Straight Talk (12), December 2011:

Dealing with Foreign Direct Investments (FDI): Some lessons to be learned

Prepared by Herbert Jauch for The Villager newspaper, 5-11 December 2011

Last week, Namibia hosted an international investors conference in Windhoek. Government and local economists still believe that the attraction of foreign investment will be crucial to achieve industrialisation and to create jobs. Like its neighbours, Namibia seems to regard FDI as a key component to achieve development and to solve the burning problem of unemployment. Accordingly, SADC countries have liberalised their policy framework (either "voluntarily" or as conditions for further IMF and World Bank loans) in the hope of attracting more foreign investment. They negotiated a host of bilateral, regional and multilateral investment agreements, hoping that they would pave the way for increased manufacturing activities, which in turn would lead to job creation and poverty reduction. The often uncritical "open door" policies to FDI ignore historic lessons that FDI in Africa has often "crowded-out" domestic investments and thus did not contribute to economic growth and national capital formation. Also, the impact of FDI does not only depend on the volume of investments but also on the nature and quality of FDI. Investments in the highly capital-intensive mining sector (which continues to attract most of Namibia's FDI), for example, do not have the same effects as those in manufacturing industries, which have a greater potential for backward and forward linkages.

The latest UNCTAD World Investment Report indicated that global FDI targeted particular regions, for example South And east Asia which recorded a 24% investment growth in 2010. On the other hand, FDI flows to Africa declined further and fell by 9% last year. Foreign capital in the SADC region mostly aims to exploit a local or regional market or the region's natural resources, such as oil, gold, uranium and diamonds. Transnational Corporations (TNCs), mostly from the US and Europe but now also China, investing in Angola's oil, for example, have shown little regard for a "conducive investment climate" that business claims to be so critical for investment decisions. The Angolan case shows that it is insufficient to base an analysis of FDI trends solely on what business determines as attractive for FDI. Also, FDI figures, for example in South Africa and Namibia, hide the fact that these countries are also signifcant exporters of capital. This happens because large amounts of capital (accumulated in the form of personal savings through banks and insurance companies) are invested overseas.

African governments continue to place emphasis on attracting FDI - often at great costs to the host country. The main reasons for this focus on FDI are a low domestic capital base, the hope that FDI will automatically lead to a transfer of technology, management skills and employment creation, as well as the assumption that FDI will lead to an increase in export competitiveness. In most cases, however, these expectations were not fulfilled. Technology transfer, for example, only happens if there are “spill-overs” into the local production processes and if new technologies are adopted and adapted by local enterprises. So far, there is little evidence that FDI had this diffusion-effect in Southern Africa. Also, in some countries like Namibia, FDI focuses on the mining sector which is highly capital intensive and thus creates only a small number of jobs.

African experiences over the past decades suggest that instead of offering increasing concessions to foreign investors, African states need to be selective and abolish their “open door policy” towards FDI, as exemplified in the region’s export processing zones. African countries need to determine their own policy and set the context for FDI. Social policies and the public sector cannot be handed over to international institutions or the private sector. African countries have to resist additional “conditionalities” that come with FDI and instead set their own conditions in the form of “performance requirements” such as job creation, skills transfer etc. Furthermore, as several African countries are significant exporters of capital, they need to devise strategies to retain savings as the basis for domestic capital accumulation.

These seem to be some of the lessons to be drawn and in the Namibian case it will be crucial to direct investments (local and foreign) into value-addition of local resources such as agricultural products (for example a leather industry), fish processing, minerals processing and possibly forestry and furniture production. When dealing with foreign investment, the upward harmonisation to the best practice level should be the target and FDI should be directed towards those sectors where it may be useful without undermining local industries. Blindly accepting any FDI as good for the country would certainly ignore the lessons of history.

Herbert Jauch is a labour researcher and educator, based in Windhoek.