

Full Length Research

Foreign Investment and Employment in the Context of Structuralism in Developing Countries: The Implication to Ethiopia

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The purpose of the paper was to evaluate Structuralist development thought in developing countries in contemporary world particularly in relation to foreign investment and its subsequent job creation. To this end, relevant secondary sources found from open internet sources and the hard copy was consulted. Thus, it was found that Structuralist development thought, emerged in Latin America, recommended import substitution industrialization and government intervention to support domestic industries. It was dominantly followed by Latin American and other developing countries in the 1950 and 1960s. While those developing countries have now introduced reforms, the thought support statism and doesn't encourage foreign investment be it portfolio investment or foreign direct investment. But, unemployment is continued to be high in developing countries despite the attempt made by the government of those countries to create jobs. The population is increasing, the agricultural land remained the same and thus getting scarcer and scarcer and urbanization is expanding which all continued to be the factor for the employment problems in developing countries. Thus, it is recommended to create conducive environment to attract more foreign direct investment as the attraction is still relatively low as compared with even the developed countries while keeping employees safety and working to protect them from over exploitation. But, in order to make them withstand the competition, it is vital to empower the domestic industries as they may be ousted by Multi-National Companies having better capital and technologies.

Key Words: Structuralism, Foreign Investment, Employment, Developing countries, Theories of Development, Unemployment in Developing countries, Unemployment in Ethiopia

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INTRODUCTION

Structuralism was one of the development theory that was originated in the developing countries. In Latin America, the United Nations Economic Commission for Latin America (ECLA) was set up in the 1940s to study the exiting development situation of Latin America and to propose alternative path to development. It came up with structuralism and Dependency Economic Development theories. The Structuralist economic development

thought was in conflict with some aspects of the classical liberalism and advocated, with Keynes and the social democrats, state intervention in the growth process (Peet and Hartwick, 2009). Supporting the Keynesian assumption it argued that the major bottlenecks to growth and to full employment lie on the demand side (Bresser-Pereira, 2012). The advocator believed that the decline in the terms of trade against the export of primary

commodities was secular, which resulted in the transfer of income from resource-intensive developing countries to capital-intensive developed countries (Yifu Lin, 2009).

The United Nations Economic Commission for Latin America (ECLA) found that conventional (classical and neoclassical) theories were inadequate for understanding the underdeveloped world (Peet and Hartwick, 2009). Thus, protectionist measure was proposed to protect domestic infant industries from foreign competition i.e from well-established foreign firms. In support of this Willis (2005) have shown that the ECLA has recommended the developing state to highly intervene to protect national industries which in turn help them face less burden of competition from well-developed foreign firms. It argued that the way for a developing country to achieve high growth rates was to develop domestic manufacturing industries through a process known as import substitution (Yifu Lin, 2009). It had been implemented in Latin America, Africa, South Asia and the Arab countries in the 1960s and 1970s. During this period, to realize import substitution industrialization high tariffs was imposed, there was quotas or restrictions on foreign trade which led to distortions, rent-seeking and economic inefficiencies (Yifu Lin, 2009).

The structuralist found that two structural tendencies limit investment opportunities in developing countries: the tendency for wages to grow more slowly than productivity and the tendency to the cyclical overvaluation of the exchange rate (Bresser-Pereira, 2012). The theory did not encourage foreign investment be it portfolio investment or foreign direct investment.

But, foreign direct investment comes along with benefits to the host country and the benefits include capital, technology and management resources which are lacking in most cases from developing countries. Thus, it can make a positive contribution to a host economy (Kurtishi-Kastrati, 2013). Furthermore, it is widely believed that FDI is crucial for economic development, income growth and employment creation (OECD, 2012). Thus, it has been recognized that the maximizing benefits of FDI for the host country can be significant, including technology spillovers, human capital formation support, enhancement of competitive business environment, contribution to international trade integration and improvement of enterprise development (Kurtishi-Kastrati, 2013).

Keeping the benefit of foreign direct investment in consideration and also supporting much of the contribution of structuralists, an attempt is going to be made to critically evaluate structuralist thought in developing countries in contemporary world particularly in relation to foreign investment and its subsequent job creation.

STATEMENT OF THE PROBLEM

The UN formed and Priebisch led United Nations Economic Commission for Latin America and Caribbean found that the World can be categorized in to the core or developed and the periphery or the developing in terms of the economic relationships. The core is an industrialized part of the world which receives cheap raw material from the developing countries and process it and sell in expensive price the finished product in to the periphery. Thus, they recommended import substitution industrialization and the government intervention to protect domestic industries. It doesn't encourage foreign investment as it makes its source of development on the state i.e local market and domestic industries

Various works have been done on the structuralist development thought. Writers like Peet and Hartwick (2009), Willis (2005), Lusting (2015), Love (nd), Larrain (1989) and even more other have been written on the different characteristics of the thought. They wrote on the key characteristics like center-periphery relation on the global economy, the idea of infant industries, and the need for government protection of domestic industries. Furthermore, Bresser-Pereira (2012) have written in terms its relation to investment and employment. The accessed literature has not shown its relation to foreign investment and its subsequent employment creation. Therefore, the present study is intended to evaluate structuralist thought in developing countries in contemporary world particularly in relation to foreign investment and its subsequent job creation.

OBJECTIVES OF THE STUDY

General Objective

- To evaluate structuralist thought in developing countries in contemporary world particularly in relation to foreign investment and its subsequent job creation

Specific Objectives

- To show the condition of foreign investment in developing countries and how foreign investment is perceived in the structuralist thought.
- To review the existing employment opportunities in developing countries in the context of structuralists.

To analyze the implication of structuralist thought in contemporary Ethiopia particularly in relation to foreign investment and employment creation.

METHODOLOGY

The study exclusively uses secondary sources. It is

based up on the review from books, articles and journals found on the area and that are mainly accessed from the open internet sources. First, relevant secondary sources are collected from the available sources. Then, the study is thematically arranged based on the objectives initially posed. Finally, the critical review has been undertaken.

FOREIGN INVESTMENT AND STRUCTURALIST THOUGHT

Foreign Investment in Developing Countries

Currently, different studies be it theoretical or empirical work have come to realize that investment is key for economic growth. The acceptance of the foreign direct investment (FDI) in the developing countries is attributed to the various assets that multinational enterprises (MNEs) deploy with their investments. The limited presence of this assets makes FDI so vital in the developing countries. They include technology, management skills, channels for marketing products internationally, product design, quality characteristics, brand names, etc (Agosin and Mayer, 2000).

FDI has both direct and indirect role in the creation of employment opportunities especially in developing countries where there is limited capital and abundant labor. When local employees are employed by MNE, it is said to be the direct impact of FDI. Whereas, the indirect effect arises when investment stimulate further job creation. It creates jobs to the local suppliers and also traders because of increased local spending by employees of the MNE (Kurtishi-Kastrati, 2013).

The contribution of FDI to growth and development objectives including dissemination of technology and know-how, promotion of trade and employment creation is conditional upon its efficient utilization (Balasubramanyam, 2001). The effectiveness of FDI is measured not only by the benefit of MNE but also by the reduction of social costs for FDI is not without costs. It is not recommended if the private rate of return outweigh their contribution to the social objectives of the host countries.

The entry of MNE in to the sector stimulates competition with the domestic firms. However, there is the concern that MNE may displace domestic firms and may even result in their bankruptcy because of its great technological capabilities (Agosin and Mayer, 2000). Thus, because of their low level of technology, domestic industries may not be able to keep pace with that of multi-national enterprises (MNE). To reduce this problem, several Asian countries practice screening of investment applications and grant differential incentives to different firms. Thus, some types of investment have remained prohibited for most of the period under review (Ibid, 2000). Furthermore, there is also a fear by the host

country that FDI may open the door for foreign firms to exercise control over state decision making (Balasubramanyam, 2001).

There is still high attraction of FDI in the developed countries as compared with that of the developing countries. In recent years, however, the increase in FDI flows to developing countries turned out to be higher than the increase in FDI flows to developed countries (Nunnenkamp, 2002). It can be seen that FDI inflows in to developing countries have been concentrated in a few leading Southeast Asian and Latin American economies, and the rate of growth of FDI inflows as a share of exports in to those economies has outpaced that of exports as a share of GDP (Luiz,1997). Africa's share in FDI flows to all developing countries has steadily declined since the early 1980s. Nevertheless, average annual flows to Africa were 3.5 times higher in 1994-1999 than in 1982-1987 (Nunnenkamp, 2002).

Various factors determine the FDI flow to the developing countries. One of the factors that determine the FDI inflow is the establishment of a transparent, broad and effective enabling policy environment for investment along withbuilding the human and institutional capacities to implement them (OECD,2012). Demand variables, such as market size, economies of scale and relative factor prices are also believed to be the main determinants of FDI (Luiz, 1997). Furthermore, property security is another important thing that the foreign investors consider when they invest their capital on the productive economic activities of the host country.

Foreign Investment in Context of Structuralist Thought in Developing Countries

The two subsequent publication by the UN Economic Commission for Latin America and the Caribbean (ECLAC) at the end of 1940 and the beginning of 1950 i.e. "The Economic Development of Latin America and Some of Its Main Problems" and "The Economic Study of Latin America 1949" officially inaugurated the beginning of Latin American structuralism(Lusting,2015).In his structuralist manifesto of 1949, The Economic Development of Latin America and its Principal Problems, Prebisch introduced the notion of an industrial, hegemonic Center and an agrarian, dependent Periphery as a framework for understanding the international division of labor (Love, nd). The conclusion of ECLAanalysis was that there is unbalanced growth in international economic system. That is the existing system allowed countries specialized in the production of industrial goods to grow faster than those specialized in the production of raw materials and that therefore the gap between central and peripheral economies would increasingly widen(Larrain,1989).

Prebisch, the general secretary of ECLAC, concluded

that reforming the structure of the economy by establishing industries and relying less on the export of primary product is the only way for Latin American countries to escape their disadvantaged position and hence underdevelopment. His ideas were influential in multilateral bodies and regional trade groupings, and shaped economic policies across Latin America. After 1949, ECLA advocated rapid industrialization and was highly critical of the ways in which world trade operated, calling for international agreements to protect the prices of primary products in order to counter the impact of volatile terms of trade on developing economies.

The Latin America's structuralist economic thought strongly recommended ISI (Import Substitution Industrialization). The view at the time was that without protecting domestic products from foreign competition, the developing countries would never industrialize and without a robust industrial sector, development would not be fully achieved. Generally, the following three points are important in structuralist thought regarding investment. First, thinkers at the time assumed that industrialization through import substitution would lead the peripheral economies to a more independent, democratic, and egalitarian growth path than growth based on primary goods exports (Lusting, 2015). Second, they should rely basically on the internal market to find demand for their new industrial production; and third, as the structural changes that were necessary to achieve these aims could not take place spontaneously, the state should play a central role in shaping this industrial pattern of growth. In Latin America, the 1950s was a period of unprecedented state intervention in the economy – statism – to direct the process of industrialization.

Therefore, ECLA recommended a change from a model of development 'towards the outside' to a model of development 'towards the inside'. According to the Argentinian economist Raul Prebisch, an industrial structure virtually isolated from the outside world thus grew up in our countries (Larrain, 1989). ECLA also recommended the assistance of foreign capital. Because it was thought that additional capital was necessary to cover the cost of unconditional import of equipment and technology from foreign countries which could not be covered by the export of primary products. Subsequently, these ideas spread beyond Latin America and were adopted elsewhere.

Regarding its success, there exist opposing views. Some argue that it was unsuccessful. For instance, Larrain (1989) and Yifu Lin (2009) argued that ECLA's strategy of autonomous industrialization had failed. Rather than bringing the desired development out comes, it resulted in the stagnation or even deterioration of the income levels in most developing countries. This was the case across the developing world, including in Latin America, Africa, South Asia and the Arab countries in the

1960s and 1970s. On the other hand, some argue that it was successful in spite of the inefficiencies associated with high levels of protection. It led to the fastest rate of growth in Latin American history between 1945 and 1980, which was accompanied by rapid rates of human development and reduction in poverty levels (Bértola and Ocampo, 2012, Cited in Antonio Ocampo, nd)

However, since 1990 there had been massive structural reforms in those countries. This was most probably due to the weakening of communist block and the relative ascendancies of capitalism in the world. In many countries financial markets were liberalized, trade barriers had been greatly reduced, and state-owned enterprises were privatized to a large extent (Campos and Kinoshita, 2008).

The core argument is that the population is increasing, rural land is the same so it is becoming scarcer and scarcer, local capital is scarce and urbanization is expanding which all provides conducive environment for the expansion of foreign investment. For instance, by 2030 it is estimated that all developing regions will have more people living in urban areas than rural areas, with virtually all the world's population growth concentrated in urban areas over the next 30 years (Grant, 2012). Compared to Sub-Saharan Africa, Latin America and the Caribbean region are more urbanized. Sub-Saharan Africa is the least urbanized region in the world that is currently growing at faster rate.

To support this increasing number of people, the expansion of investment plays a vital role in creating employment opportunities to the ever increasing urban population. This cannot be done only with the available local capital which is used to establish local firms as there is very limited capital in the developing countries. On the other hand, the Universal Declaration of Human Rights endorsed by the United Nations member states in 1948 states that "everyone has the right to work, to free choice of employment, to just and favorable conditions of work and to protection against unemployment" (Miller, 2009). Therefore, unlike the structuralist thought, to cope up with the increasing number of urban population and the increasingly scarcer and scarcer land in rural area and also to protect the employment rights of the citizen, it is so crucial to attract foreign investment which is useful to provide employment opportunities. Similarly, it is widely believed among most countries that attracting FDI is an important element for economic development (Campos and Kinoshita, 2008).

It is obvious that foreign direct investment plays an important role in creating job opportunities. But, it requires careful consideration as it will have an impact on domestic investment and also may have an impact on the employee. For they have more capital and better technology, they may oust domestic industries. Furthermore, since they always move for profit, they may pay low wage and may not keep employees safety.

EMPLOYMENT OPPORTUNITIES IN CONTEXT OF STRUCTURALIST THOUGHT IN DEVELOPING COUNTRIES

It is obvious that unemployment is high in developing countries particularly youth unemployment. For instance, according to Nebil et al. (2010), youth unemployment is a critical problem and even it gets worse as a number of young people looking for work in Sub-Saharan Africa is expected to increase by 28% in the next 15 years i.e there will be additional 30 million people joining the pool of job seekers.

The growing rate of urbanization is one factor that requires more job to be created in urban area as unemployment rate is relatively high in urban area. Urban unemployment will have also the potential to increase unless the rate of urbanization coincides with the rate of employment creation. While Latin America and the Caribbean region are relatively more urbanized, Asia and Africa are expected to undergo the most rapid urban change in the near future (Grant, 2012). Despite the growing urbanization, these parts of the world continued to depend more on the production of primary goods. In countries that basically specialize in primary products and natural resource-based manufactured commodities, the majority of the employment generated tends to be absorbed by these sectors (Nassif et al., 2013). The structuralist also believe that in developing countries, the unemployment rate is usually relatively high (Ibid, 2013).

Furthermore, market strength, education and the subsequent skill level of the youth are the barriers for accessing employment in urban areas, but that these are both shaped and reinforced by wider societal institutions (Grant, 2012). There are few jobs and many youth lack the qualifications that formal sector work often requires. Urban youth are concentrated in the informal sector, tending to work longer hours in insecure work, characterized by low productivity and very low pay. Formal sector growth rates (around 2–3 per cent) cannot begin to keep up with urban population growth (often around 4–5 per cent), and generally only a small percentage of the working population has formal sector jobs (Bartlett, 2010, cited in Grant, 2012).

According to the Economic Commission for Latin America (ECLA), Latin America is exposed to external disequilibria that has emanated mainly from its relative technological backwardness, which hampers international competitiveness (Prebisch, 1949, 1986; Rodríguez, 1980, p. 69-71; Fajnzylber, 1990, Cited in Nassif et al., 2013). The periphery needs to accumulate technological capabilities and grow at very high rates to be able to transfer the labor force underemployed in low-productivity sectors towards higher-productivity sectors (Cimoli and Porcile, 2011).

The rate of growth consistent with current account equilibrium tends to be significantly lower than the rate of

growth required to absorb the population that is either unemployed or employed in low-productivity sectors (Curado and Porcile, nd). Furthermore, the absence of decent job opportunities stemming from weak enforcement of labor legislation; insecure and low incomes; poor health, safety and environmental conditions; gender inequality in pay and opportunities; the exploitation of migrant workers; inadequate social protection; and weak social dialogue continued to be the challenges that an employee face mainly in developing countries.

THE IMPLICATION TO ETHIOPIA

Historically, Ethiopia had not adopted Structuralist economic development thought. Monarchical system was in place for long until the over throw of Emperor Haile Sillassie I from power by the military junta known as Derg in 1974. The military rule or Derg adopted the socialist approach to development until it was overthrown by EPRDF (Ethiopian People Revolutionary Democratic Front) in 1991. Then, the incumbent government claimed that it has established democratic developmental state. Despite the fact that Ethiopia had not followed structuralist economic development thought in history, it is good to contextualize the core argument of the paper to Ethiopia.

The Government of Ethiopia (GoE) gives due emphasis to employment creation as asserted in a Plan for Accelerated and Sustained Development to End Poverty (PASDEP) and Growth and Transformation Plan (GTP) and thus, different policies and strategies have been introduced and implemented by the government for employment generations (Martha, 2012). Regardless of it, unemployment continued to be high. Despite Ethiopia's high and sustained growth over the past nine years, unemployment remains high and tackling it is likely to remain challenging (IMF, 2013). Unemployment in Ethiopia is fundamentally the problem of urban area and it is found mainly among the Youth (EEA, 2007).

Unemployment (mainly as an urban phenomenon) and underemployment continue to be serious social problems in Ethiopia despite some improvements in recent years (Martha, 2012). The unemployment rate remained above 20% which is a serious concern in a subsistence economy like that of Ethiopia (EEA, 2007). Employment creation for a rapidly increasing labor force (4.4% per annum), has become increasingly challenging (Martha, 2012). Furthermore, the number of unemployed people is increasing. For instance, the 1999 National Labor Force Survey shows that the number of the unemployed population increased to 2.2 million in 1999, with unemployment rate of 8.0%, substantially higher than the rate registered in the 1980s and early 1990s (Mulat, 2006).

Population growth is the factor that put pressure on the employment in Ethiopia. For instance, the total population of the country was projected to reach 129.1 million by the year 2030 (Martha,2012). This increasing number of population requires more employment opportunities for which attracting foreign investment is crucial. In addition to this, Ethiopia's population depicts a classic pyramid with a higher proportion of young people at the bottom and narrow band of the elderly at the top. Besides the demographic factors, skills mismatch and Lack of job opportunities in labor-intensive sectors and limited access to finance are the factors for high level of unemployment in Ethiopia (IMF, 2013). Nebil et al (2010) has summarized the constraints to youth unemployment in Ethiopia as follows:

The main constraints to youth unemployment include low levels of education and training, skills mismatches, lack of experience, and inappropriate perceptions of practical work and entrepreneurship. On the other hand, the critical constraint on the demand side of labor market is low absorption capacity and slow investment implementation.

As it is shown above, various policies and strategies have been developed to encourage foreign investment and the subsequent job creation. The policies and strategies on the demand side of the labor markets include the special incentives and supports provided to private sectors and the public employment generation schemes (Martha,2012). Furthermore, Ethiopia is now seeking to do for labor-intensive manufacturing by establishing industry parks (Henok et al,2013).This can actually be attested from its current successive inauguration of those industrial parks particularly the Hawassa, Kombolchaand Mekele industrial parks.

Regardless of this, unemployment became the major problem of the country. Due to high unemployment rate, the youth is migrating out of the country especially to the Arab World in search of job where they face psychological and human rights problem. Therefore, under this circumstance, there is the need to attract more foreign investment as there is limited local capital to cover the investment needs of the country. Parallel to this, encouraging domestic investment using various means and protecting employees from over exploitation should be the main concern of the state.

CONCLUSION

Structuralism is the capitalist economic development thought that was originated in the developing countries with the support of United Nations. It has shown the unbalanced economic development between the core or

developed and the periphery or the developing. It recommended the establishment of import substitution industrialization in which the developing countries would produce the manufactured goods that otherwise imported from abroad. It began in Latin America and then spread to most of the rest of the developing countries. The challenge was the inability of the developing countries to innovate the manufacturing technology which in turn forced them to import from the developed world. The theory was not much favorable for the attraction of foreign investment. But in developing world where there is high unemployment rate, high population growth, limited capital and high urbanization rate, attracting foreign investment especially FDI has great value. But, it should be considered here is that FDI may oust domestic firms as they have better advantage in terms of technology and capital. In addition to this, it may over exploit the employee and may not also keep employees safety. Therefore, it is recommended to empower domestic industries to make them more competent with foreign firms. In addition to this, the government should work to protect the employees from over exploitation probably by letting the firm keep the health of the employee and by raising the minimum salary. In my view, this may make the host countries equally beneficial from foreign direct investment.

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