

# **Foreign Investment and Employment Creation: *No Panacea for Southern Africa***

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In February last 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. This paper draws on the presentations made during the seminar as well as on other experiences in Southern Africa regarding foreign investment and job creation.

During the past few years, investment rules have been debated and heavily criticised by civil society organisations, especially 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).

## **Global Trends**

Most countries seem to believe that attracting FDI is the key component to achieve development and to solve the burning problem of unemployment which has reached enormous proportions in Southern Africa, affecting between 20 - 60% of the economically active population. Accordingly, most 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 bilateral, regional and multilateral investment agreements and the UNCTAD World Development Report provides an indication of FDI trends although accurate 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.
- ◆ Between 1996 and 1999, metal and mineral products attracted most FDI in the SADC region.
- ◆ About 75% of the profits made by foreign investors in Africa are repatriated.

## **FDI in Africa**

Africa seems to attract FDI that aims to exploit a local/ regional market or the continent's natural resources. An important issue is the increase of mergers and acquisitions (M&A) as part of FDI over the last few 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 which 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. The Angolan case proves that it is insufficient to base an analysis of FDI trends only on what business determines as attractive for FDI. Also, FDI figures, for example in South Africa (which is supposed to be one of the biggest recipients of FDI in Africa) hide the fact that the country is also a massive net exporter of capital. Large amounts of capital (for example the savings of workers) are invested overseas. The same applies to Namibia, which continues to be a net exporter of capital.

Nonetheless, governments in Sub-Saharan Africa are still very eager to attract FDI, often at great costs to the host country. 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 was brought about by structural adjustment programmes and the 'internalisation' of the neo-liberal ideology promoted by the World Bank and the IMF. The New Partnership for Africa's Development (NEPAD) is shaped along similar lines and primarily aims to make Africa more attractive to foreign capital.

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 experiences have shown that foreign direct investment is not always 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. In Namibia, about two-thirds of the country's FDI is invested in the mining industry. However, this industry reduced its workforce from 14 000 to 7 000 during the past 12 years.

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. 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.

### **Export Processing Zones (EPZs)**

A clearer indication of Southern Africa's desperate attempts to attract FDI has been the introduction of Export Processing Zones (EPZs) in several SADC countries (such as Zimbabwe, Malawi, Mozambique and Namibia) during the 1990s. They offered increasing incentives to foreign investors ranging from tax holidays, to exemptions on import and export duties, subsidised infrastructure and limits on workers' rights. The Namibian case is particularly instructive and shows how expensive such policies can be and how little alleviation of the burning unemployment problem they provide.

In 1995, Namibia passed its EPZ Act and four years later our institute, the Labour Resource and Research Institute (LaRRI) carried out a comprehensive study to assess the socio-economic impact of Namibia's EPZ programme. LaRRI's study was published in March 2000 and found that EPZs had fallen far short of the government's expectations of creating 25 000 jobs and facilitating skills and technology transfer needed to kick-start manufacturing industries in the country. At the end of 1999, the EPZs had created very few jobs although millions of dollars had been spent on promoting the policy and on developing infrastructure with public funds. LaRRI's study received extensive media coverage and drew an immediate response from the Ministry of Trade and Industry which argued that it was too early to measure the success and failures of the programme as EPZs would only show results in the long term. Citing Mauritius as the example to follow, the Ministry claimed that the island had to wait 20 years to see positive results.

However, the Namibian government had set itself the target of 25 000 EPZ jobs by the end of 1999 and LaRRI's study showed that only 400 jobs had been created. Our study also pointed to poor labour conditions as a likely source of future conflicts. Namibian unions were particularly opposed to the clause in the EPZ Act, which made strikes and lockouts illegal for a period of five years. Despite mounting scepticism

about the EPZ programme, the Ministry of Trade and Industry was unwilling to review its policy. Angered by the questions raised and by the negative publicity received, the Minister claimed in parliament that the EPZ had attracted investments of nearly R 300 million and created up to 1 000 jobs.

Desperate to show some success of the EPZ programme, the Ministry started to grant EPZ status to a poultry plant as well as mining companies like Ongopolo (copper mine in Tsumeb, northern Namibia) and the Skorpion Zinc Mine and refinery in southern Namibia. The later is a project of the Anglo American Corporation. Production at the Skorpion Mine is expected to start in December 2002 and attract investments of US\$ 454 million (R 4,6 billion). The Skorpion project is expected to employ over 500 people and contribute about US\$ 118 million (R 1,2 billion) annually to Namibia's GDP which would mean an increase of 4-5% (Namibia Economist, 20-26 July 2001). Although Ongopolo and Skorpion obtained EPZ status for their processing operations only, it is likely that they will use the EPZ status to gain complete tax exemption for their profits. Simple accounting tricks like transfer pricing will ensure tax exemption and deprive the Namibian state of tax revenue from the mining sector, which has so far contributed significantly to the national income. However, the Minister of Trade and Industry regards the Ongopolo and Skorpion Zinc mining ventures as proof that the EPZ programme is working.

In a recent development, the Ministry of Trade and Industry succeeded to snatch up a R 1 billion (US\$ 100 million) project ahead of South Africa and Madagascar which had also been considered as possible investment locations by the Malaysian textile company Ramatex. This was achieved by offering even greater concessions - above those granted to other EPZ companies. Drawing in the parastatals providing water and electricity (Namwater and Nampower) as well as the Windhoek municipality, the Ministry put together an incentive package which included subsidised water and electricity, a 99-year tax exemption on land use as well as over R 100 million (US\$ 10 million) to prepare the site including the setting up of electricity, water and sewage infrastructure. This was justified on the grounds that the company would create 3000 - 5000 jobs during the first two years and another 2000 jobs in the following two years. The plant will turn cotton into fabrics and the Namibian government hopes that local cotton producers will be able to increasingly supply the required cotton. Initially all the cotton will be imported - duty free. Ramtex' decision to locate production in Southern Africa was motivated by the aim to benefit from the Africa Growth and Opportunity Act (AGOA) which allows for duty free exports to the US (Namibia Economist, 29 June-5 July 2001, 5-11 April 2002; The Namibian, 2 August 2001, 28 September 2001).

The Ramatex case is a classical example of SADC countries competing with each other in the race to the bottom for foreign investment. In Namibia, it was however portrayed as a major success. The Trade and Industry Minister announced that negotiations and compromise was 'the name of the game in business' which had won Namibia a billion dollar manufacturing plant (New Era, 13-15 July 2001).

### **Any Choices for Africa?**

The current blanket open door approach to FDI by our governments is unbalanced and holds little prospects for securing long-term, sustainable development. At best, the intense competition for FDI among African countries will lead to some jobs (usually of poor quality) for a limited period of time in some countries. The challenge for civil society organisations is to develop alternative policy proposals that can lift Africa out of the poverty and dependency trap. Alliances of civil society organisations have helped to stop the negotiations of the Multilateral Agreement on Investments (MAI) a few years 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.

As Yash Tandon, the director of the Southern and East African Trade Information and Negotiations Initiative (SEATINI) pointed out, 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, trade unions, small and medium enterprises, small farmers etc. become organised and make their voices heard. Without such pressure, the current trend 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 their own conditions in the form of ‘performance requirements’ such as job creation, skills transfer etc. Furthermore, as many Africa countries (including South Africa and Namibia) have become net exporters of capital, African states need devise strategies to retain savings as the basis for domestic capital accumulation.

Similar views were expressed by Martin Khor, the director of the Third World Network, based in Malaysia. He pointed out that:

*'FDI brings in capital but also leads to a stream of outflows of profit and other investment income. This outflow increases through time as the stock of foreign capital rises. Thus, FDI has a tendency to lead to "decapitalisation"...Experience shows that for foreign investment to play a positive role, government must have the rights and powers to regulate its entry, terms of conditions and operations.'*

During our seminar in Windhoek last year, alternative ways of dealing with FDI and the pressures of globalisation were debated and the following possible responses for Southern Africa were put forward:

- ◆ The region should obtain technology that is not tied to FDI, such as South-South exchanges of technology, 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 Coordinating 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.

In conclusion, I would like to quote from the seminar declaration that was adopted after intense discussions:

*'We believe that the Southern African Development Community...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.'*

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## **About the author**

Herbert Jauch holds two teaching degrees as well as an MA degree in political studies from the University of the Western Cape, South Africa. He is the director of the Labour Resource and Research Institute (LaRRI) in Namibia and has carried out research for trade unions in Namibia and the SADC region on export processing zones (EPZs), labour hire companies, structural adjustment programmes and the impact of globalisation. His work also entails designing and facilitating workers education programmes.

Herbert Jauch has been associated with the Namibian labour movement for the past 12 years and served as national secretary of the Namibia National Teachers Union (NANTU) from 1990 until 1993. He also served on the economic policy sub-committee of the NUNW from 1993 until 1995 and worked on several projects with the Southern Africa Trade Union Co-ordination Council (SATUCC). He wrote numerous articles and books on the history of trade unions and the challenges facing the labour movement today. He is a member of the the African labour researchers network and has just completed an education booklet for the network on the impact of privatisation in Africa.