Foreign Direct Investment: Trends, New Developments and Implications for Labour

Henry Chingaipe, IPRSE

Seminar on Private Sector In Development, TUDCN-RSCD and CSO Partnership for Development Effectiveness, Lusaka, 26-27 March 2019.

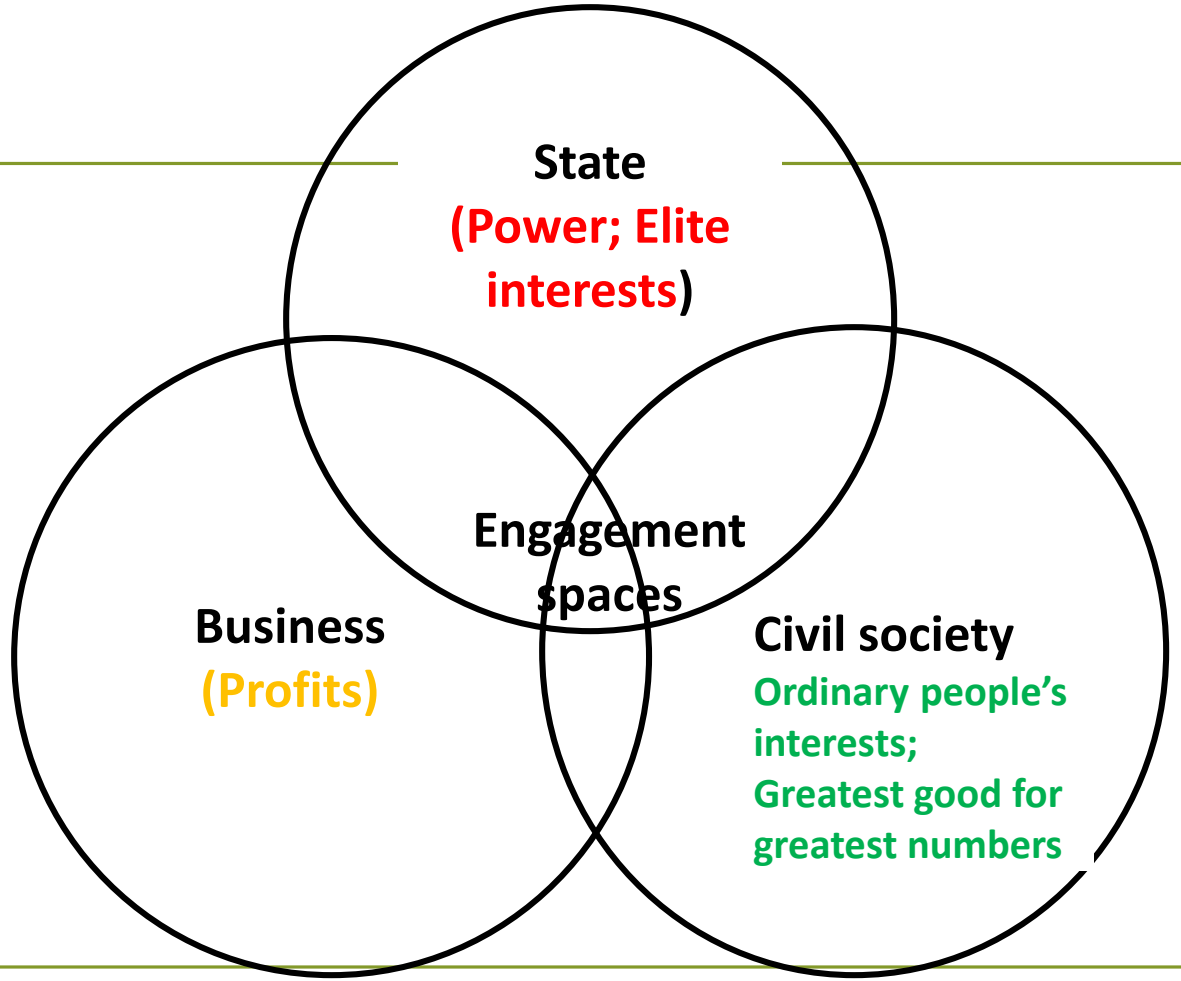
Outline

1. Development Triad: Locating Private Sector and Labour in development processes
2. Patterns and outcomes of State- Business Relations
3. FDI as a key element of SBR: Implications for BLR; SLR
4. Recent trends of FDI (African emphasis)
5. Investment policy developments related to FDI

Development Triad

- Socio-economic development is a composite outcome of complex and complicated relations, decisions and actions involving a lot of actors which can be reduced or aggregated into three:
- The state or Government; Private sector or Business; and Civil Society or Third Sector (CSOs/NGOs/Tus) {there is an international dimension}
- Socio-economic development is a political process i.e. it entails activities of cooperation, bargaining, contestation – among the core actors as each seeks to maximize their interests.

Core Interests in the African Development Triad



Patterns of State-Business Relations

- The Triad represents the key relations that shape development outcomes in a capitalist (neoliberal) and democratic setting:
- State-business relations (SBR); State-labour relations; and Business-labour relations
- State- business relations is particularly important when the business concerned is foreign or the business is financed externally (FDI) using private equity or business finance from the money market and DFIs

- FDI often comes with the 'Structural power of Capital" i.e. a situation in which host government is dependent on the economic and investment decisions of the private sector to realize its economic goals, which in turn compels government to consider the interests of business even in the absence of formal lobbying;
- Governments have to contend with the 'footloose nature' of capital and therefore forego.

Key observations about relations

- SBR in the context of FDI takes various forms:
  - **Arms-length:** Either strong state focused on REGULATION of FDI or weak state with a LAISSEZ FAIRE attitude; It can degenerate into PREDATION
  - **Hand –in- hand** : State plays midwifery and husbandry roles in nurturing and maturing private sector investments; develops joint ventures or PPP with FDI (Collaboration/partnership/concertation for development);
  - **Too close for comfort**: State doles particularistic incentives to a few FDI outfits ending up in collusive and corrupt relations (State capture)
- Any pattern of SBR has implications on SLR and BLR

FDI Trends

- FDI – private capital flows from one state jurisdiction to another through investment decisions of foreign investors, often on the basis of trade and investment agree5
- In accounting for FDI, particular interest is on GREENFIELD investments: a type of FDI where a foreign company/investor establishes operations in another country and constructs new facilities from the ground up;
- In a capitalist framework, social economic transformation is a result of investment decisions in value chains by private entrepreneurs. Governments compete for investment through tax incentives, subsidies and other non fiscal incentives to attract FDI (SEZ/EPZ)
- MNCs and TNCs are often the vehicles of FDI. They need a neoliberal economic policy framework to thrive and so governments in developing countries have had to succumb to pressures for economic policy reforms (liberalization)[Kicking away the ladder??]

The claimed virtues of FDI for Developing Countries

- Produces externalities in the form of technology transfers and spillovers;
- Knowledge transfer (Know-how) to bridge 'ideas gaps' between rich and poor economies;
- Ignites or enhances economic growth

** FDI received unqualified enthusiasm during the heydays of the Washington Consensus but now skepticism looms large. Empirical evidence for each claim is at best mixed but there are some clear vices…

Empirical vices of FDI

- MNC/TNC investments in extractives can turn rich resource endowments into curse with oil and ‘blood diamonds’ fortifying corrupt state elites or financing civil wars and regional instability;
- MNC/TNC investments in manufacturing in protected host-country markets may distort the economy and retard growth;
- MNC/TNC investments in labor-intensive initiatives may result in violations of labour standards and sweatshop abuses

Global Trends: WIR 2018

- FDI remains the largest external source of finance for developing economies: 39% of total incoming finance but less than 25% in the LDCs with a declining trend since 2012
- Global FDI fell by 23%
- Greenfield investments decreased by 14%;
- Flow to developing economies remained stable at 671 bn, no recovery following the 10% drop in 2016
- Africa: 42bn-continued to slide. Down 21% from 2016
- Developing Asia: 476bn- Stable, regained position as the largest FDI recipient region in the world
- Latin America and Caribbean: 151 bn – Rose 8%, first rise in six years
- LDC:26bn- decreased by 17%
- Landlocked: 23bn, Increased by 3%
- Small Island Developing states:4.1bn, Increased by 4%

Top 10 Industries by Value that are destinations of FDI

1. Chemicals and chemical products;
2. Business services;
3. Food, beverages and tobacco
4. Finance
5. Electricity, gas and water
6. Machinery and equipment
7. Information and communication
8. Electrical and electronic equipment
9. Transportation and storage
10. Mining, Quarrying and petroleum

AFRICA

- Top five FDI host economies in 2017:

1. Egypt, 7.4bn, (-8.8%)
2. Nigeria,3.5bn, (-21.3%)
3. Ethiopia, 3.6bn, (-10.1%)
4. Ghana,3,3bn, (-6.6%).

** The pattern is clear: FDI is declining

Africa FDI Outflows: Top five home economies

- South Africa, 7.4bn, +64.5%
- Angola, 1.6bn, +40.3%
- Nigeria,1.3bn, (-1.4%)
- Morocco,1.0bn +65.7%
- Togo, 0.3bn, +22.9%

Announced Greenfield FDI by Industry,2016-2017 (Mn USD)

Sector	Af-Destination		Af - Investor	
	2016	2017	2016	2017
Primary	3713	10574	-	-
Manufacturing	19357	21060	5991	2907
Services	70969	53671	5782	2889
Total	94039	85305	11772	5796

Announced Greenfield FDI projects by region/economy

Partner region/economy	Af-Destination		Af-Investor	
	2016	2017	2016	2017
Developed economies (EU, Italy, UK, USA)	19945	32398	1411	1961
Developing economies (Africa, RSA,China, Saudi Arabia, UAE)	73643	21582	10342	3829
Transition economies	452	31324	19	6
Total	94039	85305	11772	5796

Investment policy developments

- In 2017, 65 countries and economies adopted at least 126 investment policy measures of which 84% were favourable to foreign investors;
- An increasing # of countries taking critical stance towards FDI (national security and foreign ownership of land
- Number of new international Investment Agreements (IIA) declined in 2017, lowest since 1983. Termination of treaties outpaced contracting of new ones but regional agreements maintained momentum in Africa and Asia

- Number of new investor-state dispute settlement claims remains high in 2017; 65 new treaty based cases were initiated bringing the total number o 855. By end of 2017 investors had won 60% of all cases that were decided on merits
- Modern Industrial policies are key drivers of investment. Over the past 10years, 101 developing and developed countries have adopted formal industrial development strategies (Bringing the state back in?)
  - 40% Build up (new specific industries);33% Catch –up (horizontal competitiveness) and 25% positioning for the 4th industrial revolution

So what does all of this mean for Labour?