Leveraging Foreign Direct Investment to Enhance Decent Work Standards: A Comparative Analysis of Egypt and Mexico

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Abstract:

This study investigates the relationship between Foreign Direct Investment (FDI) and decent work in emerging economies, with a comparative focus on Egypt and Mexico from 2008 to 2024. Grounded in theories of modernization, dependency, and institutional economics, the research explores how FDI affects key dimensions of decent work such as employment creation, social protection, rights at work, and social dialogue as defined by the International Labour Organization (ILO). Using panel data econometrics and country-level indicators such as labor force participation, wage levels, gender equality, average working hours and mean years of schooling as a control variable, the study finds a significant positive relationship between FDI inflows and improvements in decent work conditions, particularly when supported by strong institutional frameworks and labor regulations. While Mexico shows progress due to recent labor reforms under the USMCA, Egypt’s gains remain limited by informality and weak enforcement. The findings highlight that FDI's contribution to decent work is not automatic but mediated by policy environments, sectoral dynamics, and institutional quality. The paper concludes with policy recommendations aimed at aligning FDI strategies with inclusive and sustainable labor outcomes.

Keywords:
Foreign Direct Investment (FDI), Decent Work, International Labour Organization (ILO), Labor Market, Emerging Economies, Sustainable Development Goals (SDG 8).

تعزيز معايير العمل اللائق من خلال الاستفادة من الاستثمار الأجنبي المباشر: دراسة تحليلية مقارنة بين مصر والمكسيك

الملخص:

تبحث هذه الدراسة في العلاقة بين الاستثمار الأجنبي المباشر والعمل اللائق في الاقتصادات الناشئة، مع تركيز مقارن على مصر والمكسيك خلال الفترة من ٢٠٠٨ إلى ٢٠٢٤. وانطلاقًا من نظريات التحديث والتبعية والاقتصاد المؤسسي، تستكشف الدراسة كيفية تأثير الاستثمار الأجنبي المباشر على الأبعاد الأساسية للعمل اللائق مثل خلق فرص العمل، والحماية الاجتماعية، وحقوق العمل، والحوار الاجتماعي كما حددتها منظمة العمل الدولية. ومن خلال استخدام نماذج الاقتصاد القياسي للبيانات اللوحية ومؤشرات على مستوى الدول مثل مشاركة القوة العاملة، ومستويات الأجور، والمساواة بين الجنسين، ومتوسط ساعات العمل، ومتوسط عدد سنوات الدراسة كمتغير رقابي، توصلت الدراسة إلى وجود علاقة إيجابية ذات دلالة إحصائية بين تدفقات الاستثمار الأجنبي المباشر وتحسين ظروف العمل اللائق، خاصة عند دعمها بأطر مؤسسية قوية وتشريعات

عمالية فعالة. وبينما أحرزت المكسيك تقدمًا نتيجة للإصلاحات العمالية الأخيرة في إطار اتفاقيةUSMCA ، تظل المكاسب في مصر محدودة بسبب انتشار القطاع غير الرسمي وضعف إنفاذ القوانين. وتشير النتائج إلى أن مساهمة الاستثمار الأجنبي المباشر في العمل اللائق ليست تلقائية، بل تتوسطها البيئة السياسية والديناميكيات القطاعية وجودة المؤسسات. وتختتم الورقة بتوصيات تهدف إلى مواءمة استراتيجيات الاستثمار الأجنبي المباشر مع نتائج عمل شاملة ومستدامة.

الكلمات المفتاحية:
الاستثمار الأجنبي المباشر(FDI) ، العمل اللائق، منظمة العمل الدولية(ILO) ، سوق العمل، الاقتصادات الناشئة، أهداف التنمية المستدامة الهدف الثامن.

1. Introduction:

1.1 Background:

FDI has long been positioned as a catalyst for economic development, particularly in emerging and developing economies. By bringing in capital, technology, and managerial expertise, FDI is often expected to contribute to employment generation and productivity gains. However, whether and how FDI contributes to the advancement of decent work standards as defined by the ILO remains a contested and underexplored issue, particularly in the context of countries with differing institutional capacities and labor market structures. (Borensztein, De Gregorio, & Lee ,1998) (Alfaro ,2003)

The concept of decent work, encompassing productive employment, rights at work, social protection, and social dialogue, has become a central pillar in international development frameworks, including the United Nations Sustainable Development Goals (SDG 8). (United Nations ,2015) & (ILO ,1999)

Nevertheless, the relationship between FDI and decent work is not automatic. FDI can promote decent employment in some contexts, while in others it may exacerbate labor exploitation, informalization, or wage suppression particularly in economies with weak labor protections or high levels of informality. (Mosley ,2011), (Rodrik ,1997) & (Gereffi & Mayer ,2004)

This study focuses on Egypt and Mexico, two middle-income countries with substantial FDI inflows but divergent political economies and labor market frameworks. Both countries have actively sought foreign investment as a development strategy, yet they have faced persistent challenges in achieving equitable labor outcomes. Egypt, with a high rate of informal employment and weak enforcement of labor laws, presents a case where institutional fragility may hinder the realization of decent work. Conversely, Mexico offers a more developed industrial base and has recently undertaken labor reforms under the United States-Mexico-Canada Agreement (USMCA), offering an opportunity to assess how trade-linked FDI can influence labor standards. (World Bank ,2020), (Bensusán ,2019) & (USMCA labor chapter ,2019)

FDI is broadly defined as an investment made by a resident entity in one economy with the objective of establishing a lasting interest and significant influence in a business enterprise located in another economy. According to the International Monetary Fund (IMF), a minimum of 10 percent ownership of voting stock is typically considered the threshold for a direct investment relationship (IMF, 2009). FDI is widely recognized as a potential catalyst for economic development, particularly in emerging economies, by contributing capital, technology, and managerial expertise, and by facilitating integration into global value chains. (Dunning & Lundan, 2008)

Despite its potential benefits, the developmental impact of FDI is not guaranteed and varies widely depending on a host country's regulatory environment, labor market institutions, and social policies. In this context, the quality of employment generated by FDI becomes a crucial consideration, particularly in relation to internationally recognized labor standards. The ILO introduced the concept of decent work as a framework for promoting employment that is productive and delivers a fair income, security in the workplace, social protection, and equal opportunities (ILO, 1999). The ILO defines decent work through four interrelated pillars: (1) employment creation and enterprise development, (2) rights at work, (3) social protection, and (4) social dialogue (ILO, 2008). These dimensions collectively aim to ensure that economic growth translates into equitable and sustainable labor market outcomes such as reduced unemployment, fair income distribution, safe working conditions, and equal opportunity in access to work.

The promotion of decent work has since become a global policy objective, particularly following its inclusion in the United Nations’ 2030 Agenda for Sustainable Development. Specifically, Sustainable Development Goal 8 calls for “sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all” (United Nations, 2015).

Against this backdrop, the relationship between FDI and decent work outcomes warrants close empirical scanning. While FDI may contribute to job creation and income growth, its effects on employment quality, labor income distribution, and gender equality in the workforce remain subject to significant variation across countries and sectors.

1.2 Problem Statement:

While FDI has long been considered a driver of economic growth and industrial development, its contribution to improving labor standards and promoting decent work remains unclear and uneven across countries. FDI can generate employment, introduce advanced technologies, and increase productivity; however, these potential benefits do not automatically translate into equitable labor outcomes or social inclusion. In some contexts, FDI has been associated with unstable working conditions, wage deactivation, limited labor rights, and gender disparities in labor force participation (OECD, 2019; ILO, 2020).

One of the central challenges facing policymakers today is how to ensure that FDI contributes not just to economic output, but also to the broader goals of social justice, inclusive growth, and decent work, as outlined by ILO and SDGs. The ILO's Decent Work Agenda emphasizes the need for quality employment, social protection, and equal opportunity, all of which require policy coordination, strong institutions, and labor regulations that can effectively control the behavior of multinational enterprises (ILO, 2008).

However, aligning FDI with decent work outcomes is complicated by several factors. These include the diversity of investor motivations, variation in sectoral impacts, weak enforcement of labor laws in some host countries, and the influence of global supply chain dynamics. Additionally, countries often compete for FDI by offering regulatory or tax incentives, which may inadvertently lead to a "race to the bottom" in labor standards (Gallagher & Zarsky, 2007).

This tension between attracting foreign investment and upholding labor rights is particularly pronounced in emerging economies, where institutional capacity may be limited and labor market vulnerabilities are more intense. Therefore, there is a critical need for empirical analysis that investigates the relationship between FDI inflows and labor market outcomes across different national contexts. This study addresses this gap by examining the extent to which FDI contributes to undermines decent work outcomes in Egypt and Mexico between 2008 and 2024.

1.3 Research Objectives:

The primary objective of this study is to assess the impact of FDI on key indicators of decent work in selected emerging economies Egypt and Mexico over the period 2008 to 2024. By conducting a comparative analysis across these two countries, the research aims to understand how FDI contributes to labor market outcomes in diverse policy and institutional contexts.

Specifically, the study seeks to:

1. **Evaluate the relationship between FDI inflows and the unemployment rate**, in order to determine whether foreign investment contributes to job creation in host countries.
2. **Analyze the impact of FDI on labor income share as a percentage of GDP**, as an indicator of the distribution of economic gains between capital and labor.
3. **Examine the effect of FDI on gender parity in labor force participation**, particularly the ratio of female-to-male labor force participation, to assess whether foreign investment supports or hinders gender equality in employment.

4. **Compare the FDI–decent work nexus across Egypt and Mexico**, identifying contextual factors such as policy frameworks, labor market institutions, and governance that influence the effectiveness of FDI in promoting decent work.

Through these objectives, the study aims to contribute to the growing body of literature on sustainable and inclusive development by providing empirical insights into how FDI can be better aligned with the ILO's Decent Work Agenda.

1.4 Significance of the Study:

This research addresses a key gap in literature by conducting a cross-country comparison of FDI's role in shaping labor standards through the lens of the ILO's decent work agenda. It contributes empirical insights to both academic and policy discussions on how investment led growth strategies can be aligned with inclusive and sustainable labor outcomes.

1.5 Gaps in Literature:

- Limited comparative studies assess the relationship between FDI and all four pillars of decent work.
- Most studies focus on either developed or low-income countries, with little attention to middle-income emerging economies like Egypt and Mexico.

- The role of sector-specific FDI and labor institutions in shaping outcomes remains underexplored.
- Few analyses integrate quantitative and qualitative data to understand the mechanisms through which FDI affects labor standards.

2. Literature Review:

2.1 Theoretical Framework:

Understanding the relationship between FDI and decent work requires engagement with several economic and labor theories that offer competing perspectives on the role of external capital in domestic development. This section outlines three key theoretical frameworks, dependency theory, modernization theory, and institutional economics to provide a conceptual foundation for the study.

Dependency Theory:

Originating from Latin American structuralist thought in the mid-20th century, dependency theory posits that underdevelopment in peripheral countries results from their structural dependence on more industrialized nations (Dos Santos, 1970; Cardoso & Faletto, 1979). From this perspective, FDI may establish asymmetrical economic relationships in which foreign capital extracts value from host countries without fostering sustainable local development. In the labor context, dependency theorists argue that multinational corporations may prioritize cost reduction and labor flexibility, often at the expense of job security, fair wages, and workers' rights (Evans, 1979). Thus, FDI may create jobs but not necessarily promote decent work, particularly in countries with weak regulatory systems.

Modernization Theory:

In contrast, modernization theory presents a more optimistic view of FDI, represent it as a vehicle for economic and social progress in developing countries. Rooted in classical and neoclassical economics, this theory suggests that integration into global markets and exposure to international firms can transfer technology, enhance productivity, and improve labor standards over time (Rostow, 1960; Barro & Sala-i-Martin, 2004). Supporters argue that FDI can serve as a catalyst for the diffusion of modern management practices and the development of a skilled workforce. From this standpoint, FDI is expected to contribute positively to decent work by creating employment opportunities, raising incomes, and encouraging formalization of labor markets.

Institutional Economics:

Institutional economics offers a more accurate approach by emphasizing the importance of formal and informal institutions in shaping economic outcomes (North, 1990). According to this perspective, the effect of FDI on labor standards and decent work depends largely on the quality of a country's institutions, including legal frameworks, labor laws, governance mechanisms, and collective bargaining systems. In countries with strong institutions, FDI is more likely to lead to sustainable employment and uphold workers' rights. Conversely, in weak institutional environments, FDI may exploit regulatory loopholes, sustain informal employment and poor labor conditions. (Rodrik, Subramanian, & Trebbi, 2004)

These theoretical perspectives offer valuable insights into the conditions under which FDI may either support or undermine the ILO's Decent Work Agenda. While modernization theory highlights the potential developmental benefits of FDI, dependency theory warns of its exploitative risks, and institutional economics underscores the mediating role of country-specific governance and policy environments. Together, these frameworks guide the empirical analysis and comparative approach adopted in this study.

2.2 Previous Studies:

The empirical literature on the relationship between Foreign Direct Investment (FDI) and labor market outcomes reveals mixed and often context-dependent results. While numerous studies suggest that FDI contribute positively to employment generation and productivity, others highlight its limited or even negative impact on labor standards, income distribution, and employment quality. This section reviews key global and country-specific research relevant to understanding the FDI–decent work nexus.

Previous studies are analyzed chronologically from the oldest to the most recent to trace the evolution of thought regarding the relationship between the two variables under study. This also helps highlight the significance of the current study and define the nature of the problem in the selected sample countries.

1. Beata Javorcik (2015)

This study investigates whether the jobs created because of FDI can be considered good jobs from the perspectives of both workers and host countries. It hypothesizes that, for workers, these jobs are likely to offer higher wages compared to those in domestic firms in developing countries, and that foreign employers tend to provide more training than local firms. From the state's perspective, jobs in foreign-owned enterprises established locally are considered beneficial because FDI inflows tend to increase the overall productivity of the host country. The study's cross-sectional evidence supports the notion that the jobs created by FDI are indeed good both from the worker's perspective and from the state's.

2. Collins C. Ngwakwe (2017)

This study is based on the core hypothesis that FDI has a negative impact on local employment. It investigates whether the growth of FDI in South Africa has had a positive or negative impact on employment levels. The study suggests that without a proper strategy, FDI may pose economic risks to the host country, possibly due to reduced local productivity, the nature of FDI, and how the host country regulates foreign investment. The findings revealed no evidence that FDI stimulate employment growth in South Africa. On the contrary, the study found that FDI had a negative impact on employment levels in the country.

3. Sotiris Blanas, Adnan Seric, and Christian Viegelahn (2019)

This study aims to test the hypothesis that the quality of jobs offered by foreign-owned firms differs from that of local firms, and to examine how these differences relate to country-level institutional factors. It uses common indicators of job quality, such as wage levels, and firm-level data on contract types, unpaid labor, female and foreign employment, and training expenditures by employee type, to assess their correlation with foreign ownership. It also examines how job quality is linked to various dimensions of foreign ownership such as the location of the parent company, the type of FDI, the main investment motive, and the key investment incentives received from the host country. Using a sample of foreign-owned and domestic firms across sectors in 19 Sub-Saharan African countries for the year 2009, the study finds that foreign-owned firms tend to create jobs with greater stability, security, better training opportunities, and higher wages compared to local firms.

4. Min Zar Ni Lin & Samu Ngwenya (2019)

This paper examines the impact of FDI inflows on working conditions in Myanmar, using a stakeholder survey to directly understand how FDI is perceived and whether it is seen as a driver for promoting decent work. The study finds that, overall, FDI has a positive impact on Myanmar, but it remains unclear whether it has indirect effects on the broader labor market. It highlights that multinational corporations tend to offer better working environments and invest more in workforce skill development.

5. Xuebing Cao (2020)

This study hypothesizes that attracting quality foreign investments in Sub-Saharan Africa can help create decent job opportunities and support decent work goals. The findings confirm this hypothesis, showing that increased FDI contributed to labor market diversification and improved opportunities for employment and income generation. However, the study also emphasizes that creating decent jobs is a long-term strategy that countries in the region must adopt. It stresses that inclusive and green economic growth is key to sustainable development and quality employment. This model of investment benefits both local and foreign capital and is essential for the long-term achievement of decent work goals.

6. Delevic & Kennell (2022)

This study assumes that foreign-owned firms, on average, pay higher wages than local firms. This may be due to a different composition of the workforce or to a wage premium at the worker level. Using employer-employee matched data from Serbia, the study finds that job changes are positively correlated with wage increases, with the largest wage gains occurring when workers move from local to foreign firms (as opposed to the reverse). The evidence also shows that more educated workers benefit more from transitioning out of domestic firms.

2.3 Country-Specific Literature: Egypt and Mexico

In Egypt, literature points to weak enforcement of labor laws, a dominant informal economy, and limited union power (Abdelrahman, 2015; World Bank, 2020). Although FDI has increased in sectors such as energy and construction, evidence suggests that employment gains are not matched by improvements in labor protections or job quality.

In Mexico, FDI particularly in the manufacturing sector has played a significant role in employment growth. However, studies have noted mixed outcomes, while FDI has created formal jobs, it has also contributed to labor segmentation and wage stagnation in maquiladora zones (Salas, 2007; Bensusán, 2019). The recent labor reforms under the USMCA, which emphasize union democratization and dispute resolution, offer a new framework to assess potential improvements in decent work outcomes.

3. Conceptual Framework:

The ILO defines decent work as work that is productive and delivers fair income, security in the workplace, social protection, freedom of association, and equal opportunity (ILO, 1999). The four pillars employment creation, social protection, rights at work, and social dialogue form a comprehensive framework to assess the quality of labor conditions beyond employment rates alone. However, most empirical studies tend to focus narrowly on job creation or wages, often neglecting other dimensions such as labor rights, gender equality, or union representation. These dimensions serve as the analytical lens through which the relationship between FDI and labor outcomes in Egypt and Mexico will be evaluated.

The theoretical underpinning of this analysis draws on the ILO's Decent Work Agenda and the endogenous growth theory, which suggests that FDI can transfer technology, management practices, and capital, potentially enhancing job quality and labor conditions.

3.1 Mechanisms linking FDI and Decent Work:

The relationship between FDI and labor market outcomes has been widely debated in the development and political economy literature. Supporters argue that FDI brings job opportunities, wage growth, and skill development, particularly in capital-scarce economies (Borensztein et al., 1998; Alfaro, 2003). Critics, however, emphasize that FDI can lead to unstable employment conditions, especially in countries lacking strong labor institutions (Gereffi & Mayer, 2004; Rodrik, 1997). Empirical findings remain mixed, with outcomes highly dependent on host-country conditions and sectoral characteristics.

Institutional theory suggests that the impact of FDI on labor standards is mediated by national governance structures, labor market regulations, and enforcement mechanisms (Hall & Soskice, 2001; Amable, 2003). In countries with robust institutions and active civil society organizations, FDI is more likely to be associated with positive labor outcomes. In contrast, in countries with regulatory gaps or authoritarian governance, FDI may exploit low-cost labor without improving working conditions (Mosley, 2011; Posthuma & Bignami, 2014).

Several pathways are proposed through which FDI may influence decent work:

- **Job Creation**: FDI may generate employment, especially in labor-intensive sectors, though the quality and stability of these jobs vary.
- **Wage Effects**: Multinational enterprises (MNEs) often offer higher wages than domestic firms (Alfaro, 2003), though this benefit may be limited to skilled labor.
- **Skills and Training**: Foreign firms may transfer technology and invest in workforce development.
- **Labor Rights and Standards**: FDI can either promote improved labor standards through global supply chain norms or erode them in the absence of enforcement (Gereffi & Mayer, 2004).
- **Informalization Risks**: In weak regulatory environments, FDI may reinforce informal employment practices or avoid compliance with labor protections (Mosley, 2011).

3.2 Role of Institutional Context:

The institutional capacity of the host country plays a critical role. In Egypt, limited labor law enforcement and weak union representation may blunt FDI's potential to improve labor conditions (Abdelrahman, 2015). In contrast, Mexico has undergone labor reforms under the USMCA, promoting collective bargaining rights and labor dispute mechanisms. (Bensusán, 2019)

3.3 Global Evidence:

On a global scale, FDI has been associated with employment creation and wage growth, particularly in developing and emerging economies. A meta-analysis by Görg and Strobl (2005) indicates that foreign firms tend to pay higher wages than domestic firms, although this wage premium often depends on firm-level productivity and sectoral characteristics. Similarly, the OECD (2019) reports that FDI can enhance labor market performance through skills upgrading and formalization, particularly in capital- and technology-intensive sectors.

However, concerns persist regarding the quality and sustainability of jobs created through FDI. ILO (2020) notes that while FDI may reduce unemployment, it does not necessarily improve working conditions or labor rights, especially in economies where labor regulations are weak or poorly enforced. Moreover, the distribution of FDI benefits often skews toward urban, male-dominated sectors, raising questions about gender equity and inclusiveness.

Egypt

In the case of Egypt, research shows that FDI has had a limited and uneven effect on labor market indicators. According to Ghoneim and Moursi (2018), although FDI inflows have contributed to GDP growth, their impact on job creation and wage growth has been modest due to structural labor market rigidities and high levels of informality. Furthermore, El-Haddad (2016) highlights the concentration of FDI in capital-intensive industries with limited capacity for broad-based employment generation. The lack of robust labor market institutions further constrains the potential for FDI to promote decent work.

Mexico

Mexico's experience with FDI, particularly in the context of the North American Free Trade Agreement (NAFTA), demonstrates both the potential and the limitations of relying on foreign capital for labor market development. While FDI inflows have stimulated manufacturing exports and generated employment in export-processing zones (maquiladoras), studies such as those by Gallagher and Zarsky (2007) indicate that many of these jobs are low-wage, precarious, and concentrated in sectors with limited skill development. Moreover, labor income as a share of GDP has declined over time, suggesting that economic gains from FDI have not been equitably distributed (Esquivel, 2011).

3.4 Comparative Insights:

These country-specific studies underscore the importance of national contexts in shaping the labor market effects of FDI. While Egypt and Mexico have faced structural constraints that limit the developmental and inclusive potential of foreign investment. Across all cases, institutional quality, labor regulation, and sectoral composition emerge as critical factors mediating the relationship between FDI and decent work outcomes.

Egypt

1. FDI Trends

Over the past two decades, Egypt has consistently attracted foreign investment, particularly in sectors such as oil and gas, construction, telecommunications, and finance. According to UNCTAD (2023), FDI inflows peaked in the mid-2000s, declined during the 2011 revolution, and recovered gradually in the late 2010s, averaging around $6–9 billion annually.

2. Employment and Labor Quality

While FDI has generated jobs, particularly in the energy and real estate sectors, most employment remains concentrated in low-skill, labor-intensive work, with limited upward mobility. According to ILOSTAT (2023), over 60% of total employment remains informal, especially in agriculture, construction, and services. The sectors receiving the most FDI do not consistently produce high-quality or secure jobs.

3. Social Protection and Labor Rights

The social protection system in Egypt is limited in its coverage. As of 2021, only around 40% of workers were covered by any form of social insurance, and enforcement of labor protections remains weak (World Bank, 2020). Labor inspection capacity is limited, and union activity is constrained by political and legal barriers. (Abdelrahman, 2015)

4. Social Dialogue

Trade unions in Egypt are fragmented and state influenced. The 2017 Trade Union Law restricted independent union formation, and collective bargaining remains limited in scope and practice. Multinational enterprises (MNEs) operating in Egypt rarely engage in structured dialogue with labor organizations.

Mexico

1. FDI Trends

Mexico has maintained strong FDI inflows, especially in manufacturing, automotive, electronics, and financial services. FDI is highly concentrated in export-oriented industries and geographically clustered in industrial zones, particularly in the north. Annual FDI has ranged from $25–35 billion in the last decade (UNCTAD, 2023).

2. Employment and Labor Quality

FDI in Mexico has generated significant formal employment in manufacturing. However, the quality of jobs varies widely. While firms in export-processing zones offer formal contracts, they often involve low wages, long hours, and limited job security, especially in maquiladoras (Salas, 2007). Recent labor reforms under the USMCA (2019) have started addressing collective bargaining and worker representation, with early signs of improvement in union elections and contract transparency. (Bensusán, 2019)

3. Social Protection and Labor Rights

Mexico has a relatively stronger social protection framework than Egypt, with mandatory social security enrollment for formal workers. However, informal employment still accounts for over 50% of total employment, limiting overall coverage (World Bank, 2022). Enforcement mechanisms have improved, but implementation varies by state and sector.

4. Social Dialogue

Labor reforms under the USMCA have strengthened collective bargaining rights and established new mechanisms for union representation. Several high-profile union votes in 2022–2023 marked the first genuine competitive elections in previously closed-shop sectors. These developments suggest a growing capacity for meaningful social dialogue in FDI-intensive sectors.

Dimension	**Egypt**	**Mexico**
FDI sectors	Energy, real estate, telecoms	Manufacturing (especially automotive), finance
Job creation	Limited formal job creation; mostly informal	Formal job creation in export zones, but mixed quality
Labor rights	Weak enforcement; constrained union activity	Improved via USMCA labor reforms
Social protection	Low coverage, especially in informal sector	Broader coverage in formal sector
Social dialogue	Minimal, often state-influenced	Growing under recent reforms

Conducted by Author

In conclusion, institutional capacity plays a critical role. Mexico's labor reforms and integration into trade agreements with labor provisions have positively shaped FDI–labor outcomes. In Egypt, the absence of strong institutions, enforcement, and labor autonomy has limited FDI’s potential to enhance decent work.

Sectoral targeting matters, manufacturing FDI (as in Mexico) is more employment-intensive than capital-heavy sectors like energy (as in Egypt). Despite improvements in Mexico, informality and wage stagnation remain persistent challenges in both contexts. This study adopts a comparative case study methodology, focusing on Egypt and Mexico. These countries are selected due to their:

- Substantial and sustained FDI inflows.
- Similar status as middle-income economies.
- Diverging labor policy frameworks and institutional capacities.

The comparative design allows for exploration of how similar economic goals yield different labor outcomes depending on governance and sectoral dynamics.

4. Methodology:

This study adopts a quantitative panel data approach to examine the relationship between FDI and selected indicators of decent work across two emerging economies Egypt and Mexico over the period 2008 to 2024.

4.1 Research Design:

The study is based on comparative analysis, employing panel data econometrics to explore both cross-country and over-time variations. The use of panel data allows for controlling unobserved heterogeneity, improving efficiency and robustness of the estimates.

4.2 Data Sources:

Data is obtained from reliable international databases:

- **World Bank:** (labor force participation, exports, wage statistics)
- **ILO:** (unemployment, labor income share, working hours, gender indicators)
- **United Nations Conference on Trade and Development (UNCTAD)** (FDI as % of GDP)

4.3 Variables:

Independent Variable:

- **Foreign Direct Investment (FDI):** Measured as the percentage of FDI inflows relative to GDP.

Dependent Variables (Decent Work Indicators):

- **Unemployment Rate (%):** The share of the labor force that is without work but available for and seeking employment. (ILO, n.d.)
- **Labor Income Share as % of GDP:** refers to the proportion of a country's gross domestic product (GDP) that is paid to workers in the form of wages, salaries, and other labor compensation.
- **Female-to-Male Labor Force Participation Ratio:** The ratio of the female labor force participation rate to the male

rate, calculated by dividing the female participation rate by the male rate and multiplying by 100. (World Bank, n.d.)

- **Gender Wage Gap (%):** The gender wage gap is the percentage difference between the average earnings of men and women. It is typically calculated by subtracting the average female wage from the average male wage, dividing the result by the average male wage, and multiplying by 100. A positive value indicates that, on average, women earn less than men.
- **Average Hourly Earnings of Employees:** The average hourly earnings represent the total compensation received by employees per hour worked, including wages, salaries, and any regular bonuses or allowances. It reflects the typical amount paid to workers for each hour of labor and is commonly used as an indicator of labor market conditions and wage trends. It is calculated by dividing total earnings by the total number of hours worked by employees within a specific period.
- **Mean Weekly Hours Actually Worked per Employee:** refers to the average number of hours an employee works in a week, including regular working time and any overtime. It excludes paid leave (such as holidays and sick leave) and focuses only on the actual time spent working. This metric

helps assess labor market intensity, productivity, and work-life balance across different sectors or countries.

- **Mean Years of Schooling (years)(included as a control variable):** refers to the average number of completed years of education received by people aged 25 and older in a country or population group. It reflects the overall educational attainment of the adult population and is commonly used as an indicator of human capital development.

4.4 Econometric Model:

In this section, the impact of FDI on EGEE (employment, gender, equality and earning) is considered the dimensions of decent work. However, before estimating the regression model, it is necessary to conduct the required tests to ensure the stability of the data, its suitability for analysis, and the selection of the appropriate model.

First: Unit Root Test (Data Stationarity Test)

To assess the stationarity of the panel data, the Levin, Lin & Chu (LLC) Test can be used, which is suitable for balanced panel data.

Table 1: Unit Root Test

Variable	t-Statistic	Prob.	result
FDI	-4.39666	0.0000	I(0)
EGEE (employment, gender, equality and earning	-2.36472	0.0090	I(0)
Mean years of schooling	-7.7797	0.0000	I(1)
Conducted by Author by using Eviews			

The stationarity of the variables is crucial for accurate estimation and inference in panel data models. Variable EGEE shows stationarity at the 5% significance level; however, at the first difference, mean years of schooling showed stationarity at a 1% significant level.

A panel data approach is employed, allowing for the analysis of cross-sectional and time-series variations. Results are reflected in Table 2.

A **fixed effects** regression model will be used. The general model specification is as follows:

$$\mathrm{EGEE}_t = \mathrm{C} + \beta_1 \mathrm{FDI}_{t-1} + \beta_2 \mathrm{Meanscho}_t + \mathrm{Fx}\ \varepsilon_t$$

Table 2: Regression using fixed effect model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.346455	1.614073	2.073298	0.0468
FDI_P(-1)	0.251260	0.106553	2.358069	0.0251
MEAN_SCHO	0.464410	0.168319	2.759112	0.0098
R-squared	**0.433001**	**Adjusted R-squared**		**0.376301**
F-statistic	**7.636706**	**Prob(F-statistic)**		**0.000616**
		Durbin-Watson Stat		**2.079356**

Conducted by Author by using Eviews.

$$\mathrm{EGEE_t} = 3.346455 + 0.251260\mathrm{FDI_{t-1}} + 0.464410\mathrm{Meanscho_t} + \mathrm{Fx} + \varepsilon_t$$

Based on the results shown in the previous table, there is a significant positive relationship between FDI and the level of decent work. The results show that a 1% increase in FDI results in a 0.25% increase in EGEE (decent work indicators), which reflects the dependent variable.

Additionally, there is a significant positive relationship between the mean years of schooling (control variable) and decent work. The results show that a 1% increase in mean years of schooling results in a 0.46% increase in EGEE (decent work indicators), which reflects the dependent variable.

These results are consistent with Xuebing Cao (2020). This study was based on the hypothesis that attracting high-quality foreign investments in Sub-Saharan Africa can help create decent job opportunities and achieve decent work goals.The study confirmed the validity of this hypothesis. It found that increased foreign investment has contributed to the diversification of the labor market and provided better opportunities for job creation and income generation.

However, it emphasized that the creation of decent jobs is a long-term strategy that countries in the region must adopt. The key to achieving sustainable development and promoting quality employment lies in inclusive and green economic growth, a new investment model that benefits both local and foreign capital, ultimately leading to the realization of decent work goals in the long run. (Cao, 2020)

The R-squared value of 37% of the variation in the dependent variable (decent work indicator) is explained by the independent variables FDI and any controls. R-squared values between 0.3 and 0.5 are considered moderate, especially when modeling complex phenomena like labor markets, which are influenced by many factors. The Durbin-Watson statistics of 2.07 indicates the absence of significant autocorrelation in the model.

While the adjusted R-squared value of 0.37 indicates that approximately 37% of the variation in decent work outcomes is explained by the model, the remaining 63% suggests that other influential factors are at play. These may include institutional quality, labor market regulations, political stability, sectoral composition of the economy, or social policies all of which can significantly affect employment conditions and the realization of decent work. This highlights the complexity of labor markets and suggests that FDI, while important, is only one part of a broader set of determinants that influence decent work. Future research could benefit from incorporating additional structural, institutional, and qualitative variables to provide a more comprehensive understanding of the drivers of decent work.

5. Conclusions and Recommendation:

Based on the findings of the study, a set of recommendations can be proposed to enhance the benefits of FDI in promoting decent work in both Egypt and Mexico, as follows:

Direct FDI toward sustainable investments across various sectors that consider the economic, social, environmental, and human dimensions of sustainability thereby enhancing decent work at the individual, institutional, and national levels.

Invest sufficiently in training and development activities that help build and improve human skills, capabilities, and experience, playing a vital role in enabling access to decent work opportunities.

Ensure that FDI complies with governance principles in the workplace to promote greater transparency, integrity, fairness, and efficiency contributing to a stable and motivating work environment that supports decent work effectively.

Accelerate digital transformation across different business operations and sectors to increase efficiency, speed, flexibility, and cost-effectiveness, while reducing workload and stress thereby fostering more decent work conditions.

Provide a sound contractual environment that guarantees the protection of rights, freedoms, and empowerment of workers in FDI enterprises ensuring higher levels of decent work.

Establish a sustainable and effective system of compensation and incentives, both financial and non-financial, along with ensuring stability in the work environment to improve job satisfaction among employees working in FDI-related enterprises.

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