Foreign Investment: No Panacea for Southern Africa's Development Problems

Prepared by Herbert Jauch,
Labour Resource and Research Institute (LaRRI)
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In February this year, a group of researchers, NGO activists, and trade unionists from Zambia, Zimbabwe, South Africa, India, The Netherlands and Namibia met in Windhoek to discuss the effects of foreign direct investment (FDI) on development in Southern Africa. The seminar was co-organised by Namibia's Labour Resource and Research Institute (LaRRI) and the Dutch Research Foundation on Multinational Enterprises, SOMO. The Dutch organisation participated in the event because a multilateral investment agreement might be negotiated in the World Trade Organisation (WTO) as pushed for by the European Union. SOMO belongs to a coalition of NGOs that works with partner organisations in the South on WTO related issues. Investment rules have already been debated and heavily criticised by civil society organisations when the Multilateral Agreement on Investment (MAI) was negotiated at the OECD. This agreement signalled a shift away from promoting investment for the purpose of development towards protection of investment and foreign investors' interests. Although the MAI could not be passed because of widespread public protest, a similar framework might be created through the WTO, which is dominated by the interests of industrialised countries and their transnational corporations (TNCs).

The seminar looked at the different ways in which investment agreements are being discussed and decided on. This included a macro-economic analysis of developments in Southern Africa; an analysis of investment policies in the global context as well as the technical aspects of investment agreement and the manoeuvring space for changes from a development perspective. The seminar critically looked at the advantages and disadvantages of foreign investment and its impact on people and the environment. The seminar thus provided the opportunity for open discussion, an exchange of experiences and the establishment and deepening of networks in Southern Africa.

Global Trends

Ludger Odenthal, an economic analyst with UNCTAD, presented an overview of FDI flows globally and in the Southern African region. He pointed out that most countries want to attract more FDI and have liberalised their policy framework in the hope of attracting more foreign investment. They negotiate bilateral, regional and multilateral investment agreements and the UNCTAD World Development Report provides an indication of FDI trends although information on FDI flows is difficult to collect.

According to UNCTAD's definition, foreign direct investment (FDI) does not include portfolio investment (buying shares which can be resold immediately) or other capital flows. It only includes ownership of companies abroad with a minimum capital share (10%) as well as influence on the management of the company. The current global trends regarding FDI are as follows:

- Most FDI goes to 10 industrialised countries
- FDI to developing countries has been increasing over the last 20 years to about 20% of total FDI.
- FDI to developing countries is unevenly spread, with Africa receiving 5% in the 1990s (down from 25 % in the 1970s); FDI to Africa amounted to about $ 9 billion in 1999 – the same as received by Singapore alone.
- Most FDI to Africa comes from France and other Western Countries with an increase of FDI from South Africa and Asia.
- Angola has attracted most FDI in Africa, particularly in offshore exploration of gas and petroleum. Zimbabwe has attracted the least FDI in 1999.
- After Angola, South Africa is attracting most FDI in the Southern African region, mostly from the US and the UK. South Africa is seen as the most attractive country for FDI by business.
- Between 1996 and 1999, metal and mineral products attracted most FDI in the SADC region.

From a business perspective, tourism and telecommunication have the biggest potential for FDI in Southern Africa in the coming years. Business has indicated different determinants for decisions to invest abroad. These include:

- the policy framework for FDI such as political and social stability, rules governing foreign companies, and international FDI agreements;
- economic determinants which are relevant for FDI that seeks new markets, such as the size of a market and per capita income;
- economic determinants for FDI that seeks natural resources;
- economic determinants which are relevant for FDI that seeks efficiency, such as cheaper costs for infrastructure or intermediate products;
- business facilitation provisions such as investment incentives are only considered to be important determinants in case of a choice between two equally attractive locations.

FDI in Africa

Africa is attracting little efficiency-seeking foreign investors, but rather FDI that aims to develop a local or regional market or to exploit natural resources. According to business, extortion and bribery and the lack of access to global markets is a deterrent to FDI.

An important issue is the increase of mergers and acquisitions (M&A) as part of FDI over the last years. M&A have a serious impact on competition and markets all over the world. In Sub Saharan Africa, almost all FDI in the form of M&A takes place in South Africa.

Overall, most FDI in Southern Africa goes to Angola although the country is negatively perceived by investors. This indicates that the companies investing in offshore petroleum (which accounts for the bulk of Angola's FDI) have no interest in the 'investment climate' that businesses claim to be critical for investment decisions.

UNCTAD's analysis of the role that FDI plays in the development process was criticised by participants from different perspectives. They pointed out that:

- The UN is increasingly in the hands of the richest countries (G8) and for UNCTAD to survive it had to take on the neo-liberal model of thought and analysis. This is reflected in the UNCTAD publications, which are largely funded by the industrialised countries.
- Ideologically, UNCTAD's position that 'FDI is neither good or bad' and that the positive effects need to be maximised and the negative effects minimised, is problematic. First, a much deeper analysis of global politics and FDI's impact e.g. on policy sovereignty, is needed.
- It is insufficient to base an analysis of FDI trends only on what business determines as attractive for FDI and Angola is a case in point.
- The figures and definitions used by UNCTAD are flawed, e.g. about nationality of FDI: is a company that is based in a country belonging to that country? For instance, Anglo American in South Africa belongs to US, UK and other global capital owners.
- The figures about South Africa (which is supposed to be one of the biggest recipients of FDI in Africa) do not indicate that South Africa is also a massive net exporter of capital, e.g. the savings of workers are invested overseas. The same applies to Namibia, which continues to be a net exporter of capital.
- It is not correct to say that the impact of FDI is largely determined by the policy environment set by a government, because many developing countries' policies are effectively set by international agencies (like IMF and World Bank) and the industrialised countries who prescribe structural adjustment programmes.
- The Bank of Namibia supplies data to UNCTAD but the data used by UNCTAD are often quite different. Namibia, for example is a net exporter of capital which is not shown in the UNCTAD statistics. Do FDI figures take into account the amounts of capital flows out of the country, e.g. repatriation of profits, transfer pricing?
- UNCTAD's World Investment Report shows that for 75% of FDI's profits in Africa are being expatriated.

The participants further pointed out that the relationship between investment and aid needs to be discussed and defined. They cited examples which show that FDI is not always a purely private operation. For instance, World Bank money is used for privatisation and to settle debts of public companies before they are sold to foreign companies. Some governments of industrialised countries provide guarantees (out of development budgets) for FDI that goes to developing countries. In Zambia, the companies that bought the privatised mines borrowed from the local banks and received loan guarantees from the local government. In Mozambique, aid did not go to local NGOs or companies but to foreign companies to rebuild infrastructure; in other countries, aid monies go to foreign consultants.

Critical Issues

Kato Lambrechts, a former researcher at the Institute for Global Dialogue in South Africa pointed out that most governments in the region have internalised the neo-liberal approach and have changed their attitudes towards attracting FDI over the last 10 years. Only lately did SADC declare that civil society could be involved in developing the actual investment framework, namely its finance and investment protocol. However, only investment promotion agencies were able to contribute to this process thus far.

Sub-Saharan African governments are very eager to attract FDI. They changed their role from being generators of employment to becoming governors of states that promote competition and search for foreign capital to fill the resource gap. This change is due to structural adjustment programmes and internalisation of the neo-liberal assumptions promoted by the World Bank and the IMF. Also, the growth of TNCs and the concentration of capital have contributed to this process.

The five main reasons for governments to attract FDI in Southern Africa are:
1) FDI is seen as an important source for capital formation when the capital base is low. However, this assumption does not take into account what the real spill-overs are, e.g. what is the significance of this capital formation for local economic development?
2) Transfer of technology is expected because foreign companies will use technology from their home country. However, from a developmental perspective it is more important that technology is being diffused with spill-overs into the local production processes, and that technology is adopted and adapted by local enterprises. So far, no studies have shown that FDI had this diffusion-effect in Southern Africa. Rather, foreign investment tends to result in competition that stifles local technology development and diverts resources from investing in technology development to attracting FDI.
3) Employment creation is expected although international experience shows that foreign direct investment is hardly accompanied by substantial employment creation and may even lead to job losses in privatised companies as has happened during the privatisation of smelters in the Mozal project in Mozambique.
4) Transfer of management skills is envisaged. This actually takes place when investors set up new plants (‘greenfield investment’), acquire companies or outsource to local subcontractors and want to transfer know-how to local managers.
5) Increased export competitiveness is expected and this was an important argument for South Africa's Growth, Employment and Redistribution (GEAR) strategy that wants to attract investment (either ‘greenfield’ or M&A) in clusters of industries to develop local companies. However, the government uses incentives to attract the desired FDI even if these incentives have little effect on the investors' decisions but rather result in giving away government revenues such as taxes. A case in point is the Mozal investment project.

Since the mid 80s, all SADC governments have relaxed regulations for foreign investors. This included:
- introduction of easier authorisation of entry for FDI;

- lifting of requirements for foreign investors to establish links with local industry (performance requirements). This was reinforced through an external agreements like the Trade Related Investment Measures (TRIMs) agreement of the World Trade Organisation (WTO);
- relaxation of the ability to borrow locally (although this implies a constraint on a country's foreign currency reserves);
- relaxation of land and mining concession ownership;
- establishment of new kinds of partnerships with the private sector in areas where the government had responsibility, e.g. public private partnerships in water distribution.

How good or bad is foreign investment for development?

Yash Tandon, the director of the Southern and East African Trade Information and Negotiations Initiative (SEATINI) pointed out that FDI is only one aspect of international capital movements. He presented some examples that explained the motivation behind international capital movements. The currency crisis in Thailand in 1997, for example, showed that there was a great pressure in the 1980s and 90s from short-term foreign capital to enter the country. A major pressure came from private pension funds that had changed their strategy from making long-term investments to putting their money into short-term, high-risk investments to provide cash and maximum profits for an ageing population. At the same time, Thailand needed capital that was mostly channelled through banks to local property investments. This system gave the opportunity for international finance speculators to use mechanisms that increased the pressure to devaluate the currency and make huge profits while the economy collapsed. The savings of workers were (and still are) being moved internationally in search of short-term maximum profit.

Tandon further pointed out that the idea of 'free trade' and a 'free market' is a myth. Only 15% of global commodities are exchanged in the 'free market' while the rest consists of intra-firm trade. The bargaining and negotiations in the WTO (which are more like a war) show clearly that especially industrialised countries protect the weak parts of their economy (such as agriculture and textiles) and push for liberalisation in those sectors where their industries are strong.

The IMF/World Bank’s development theory promotes the integration of developing countries into the world economy which is dominated by industrialised countries and ‘their' TNCs. Such theory is not constructed to benefit developing countries but is rather a rationalisation for the richer nations and international capital to take over smaller economies. On the ground, this leads to a battle between classes and groups for resources, for markets and profits. The current IMF/World Bank theory is therefore just an additional tool to fight these battles, according to Tandon.

Any choices for African governments?

Lambrechts pointed out that African governments who want to be pro-active and to determine the nature and quality of investments, are facing the following concerns and policy challenges:

1) In the ongoing WTO negotiations on services (GATS), developing countries are under pressure from the North to open up all their services sectors, including public services (e.g. health) and telecommunication. This requires a clear policy on prioritising public services.
2) Many M&A lead to retrenchments, closing down of industries, reduction of competition (amongst others by local newcomers), and foreign ownership of strategic sectors such as banking.
3) Within SADC, senior treasury officials will agree upon a framework of principles for investment within the next few months although this is hardly known by the public. The agreement will incorporate existing assumptions about the effects of FDI without questioning them. This regional agreement aims at increasing FDI in the region by harmonising rules on FDI, removing obstacles to FDI and decreasing competition among investment incentives in the region. It leaves little room for flexibility and national policy measures for instance to deal with the negative consequences of South African investment in the region. Civil society organisations will need to address these issues and develop proposals how these problems can be resolved.

Tandon added that governments tend to fall into the IMF/World Bank/WTO trap either because of ignorance or because of their own class interests and corruption. Governments will only change their position if there is sufficient pressure from below, i.e. when working people, small and medium enterprises, small farmers etc. organise and make their voices heard. Without such pressure, the current trends will not change. Instead of offering increasing concessions to foreign investors, African states need to be selective and abolish their 'open door policy' towards FDI. African countries need to determine their own national policy and set the context for FDI. Social policy and the public sector cannot be handed over to international institutions or the private sector. African countries have to resist all additional 'conditionalities' that come with FDI and instead set own conditions in the form of 'performance requirements' such as job creation, skills transfer etc.

As many Africa countries (including Namibia) have become net exporters of capital, African countries need devise strategies to retain savings as the basis for domestic capital accumulation. Research is needed into capital flows and the issue of technology transfer and diffusion. Other areas that need to be addressed in order to maintain Africa's own financial resources are:

- transfer pricing (change in prices charged by companies when moving their products between their units in different countries in order to avoid high taxes);
- payments for consultants;
- fees for copy rights and patents;
- losses due to privatisation;
- losses due to structural adjustment programmes;
- losses through increased costs of interest payments (risk premiums);
- losses through continuing debt payments, especially for debts that were created by the apartheid regime.

The way forward

The current approach to FDI by governments is unbalanced and the challenge for civil society organisations is to make alternative policy proposals, especially in the light of the upcoming SADC finance and investment protocol. This protocol should provide more space for national policies and avoid that foreign companies are ‘crowding out’ local industries. Alliances of civil society organisations have helped to stop the negotiations of the Multilateral Agreement on Investments (MAI) a few year ago and this has shown that well co-ordinated public campaigns are able to influence policies. The current trend of foreign investors dictating terms and even laws - as has happened in Angola where British Petroleum (BP) has written the privatisation law – needs to be reversed.

The seminar debated alternative ways of dealing with FDI and the pressures of globalisation and came up with the following possible responses for Southern Africa:

- The region should obtain technology that is not tied to FDI, such as South-South exchanges of technology on a commercial basis, and based on an assessment of developmental needs.
- Civil society organisations need to put pressure on Southern African governments to join forces in order not to succumb to Northern pressures during negotiations in the WTO. Trade unions and other organisations representing the interests of the poor will have to play a critical role in this process and strengthen the attempts of progressive African governments to resist pressures from the North to liberalise. This means putting an end to the liberalisation of capital movements and speculative capital flows.
- When dealing with foreign investment, the upward harmonisation to the best practice level in the region should be a systematic approach and support existing labour initiatives such as the social charter of fundamental workers rights in Southern Africa which is propagated by the Southern African Trade Union Co-ordinating Council (SATUCC).
- There is a need to develop regionalism in Southern Africa as defined by its people, and not by the EU or the US (for example in the form of the African Growth and Opportunity Act - AGOA) who act in the interest of their companies.
- The governments of the region should identify sectors as ‘no-go areas’ for FDI and target other sectors where FDI might be helpful. Building local industries should be the starting point before looking at SADC and beyond.
- There is a need to define what kind of FDI will be acceptable and the records of prospective investors must be screened before any license is issued.
- Capital exports through loopholes like transfer pricing etc. must be stopped to ensure that national resources are used for development purposes.
- The current ‘enclave FDI’ mentality and practice among many governments has to be reversed. There must not be social trade-offs to attract investments and trade unions as well as NGOs must hold their governments accountable.

The organisations represented at the seminar also committed themselves to play an active part by preparing non-academic booklets on critical trade and investment issues. As these issues are similar in all SADC countries they can be used and translated into different languages. The participants also committed themselves to contribute to the broadening of debates on investment issues and to network with each other in the SADC region. In their seminar declaration they stated:

‘We believe that the Southern African Development Community, which is negotiating a draft protocol on finance and investment, should set minimum social and environmental standards for investors. This will counter the tendency of governments in Southern Africa to relax social and environmental standards in their scramble for foreign investment. Such a “race to the bottom” holds no benefits for the majority of workers and poor people in Southern Africa.

We believe that our national governments, and not local or foreign companies, need to remain the regulators and providers of basic public services. We also believe that Southern African governments can direct foreign direct investment in line with the national development agendas of their countries. They will need courage and political will to do so in the face of intense pressures by multinational companies and their governments in the World Trade Organisation to give them free entry and unconditional rights to operate in our economies.

As southern African civil society organisations we are willing to play our part in this process. We will intensify our own networks and engage with our governments. We want to contribute to a people-driven development agenda that will not place the interests of foreign investors above the interests and needs of the majority of southern Africa's people.’