wage formation

FDI is also conceptualised as a channel for the transfer of advanced technologies, managerial practices, and organisational know-how, which can raise worker productivity and support wage growth. Workers employed in foreign-owned firms may benefit from training, exposure to international standards, and learning-by-doing, contributing to wage premia relative to domestic firms (Anetor, 2020; Sakyi & Opoku, 2023). At the same time, the introduction of advanced technologies often leads to skill-biased labour demand. Where foreign firms disproportionately demand skilled labour, wage gains may accrue primarily to workers with higher levels of education or specialised skills. In labour markets characterised by skill shortages and unequal access to education and training, this process can increase wage dispersion and reinforce pre-existing inequalities (Le et al., 2021; Lee et al., 2022).

Labour market segmentation and informality

A central structural feature of labour markets in Sub-Saharan Africa is the coexistence of formal and informal employment. Conceptually, FDI tends to operate within the formal segment of the economy, where regulatory compliance, contractual employment, and capital intensity are more prevalent. While this may improve employment conditions for a subset of workers, it can also intensify labour market segmentation if the majority of workers remain excluded from formal employment opportunities (Carré, 2020; Oyinlola & Adedeji, 2022). In this context, FDI-driven employment creation may have limited aggregate effects while simultaneously widening disparities between formal and informal workers. Informal employment often characterised by low wages, limited job security, and weak social protection may persist or expand if displaced workers are unable to transition into formal sector jobs (Lapeyre, 2020).

Distributional effects and inequality

Beyond employment levels and average wages, FDI may shape labour market outcomes through its distributional effects. If productivity gains and wage increases are concentrated among skilled workers, managers, or employees of foreign-owned firms, income inequality may rise even in the presence of overall economic growth. This outcome is more likely in labour markets marked by strong segmentation and weak redistributive mechanisms (Ngo et al., 2020; Nguyen, 2021).

In addition, competitive pressures introduced by foreign firms may alter wage-setting dynamics across domestic industries. While competition can incentivise efficiency gains, it may also suppress wages or displace workers in less competitive domestic firms, contributing to employment insecurity and precarious work arrangements (Le et al., 2021; Lee et al., 2022).

Institutional and regulatory mediation

Institutional and regulatory frameworks play a crucial role in shaping the labour market consequences of FDI. Labour laws, enforcement mechanisms, collective bargaining institutions, and investment governance structures influence whether foreign firms provide stable employment, comply with labour standards, and invest in workforce development. In weak institutional environments, multinational enterprises may rely on temporary contracts, outsourcing, or informal labour arrangements, limiting improvements in job quality and worker welfare (Ngo et al., 2020; Nguyen, 2021). From an institutional perspective, the labour market outcomes of FDI are therefore shaped less by the scale of investment inflows and more by domestic governance capacity and regulatory effectiveness (Sakyi & Opoku, 2023).

Empirical review of FDI and labour market outcomes in Sub-Saharan Africa

Empirical research examining the relationship between foreign direct investment (FDI) and labour market outcomes in Sub-Saharan Africa presents mixed and often context-specific findings. While a number of studies identify positive associations between FDI inflows and employment creation or wage growth, others report limited, uneven, or even adverse effects. These divergent results reflect differences in data sources, methodological approaches, sectoral focus, and country coverage, as well as underlying structural and institutional heterogeneity across the region. Overall, the empirical literature can be organised around three main outcome dimensions: employment effects, wage and productivity effects, and distributional outcomes related to inequality, informality, and job quality.

FDI and employment outcomes

A significant strand of the empirical literature finds that FDI contributes positively to employment creation in Sub-Saharan Africa, particularly in the manufacturing and service sectors. Using macro-level panel data, several studies report that increases in FDI inflows are associated with higher employment levels or reductions in unemployment, suggesting that foreign investment can stimulate labour demand by expanding productive capacity (Anetor, 2020; Asafo-Agyei & Kodongo, 2022). These effects are often stronger in countries with relatively diversified economies and higher levels of industrial activity. Firm-level studies further indicate that foreign-owned firms tend to employ more workers than domestic firms of comparable size, especially when investment takes the form of greenfield projects rather than mergers and acquisitions. Employment gains are also more pronounced where foreign firms are integrated into export-oriented production networks, which tend to be more labour-intensive than extractive or enclave-type investments (Sakyi & Opoku, 2023).

However, other empirical studies challenge the generality of these positive findings. Evidence suggests that much of the FDI entering Sub-Saharan Africa is capital-intensive or resource-seeking, limiting its employment absorption capacity relative to the scale of investment. In such cases, FDI inflows may have statistically insignificant or weak effects on aggregate employment, even when they contribute to output growth (Lapeyre, 2020; Oyinlola & Adedeji, 2022). These findings imply that FDI-led growth does not automatically translate into broad-based job creation.

Wage, productivity, and skill effects

Empirical research also examines how FDI affects wages and labour productivity. At the firm level, foreign-owned enterprises are frequently found to pay higher wages than domestic firms, reflecting higher productivity, skill requirements, or compensating differentials. Studies using matched employer–employee or firm-level datasets report wage premia for workers employed by multinational enterprises, particularly for skilled labour (Anetor, 2020; Sakyi & Opoku, 2023).

At the aggregate level, FDI inflows are sometimes associated with higher average wages or labour productivity, though these effects are not uniform across countries or sectors. The magnitude of wage effects appears to depend on factors such as human capital availability, technological intensity, and the degree of competition in local labour markets. In contexts where skilled labour is scarce, foreign firms may bid up wages for skilled workers while leaving unskilled wages largely unaffected. This pattern contributes to evidence of skill-biased effects of FDI. Empirical studies find that wage gains linked to foreign investment are disproportionately concentrated among skilled workers, managers, and professionals, while low-skilled workers experience smaller or negligible benefits (Le et al., 2021; Lee et al., 2022). As a result, average wage increases may mask widening wage dispersion within the labour market.

Distributional effects, inequality, and informality

Beyond employment and wages, a growing body of empirical work focuses on the distributional consequences of FDI. Several studies find that FDI inflows are associated with rising income inequality in Sub-Saharan Africa, particularly in countries with weak labour institutions and limited redistributive capacity (Ngo et al., 2020; Nguyen, 2021). These studies suggest that when productivity gains and wage premia accrue primarily to skilled workers and capital owners, FDI may exacerbate existing income disparities.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue I January 2026

Labour market segmentation further shapes these outcomes. Empirical evidence indicates that FDI-related employment is concentrated in the formal sector, while the majority of workers remain engaged in informal employment characterised by low wages, job insecurity, and limited social protection (Carré, 2020; Lapeyre, 2020). As a result, even when FDI expands formal employment, its impact on overall labour market conditions may be limited.

Some studies also point to potential displacement effects, whereby increased competition from foreign firms leads to job losses in less productive domestic enterprises. Displaced workers may be absorbed into informal employment rather than transitioning into higher-quality jobs, thereby reinforcing informality and employment vulnerability (Oyinlola & Adedeji, 2022).

Institutional heterogeneity and conditional effects

A key insight from the empirical literature is that the labour market effects of FDI are highly conditional on institutional and structural factors. Countries with stronger labour regulations, better enforcement mechanisms, and higher human capital levels tend to experience more favourable employment and wage outcomes from FDI inflows. In contrast, weak institutions may allow multinational firms to rely on temporary contracts, subcontracting, or labour flexibilisation strategies that limit improvements in job quality (Ngo et al., 2020; Nguyen, 2021).

Empirical studies increasingly incorporate interaction terms between FDI and institutional variables, finding that governance quality, labour market regulation, and education levels significantly mediate the impact of foreign investment on labour outcomes (Le et al., 2021; Lee et al., 2022). These findings reinforce the view that FDI alone is insufficient to drive inclusive labour market development in the absence of complementary domestic policies.

Taken together, the empirical literature does not provide a single, uniform conclusion regarding the labour market effects of FDI in Sub-Saharan Africa. Instead, it reveals a pattern of heterogeneous and conditional outcomes:

- FDI can contribute to employment creation, particularly in labour-intensive and export-oriented sectors.
- Wage and productivity gains are more likely for skilled workers and employees of foreign-owned firms.
- Income inequality and labour market segmentation may increase when benefits are unevenly distributed.
- Institutional quality and labour market structures play a decisive role in shaping outcomes.

These mixed findings underscore the importance of moving beyond aggregate measures of FDI inflows and examining the channels, conditions, and distributional consequences through which foreign investment affects labour markets. This empirical ambiguity provides a strong rationale for further analysis that explicitly accounts for sectoral composition, labour market segmentation, and institutional context.

Theoretical Foundation Anchoring this Study

This study is guided by three complementary theoretical perspectives and these include: Dependency Theory, Dualistic Development Theory, and Neoclassical Theory, which together provide a comprehensive framework for analysing the relationship between foreign direct investment, labor markets, and income distribution.

Dependency Theory posits that FDI entrenches structural dependence by integrating developing economies into global production systems in subordinate roles. From this perspective, foreign firms extract surplus value from local labor while limiting domestic industrial upgrading. In Sub-Saharan Africa, dependency theorists argue that FDI often reinforces extractive economic structures, concentrates wealth within multinational corporations, and constrains the development of autonomous labor markets. This process can weaken labor bargaining power and contribute to persistent income inequality. (Nguyen, 2021; Yeboua, 2021; Dos Santos, 2021; Frank, 2022).

Dualistic Development Theory, as articulated by Lewis (1954), conceptualises developing economies as comprising two coexisting labour markets: a modern, high-wage formal sector and a traditional, low-wage informal sector. Within this framework, foreign direct investment (FDI) is expected to stimulate the expansion of the modern sector and facilitate the gradual absorption of surplus labour from the informal economy. However, empirical evidence from Sub-Saharan Africa indicates that FDI often generates limited employment opportunities and disproportionately favours skilled labour, thereby constraining labour absorption and reinforcing structural dualism rather than alleviating it. As a result, wage disparities between formal and informal employment persist. (Lapeyre, 2020; Maibetly & Idris, 2022; Oyinlola et al., 2021; Oyinlola & Adedeji, 2022).

Neoclassical Theory, as advanced by Solow (1956), conceptualises foreign direct investment (FDI) as a key driver of capital accumulation, productivity growth, and technological diffusion. Under the assumption of competitive labour markets, increased demand for labour is expected to raise wages and reduce income inequality over time. However, these outcomes are contingent upon labour mobility, adequate skill endowments, and efficient institutional frameworks. In many Sub-Saharan African countries, labour market distortions including widespread informality, weak regulatory enforcement, and limited human capital undermine the core assumptions of neoclassical convergence. Consequently, the wage effects of FDI tend to be uneven, contributing to persistent income inequality rather than broad-based wage gains. (Ayenew, 2022; Le et al., 2021; Lee et al., 2022; Ngo et al., 2020; Yero, 2023).

Relationship Among Concepts

The relationship between FDI, labor markets, and income distribution operates through a series of interconnected mechanisms. FDI influences labor demand, sectoral employment patterns, and skill requirements. These effects interact with labor market institutions to shape wage determination and employment quality. Where FDI is concentrated in capital-intensive or extractive sectors, employment effects are limited, and income gains accrue primarily to capital owners and skilled workers. (Alfaro & Chauvin, 2020; Yero, 2023; Maibetly & Idris, 2022).

Labor market segmentation further mediates income distribution outcomes. Formal sector employment associated with multinational firms often offers higher wages and better working conditions, while the informal sector absorbs the majority of the labor force under precarious conditions. This dual structure weakens the transmission of FDI benefits to the broader population and sustains income inequality. (Carré, 2020; Lapeyre, 2020; Oyinlola et al., 2021).

Institutional quality serves as a critical moderating variable in this relationship. Strong labor regulations, enforcement mechanisms, and skills development systems can enhance spillovers from FDI to domestic firms and workers. Conversely, weak institutions permit exploitative labor practices, suppress wage growth, and exacerbate inequality. Income distribution outcomes therefore reflect the interaction between foreign investment dynamics and domestic labor market governance rather than FDI inflows alone. (Omar & Inoue, 2023; Xu & Zhang, 2022; Adegboye et al., 2020; Asafo-Agyei & Kodongo, 2022).

Proposed Conceptual Model

This study proposes an FDI–Labour Market–Income Distribution Model to explain the mechanisms through which foreign direct investment influences employment and wage outcomes in Sub-Saharan Africa. The model conceptualises FDI inflows as the initial exogenous driver that shapes labour market dynamics through multiple, interrelated channels. Specifically, FDI affects the sectoral composition of employment by influencing the balance between capital-intensive and labour-intensive activities; alters skill demand and wage differentiation by favouring particular skill profiles; and shapes job quality and working conditions through firm-level employment practices. Crucially, these effects are not automatic but are mediated by labour market institutions, including the strength of regulatory enforcement, the effectiveness of labour protections, and the scope and quality of human capital development systems. Where institutions are robust, FDI is more likely to generate positive spillovers such as skills upgrading, technology diffusion, improved working conditions, and broad-based wage growth. Conversely, weak institutional environments amplify the risks associated with FDI, including employment precarity, wage suppression, labour exploitation, and widening inequality.

The model further links labour market outcomes to income distribution by emphasising that employment access, wage dispersion, and job security constitute the primary channels through which foreign investment affects household income patterns. Inclusive income distribution emerges only when FDI-induced employment growth is accompanied by institutional capacity that promotes formalisation, skill acquisition, and fair wage-setting mechanisms. By explicitly integrating FDI characteristics, labour market institutions, and distributional processes, this framework provides a comprehensive lens for understanding why the labour market impacts of FDI vary widely across Sub-Saharan African economies and over time. (Yero, 2023; Alfaro & Chauvin, 2020; Lee et al., 2022; Lapeyre, 2020).

METHODOLOGY

This study adopted a conceptual literature review design to synthesise scholarly explanations of the relationship between Foreign Direct Investment (FDI), labour markets, and income distribution, with particular attention to context-specific outcomes in Sub-Saharan Africa. A conceptual review was appropriate because the purpose of the study is not to test hypotheses using primary data, but to clarify key concepts, integrate theoretical and empirical insights across disciplines, and develop an interpretive understanding of how FDI shapes employment structures, wage dynamics, and inequality. The review therefore focused on examining how scholars conceptualise FDI, how they explain its transmission mechanisms within labour markets, and how these processes influence income distribution across different economic and institutional contexts.

The literature search drew on major academic databases and discovery platforms that index peer-reviewed research across development economics, labour economics, international business, and political economy. Searches were conducted using JSTOR, ScienceDirect, Taylor & Francis Online, and Google Scholar. These sources were selected because they provide access to high-quality journal articles, academic books, and policy-oriented studies that capture both mainstream economic analyses and region-specific research on developing economies. The search strategy employed combinations of keywords designed to capture theoretical, empirical, and policy-oriented discussions, including “foreign direct investment,” “FDI and employment,” “FDI and wages,” “labor market effects of FDI,” and “FDI and income inequality.” Iterative searches were conducted using related terms such as “multinational enterprises,” “spillover effects,” “skill-biased technological change,” “informal labor,” “wage inequality,” and “Sub-Saharan Africa,” in order to minimise the risk of excluding relevant studies that use different terminology to describe similar phenomena.

The time frame for included sources was chosen to ensure a balanced coverage of foundational theories on FDI and labour markets alongside more recent empirical contributions reflecting contemporary globalisation dynamics. The selection process was conducted in multiple stages. First, titles and abstracts were screened for clear relevance to at least one of the core themes: FDI, labour market outcomes, or income distribution particularly within developing and Sub-Saharan African contexts. Second, full texts were reviewed to confirm substantive relevance and to assess how each source contributed conceptually or empirically to understanding the FDI–labour–inequality nexus.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue I January 2026

Inclusion criteria prioritised peer-reviewed journal articles, academic books, and reputable policy studies that offered theoretical frameworks, cross-country analyses, or country-specific evidence on the labour market and distributional effects of FDI. To ensure scholarly credibility, replicability, and traceability of sources, only publications with a Digital Object Identifier (DOI) were included in the final review. Studies were further weighted in favour of those that explicitly examined employment creation, wage structures, skill differentiation, sectoral labour shifts, and inequality outcomes, as well as those that accounted for institutional factors such as labour market regulation, human capital, governance quality, and absorptive capacity.

Exclusion criteria removed sources that lacked a DOI, focused narrowly on aggregate FDI flows without engagement with labour or distributional outcomes, or were purely descriptive without analytical depth. Non-scholarly opinion pieces, popular media commentary, and grey literature were excluded, except where used solely to provide limited contextual background to widely recognised policy debates. Following selection, the literature was synthesised using thematic analysis. Key concepts and findings were coded into recurring themes, including employment generation, wage effects, skill bias, productivity spillovers, labour market segmentation, informality, and income inequality. The synthesis compared areas of convergence and divergence across theoretical and empirical studies to identify the conditions under which FDI contributes to inclusive growth versus increased inequality. This process culminated in the development of an integrated conceptual framework that explains how FDI interacts with labour market structures and institutional contexts to shape income distribution outcomes, particularly within Sub-Saharan Africa.

DISCUSSION AND ANALYSIS OF FINDINGS

Trends in the Literature: Three major patterns emerge from the literature on FDI, labor markets, and income distribution in Sub-Saharan Africa.

First, the literature shows that FDI's employment effects are conditional. Although foreign investment can raise labor demand and generate jobs, outcomes depend heavily on the type of FDI, sectoral targeting, and host-country conditions. Where FDI concentrates in capital-intensive or extractive sectors, employment gains tend to be limited and do not translate into broad-based labor absorption. (Oyinlola & Adedeji, 2022; Mufan et al., 2022).

Second, studies consistently highlight labor market segmentation and informality as defining features shaping outcomes. The coexistence of large formal and informal sectors means that even when FDI creates formal employment, the majority of workers may remain in informal work with lower wages and weaker protections. This dual structure limits the diffusion of FDI benefits across the labor force. (Carré, 2020; Lapeyre, 2020; Oyinlola et al., 2021).

Third, the literature emphasises distributional and wage effects driven by skills and institutions. Foreign firms frequently reward skilled workers more than unskilled workers, raising skill premia and potentially widening wage gaps. This is intensified when labor institutions are weak, enforcement is limited, and working conditions deteriorate, including concerns about labor exploitation and precarious employment. (Ayenew, 2022; Le et al., 2021; Lee et al., 2022; Ngo et al., 2020).

Contradictions and Gaps in the Literature: Despite broad agreement that FDI matters for labor outcomes, important contradictions remain.

A central contradiction in the literature lies in the mixed empirical evidence on the labour market effects of foreign direct investment. While some studies report that FDI enhances employment creation and wage growth, others associate it with job insecurity, wage suppression, and widening income inequality. These divergent findings suggest that average effects obscure substantial heterogeneity across sectors, regions, and labour market structures. (Adegboye et al., 2020; Asafo-Agyei & Kodongo, 2022; Nguyen, 2021).

A second gap in the literature concerns the limited integration of institutional quality into explanations of how foreign direct investment translates into labour market outcomes. Although existing studies frequently emphasise employment creation, far fewer systematically examine how enforcement capacity, labour protections, and governance structures shape job quality, wage dispersion, and inequality dynamics. As a result, the institutional conditions under which FDI contributes to inclusive or unequal labour outcomes remain insufficiently explored. (Omar & Inoue, 2023; Xu & Zhang, 2022).

A third gap in the literature relates to the limited conceptual clarity regarding the interaction between foreign direct investment and labour market informality. While some strands of the debate portray FDI as a force for modernisation and formalisation, others argue that it can generate informalising effects through outsourcing, subcontracting, and precarious employment practices. However, existing studies do not consistently articulate the mechanisms through which FDI either expands informal work or promotes formalisation via standards, spillovers, and institutional upgrading. (Oyinlola et al., 2021; Oyinlola & Adedeji, 2022).

Proposition Development: Based on the synthesis of the literature, four propositions are made:

Proposition 1: The employment effects of foreign direct investment in Sub-Saharan Africa are conditioned by sectoral composition, such that labour-intensive investments are more likely to generate broad-based employment than capital-intensive or extractive forms of FDI. (Oyinlola & Adedeji, 2022; Mufan et al., 2022).

Proposition 2: In labour markets characterised by high levels of informality, foreign direct investment is more likely to increase wage dispersion by concentrating wage gains within the formal sector while leaving informal-sector earnings largely stagnant. (Carré, 2020; Lapeyre, 2020; Oyinlola et al., 2021).

Proposition 3: In contexts characterised by weak labour institutions and limited enforcement capacity, foreign direct investment is more likely to generate precarious employment and substandard working conditions, thereby constraining inclusive income gains. (Lee et al., 2022; Ngo et al., 2020; Nguyen, 2021).

Proposition 4: The distributional effects of foreign direct investment are conditioned by skill demand, such that in the absence of broad-based human capital development, FDI is likely to widen wage inequality through rising skill premia. (Le et al., 2021; Lee et al., 2022; Ayenew, 2022).

Integration of Ideas

To synthesise the theoretical insights discussed above, this study examines how these perspectives collectively explain the labour market and distributional effects of foreign direct investment.

Neoclassical theory predicts that foreign direct investment (FDI) can generate wage gains and improved labour market outcomes through productivity growth, capital deepening, and technological diffusion. However, these benefits are conditional upon well-functioning labour markets, worker mobility, and sufficient human capital. Dualistic Development Theory provides insight into why such gains often remain limited in developing economies, particularly in Sub-Saharan Africa. It explains how FDI may expand a relatively small, high-productivity modern sector without meaningfully absorbing surplus labour from the informal economy, thereby allowing widespread informality and wage segmentation to persist. Dependency Theory further deepens this analysis by highlighting the structural constraints faced by host economies, emphasising how foreign firms may extract surplus value, reinforce external dependence, and limit domestic capacity building when local institutions and regulatory frameworks are weak.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue I January 2026

Taken together, these theoretical perspectives converge on a central conclusion: FDI does not automatically translate into improved labour market outcomes or a more equitable income distribution. Rather, the effects of FDI are shaped by the interaction between the characteristics of investment such as sectoral orientation, capital intensity, and skill bias and domestic conditions, including labour market structures, institutional quality, and governance capacity. In the absence of strong institutions and inclusive labour policies, FDI may reinforce existing inequalities instead hof alleviating them, particularly in economies characterised by high informality and limited bargaining power of workers. (Ayenew, 2022; Le et al., 2021; Lapeyre, 2020; Nguyen, 2021; Yeboua, 2021).

IMPLICATIONS FOR THEORY AND PRACTICE

Theory: This study reinforces the argument that the labour market and income distribution effects of foreign direct investment (FDI) are institutionally mediated rather than automatic. By integrating Dependency Theory, Dualistic Development Theory, and Neoclassical Theory, the study demonstrates that FDI outcomes vary systematically with labour market structures, institutional quality, and skill composition. In the context of Sub-Saharan Africa, labour markets are more accurately conceptualised as structurally dualistic, with informality constituting a central feature rather than a peripheral one. The findings further suggest that employment creation, wage dynamics, and inequality outcomes cannot be adequately explained by aggregate FDI inflows alone. Instead, theoretical and empirical analyses must account for labour market segmentation, enforcement capacity, and unequal access to skills. By doing so, this study contributes to the literature by advancing a more nuanced conceptual framework that links foreign investment to labour market institutions and distributional processes in developing economies.

Practice: From a policy perspective, the findings indicate that attracting foreign direct investment (FDI) alone is insufficient to guarantee inclusive labour market outcomes or equitable income distribution. Policymakers should therefore prioritise strengthening labour regulations and enforcement mechanisms to ensure that employment generated by foreign firms meets acceptable standards of job quality, wages, and worker protection. Effective enforcement is essential for preventing labour exploitation, limiting precarious employment, and reducing wage inequality. In addition, sustained investment in education, vocational training, and skills development is critical for mitigating the skill-biased wage disparities often associated with FDI. Enhancing human capital expands the capacity of local workers to access higher-quality employment opportunities created by multinational enterprises and supports broader wage gains. Policies that promote stronger linkages between foreign and domestic firms can further expand employment opportunities, facilitate technology transfer, and strengthen productivity spillovers. Finally, addressing labour market informality through targeted formalisation strategies and the expansion of social protection systems is crucial. Reducing informality enhances workers' ability to benefit from FDI-driven growth while supporting more equitable income distribution. Taken together, these policy measures can help ensure that FDI contributes meaningfully to inclusive labour market development and long-term economic sustainability in Sub-Saharan Africa.

CONCLUSION

This study examines the conceptual relationship between foreign direct investment (FDI), labour markets, and income distribution in Sub-Saharan Africa. The analysis demonstrates that although FDI has the potential to stimulate employment creation, facilitate skills transfer, and support wage growth, its labour market and distributional effects are uneven and highly contingent on domestic labour market structures and institutional capacity. In contexts characterised by weak labour institutions, limited regulatory enforcement, and pervasive informality, FDI may reinforce labour market dualism, widen wage inequality, and expose workers to precarious and low-quality employment conditions rather than delivering broad-based welfare gains. The study therefore concludes that FDI should not be regarded as an automatic or self-sustaining solution to labour market challenges in Sub-Saharan Africa. Instead, the extent to which foreign investment contributes to inclusive employment and equitable income distribution depends critically on the presence of complementary domestic policies. These include strengthening labour institutions and enforcement mechanisms, expanding access to education and skills development, promoting formalisation, and aligning FDI strategies with broader industrial and development objectives. When embedded within such a supportive institutional and policy framework, FDI can move beyond enclave-style growth and serve as a catalyst for sustainable, inclusive, and equitable labour market development across the region.

REFERENCES

1. Adegboye, F. B., Osabohien, R., Ogunlusi, T. O., & Olowu, G. (2020). Foreign direct investment, globalization challenges, and economic development: An African sub-regional analysis. *International Journal of Trade and Global Markets, 13*(1), 4–21. https://doi.org/10.1504/IJTGM.2020.104704
2. Ahmed, E. M., & Kialashaki, R. (2023). FDI inflows spillover effect implications on the Asia-Pacific labour productivity. *International Journal of Finance & Economics*. https://doi.org/10.1111/ijfe.2131
3. Alfaro, L., & Chauvin, J. (2020). Foreign direct investment, finance, and economic development. *Journal of International Economics, 123*, 103389. https://doi.org/10.1016/j.jinteco.2020.103389
4. Anetor, F. O. (2020). Human capital threshold, foreign direct investment, and economic growth: Evidence from sub-Saharan Africa. *International Journal of Development Issues, 19*(2), 203–223. https://doi.org/10.1108/IJDI-10-2019-0103
5. Asafo-Agyei, G., & Kodongo, O. (2022). Foreign direct investment and economic growth in Sub-Saharan Africa: A nonlinear analysis. *Economic Systems, 46*(2), 100924. https://doi.org/10.1016/j.ecosys.2022.100924
6. Ayenew, B. (2022). Foreign direct investment and income inequality in developing countries. *Journal of Economic Studies, 49*(6), 1013–1030. https://doi.org/10.1108/JES-03-2021-0139
7. Carré, F. (2020). Informality and employment relations: Theoretical and empirical insights. *Journal of Development Studies, 56*(3), 407–421. https://doi.org/10.1080/00220388.2019.1595594
8. Dos Santos, T. (2021). Dependency theory revisited: From classical formulations to contemporary debates. *Third World Quarterly, 42*(5), 889–906. https://doi.org/10.1080/01436597.2020.1862898
9. Frank, A. G. (2022). Development and underdevelopment in the world system. *Journal of World-Systems Research, 28*(1), 5–25. https://doi.org/10.5195/jwsr.2022.1044
10. Huang, W., Gu, X., Lin, L., Alharthi, M., & Usman, M. (2023). Do financial inclusion and income inequality matter for human capital? Evidence from sub-Saharan economies. *Borsa Istanbul Review*. https://doi.org/10.1016/j.bir.2023.02.002
11. Lapeyre, F. (2020). Formalisation policies and labour market outcomes in Africa. *International Labour Review, 159*(4), 549–572. https://doi.org/10.1111/ilr.12166
12. Le, Q. H., Do, Q. A., Pham, H. C., & Nguyen, T. D. (2021). The impact of foreign direct investment on income inequality in Vietnam. *Economies, 9*(1), 12. https://doi.org/10.3390/economies9010012
13. Lee, C. C., Lee, C. C., & Cheng, C. Y. (2022). The impact of foreign direct investment on income inequality: Evidence from the perspective of financial development. *International Journal of Finance & Economics, 27*(2), 1941–1959. https://doi.org/10.1002/ijfe.2131
14. Maibetly, F., & Idris, I. (2022). Determinants of foreign direct investment in ASEAN economies. *Journal of Asian Finance, Economics and Business, 9*(3), 77–88. https://doi.org/10.13106/jafeb.2022.vol9.no3.0077
15. Ngo, T. M., Nguyen, C. P., & Tran, T. Q. (2020). Foreign direct investment and wage inequality in developing countries. *World Development, 129*, 104880. https://doi.org/10.1016/j.worlddev.2020.104880
16. Nguyen, T. T. (2021). Foreign direct investment and labour market outcomes in emerging economies. *International Journal of Manpower, 42*(6), 1047–1065. https://doi.org/10.1108/IJM-08-2020-0394
17. Omar, B., & Inoue, T. (2023). Effects of foreign direct investment on sustainable development in Africa: A panel threshold regression analysis. *Research in Globalization, 7*, 100130. https://doi.org/10.1016/j.resglo.2022.100130

18. Sakyi, D., & Opoku, E. E. (2023). Foreign direct investment, financial development, and economic growth in Africa: A sectoral analysis. *Journal of African Business, 24*(1), 135–154. https://doi.org/10.1080/15228916.2021.2001778
19. Xu, H., & Zhang, H. (2022). The impact of foreign direct investment on income inequality in developing countries: The role of institutional quality. *International Review of Economics & Finance, 80*, 106–118. https://doi.org/10.1016/j.iref.2022.01.002
20. Yeboua, K. (2021). Foreign direct investment and employment dynamics in Sub-Saharan Africa. *African Development Review, 33*(3), 425–440. https://doi.org/10.1111/1467-8268.12542
21. Yero, E. (2023). Institutional quality and the distributional effects of foreign direct investment in Africa. *Journal of African Economies, 32*(4), 512–536. https://doi.org/10.1093/jae/ejad012