Foreign Direct Investment and Inclusive Growth in Southern Africa

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ABSTRACT

Foreign direct investment (FDI) has been lauded for its positive spillovers to host countries in terms of skills transfer, employment creation, and enhancement of competition. The ability of FDI to address economic challenges in host countries has been referred to as sustainable investment which includes attracting the 'right' kind of FDI as opposed to investments which will not lead to any meaningful socio-economic development. South Africa has undertaken policies aimed at harnessing FDI in this direction (sustainable investment), alongside its affirmative action and black economic empowerment measures. Recently South Africa drafted legislation aimed at regulating FDI focusing on the convergence of industrial and affirmative action programs with the attraction and retention of foreign investments. The Promotion and Protection of Investment Bill was preceded by South Africa's controversial termination of its Bilateral Investment Treaties with European countries which were perceived not to encourage inclusive growth-based FDI. What has not been substantially explored in recent research in the Southern African context is the role of FDI in driving inclusive growth in a society which suffers from huge inequalities, such as South Africa. For instance, Namibia is undergoing similar reform of its investment regulation aimed at inclusive-growth goals and Mozambique and Botswana have recently had their investment policy framework reviewed by international organisations.

This paper, therefore, considers how FDI **can be** harnessed to achieve inclusive growth pathways. This issue is not peculiar to South African but has gained momentum both in the Southern African region and abroad. This paper will therefore interrogate the extent to which FDI can be harnessed as a vehicle for inclusive growth in highly unequal regions such as Southern Africa, and the prospects for a regional investment framework which could achieve this. The paper will employ both legal and economic analysis.

INTRODUCTION

Foreign direct investment (FDI) is defined as a minimum of "10% ownership … of a foreign party in a domestic corporation. This distinguishes FDI from other capital flows such as portfolio [investments] which are defined as cross-border transactions and positions involving debt or equity securities, other than those included in direct investment or reserve assets". [1]

Globally, states promote FDI as a less volatile and longer term source of foreign capital to supplement domestic resources. Southern Africa, possibly more than most other developing regions, needs considerable externally sourced capital to address the savings and foreign exchange demands which could lead to the region vaulting into sustainable levels of growth away from the prevalence of poverty. Inward FDI is an important foreign capital inflow because it consists of concrete and intangible assets deployed into the domestic economy by important corporate members of the global economy. FDI has been shown to contribute to growth and development, complementing domestic investment and by facilitating trade and knowledge and technology transfer.[2]

Beginning in the 1980s, overseas capital in the form of FDI flows has increased abundantly to developing countries. By 2010, in the wake of the global economic crisis and with the resultant drop in aggregate demand in developed countries, developing countries for the first time received over 50 % of global FDI flows.[3] African regions, including the Southern African Development Community (SADC) have received significant increases in FDI inflows. In SADC, FDI inflows increased over 40 times – from US$372 million in 1980 to US$17 billion in 2008. This upward trend is confirmed by the United Nations Conference on Trade and Development (UNCTAD) FDI databases, with FDI flows to SADC continuing to show a relatively positive growth trend from 2000 (*see Table 1*).

Table 1: **SADC IFDI**[4]

US Dollars at current prices and current exchange rates in millions *UNCTADSTAT 19-08-2015*

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
3.210	10.510	5.305	6.457	4.599	8.154	2.537	11.856	18.999	15.445	10.736	11.928	13.378	18.410	15.961*

Source: http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx

* Estimates

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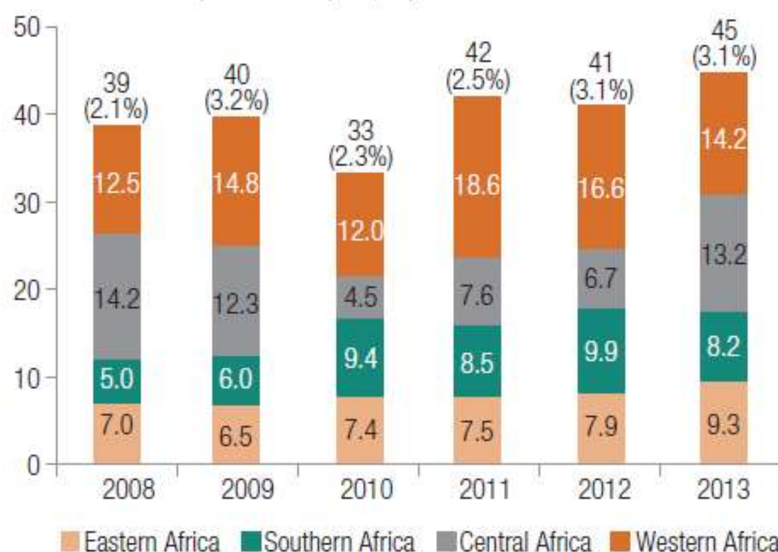
[1] International Monetary Fund, 'Balance of Payments and International Investment Position Manual', 6th Edition. Washington, 2011.

[2] Mahembe E & Odhiambo N, The dynamics of foreign direct investment in SADC countries: experiences from five middle-income economies

[3] UNCTAD. 'Investment Policy Framework for Sustainable Investment', Geneva, 2012.

[4] Inward FDI



Source: Guangzhe Chen, Michael Geiger, and Minghui Fu. Manufacturing FDI in Sub-Saharan Africa: Trends, Determinants, and Impact, World Bank Group, June 19 2015.[5]

Greenfield Manufacturing FDI in Selected Countries, US$M

Country	Annual Average (2003–2006)	Annual Average (2007–2010)	Annual Average (2011–2014)
Mozambique	82	1,854	2,568
South Africa	2,002	2,526	1,819
Nigeria	4,987	1,204	1,675
Ghana	375	2,115	1,625
Zambia	430	365	1,561
Ethiopia	38	298	1,031
Kenya	140	99	498
Tanzania	89	346	194
Congo (DRC)	226	243	176
Uganda	65	1,809	164
Angola	363	929	155

Source: fDi Markets Database (www.fdimarkets.com).[a]

However, inflows are extremely volatile as they are dominated by large-scale mining and construction-type projects, typically infrastructure mega-projects, such as those in the energy, mining and transport sectors. According to Ernst & Young,[6] the total foreign investment per project increased to on average US$174.5m per project in 2015, from US$67.8m per project in 2013.

The evidence from much of the literature consulted in this paper suggests that FDI spillovers are highly dependent on the host economy's ability to absorb new capital, technology and skills. In addition, the interactions between local firms and transnationals/multinationals (TNCs/MNCs) determine the degree to which local firms can enter supply or value chains, as well as the local firms' abilities to become eventual competitors in the market. Weak public and private institutions, as well as a regulatory environment controlled too firmly by either government or MNC, may lead to low investment or inequitable investment in sectors or projects which are not the right fit for the sustainable development of the local economy.

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[5] Guangzhe Chen, Michael Geiger, and Minghui Fu. Manufacturing FDI in Sub-Saharan Africa: Trends, DeterminantS, and Impact, World Bank Group, June 19 2015

[6] EY's Attractiveness Survey: *Africa 2015-Making choices*

DESCRIPTION OF RESEARCH METHODOLOGY

This paper is partly a result of research which the Economic Diplomacy Programme has conducted over the last couple of years aimed at engaging with South Africa's FDI regulatory regime. South Africa signed into international agreements protecting foreign investment in the mid-1990swith a view to attracting foreign investment and signalling to the international community that the country was a safe destination for foreign investments. However, South Africa did not carve out policy space for its Black Economic Empowerment policy as this was still under discussion. BEE was later entrenched into the 1996 Constitution. It was when the South African government was hauled before an international arbitration tribunal under one of the investment agreements challenging the BEE policy that the country decided to review its FDI regulatory policy. The review culminated in the enactment of the Promotion and Protection of Investments Bill. The EDIP embarked on research that focused on this review and the implications for the country's standing as a viable investment destination. What emerged from this research was that the regulation in the public interest was indeed a global phenomenon. The US, Canada and Mexico had to revise their free trade agreement with a view to accommodating their policy space. South Africa's review of its FDI framework also highlighted the role that FDI could play in building a more inclusive economy. This realisation then led to the second phase of the research which is currently being funded by the KAS.

The current project seeks to accentuate the first phase of the research to a regional level. At a regional level, effort is being made to understand how FDI could be contributing to regional integration. A two-pronged approach has been adopted. Firstly, the research focuses on how private players could be providing the basis of regional integration, through for instance hard infrastructure and the creation of upstream and downstream linkages which straddle across national boundaries into the whole SADC region. The second approach to the study if more legal and regulatory, focusing on how selected countries within the region itself are individually and also collectively regulating foreign investments in a way that leads towards deeper integration. In other words how countries are attracting the right kind of FDI that can lead to deeper integration. In terms of legal and regulatory aspects, the project focuses on regional instruments such as the Finance and Investment Protocol, the SADC Model BIT and the envisaged revision of the FIP. The research is focused on Angola, Namibia, Botswana, South Africa and Mozambique.

A mixture of desktop and primary field research has been conducted. Two goals of the research were to establish 1) whether existing and new FDI projects under examination had a deliberate focus on sustainability and 2) whether a regional approach played any role in the foreign investment. 'Sustainability' was understood to include elements of corporate social responsibility (CSR) plans, efforts to engage the local population in sustainable jobs or training programmes, community development trusts, and local content arrangements.

The desktop research provided a survey of established knowledge of the areas were FDI can contribute to economic development, while primary field research was conducted in each of the case study countries in the form of interviews with the key stakeholders to FDI regulation and its impact on development. A range of stakeholders were interviewed - including FDI policy-makers, private foreign investors, non-governmental organisations, foreign embassies, and consultants – to determine the current investment climate in each context and the impact that FDI policy has on this.

The analysis of the data collected was conducted from a multidisciplinary approach, namely from economic and legal paradigms, in order to capture the nexus between the economic and legal implications of investment policy. Economic analysis is used to determine the impact that FDI policy can have on outcomes that social progress are sensitive to (such as job creation, human capital development, technology transfers, etc.) and legal analysis to consider the implications of differing regulatory approaches in the region to assess whether a regional investment policy in SADC is emerging.

EVOLVING LEGAL AND REGULATORY LANDSCAPE IN SOUTHERN AFRICA

Since the turn of this century with the world moving from a unipolar regime dominated by the United States, there has been some developments within the international FDI regulatory policy community. This movement has

occurred in a way that reflects this changing regulatory environment. The history of the protection and promotion of foreign direct investment has been such that the rights of foreign investors were over-emphasised. This was accompanied by an obligation on the part of host states to protect foreign investors without much of tying investments towards any socio-economic obligations. Investments were also generally protected through the colonial system. Most of the investments were originating from the metropolitan powers of the EU, Japan and the US. This meant that the property regime applicable in those countries was extrapolated to the colonies. The SADC region is made up of states which owe their existence to the history of colonialism. As a consequence, these countries also experienced the protection of foreign investment through a colonial system. Accompanied by this kind of protection was a separation between FDI and sustainable development. Due to a history of colonialism, a great deal of SADC members states are characterised by inequalities which tend to follow racial contours. There has been an expectation within the SADC that FDI could play a role in addressing issues of historically based inequalities. This has been quite acute in South Africa, Namibia and to a lesser extent, Zimbabwe. An expectation of having FDI contribute to more inclusive development is reflected in the evolving legal and regulatory landscape in South Africa and the Southern African region in general.

South Africa, as indicated, has reviewed its FDI regulatory regime and replaced it with a domestic legal instrument. One of the main reasons why the country undertook such a drastic step with regard to its FDI regulatory policy was to accommodate its industrial policy which is characterised a great deal by beneficiation and redistribution. This underpins the country's placement of foreign investments or investment in general at the centre of redistribution and building a more inclusive society. The PPIB makes reference to the fact that investments will be admitted into the country on condition that they lead to economic development and also contribute to black economic empowerment which is described as being of public interest. All this points to the realisation of the linkage between FDI and inclusive development.

South Africa is an anchor country in the region. As a result whatever policy decisions it embarks upon are bound to have implications for the SADC. South Africa in addition to reviewing its internal FDI policy has also sponsored and gotten itself very involved in drafting a SADC Model BIT. The SADC Model BIT shall act as a guideline for Member States when they are drafting their own bilateral agreements regulating foreign investments. Some of the issues that the SADC Model BIT are the obligations which investors should bear with regard to fostering sustainable and inclusive development in their host countries. This could be done through skills transfer, corporate social responsibility, furtherance of human rights and human development. The Model BIT therefore emphasises the need for foreign investors to develop communities within which they find themselves operative. Article 20 of the Model BIT for instance reads: ' …the Host State has the right to regulatory and other measures to ensure that development in its territory is consistent with the goals and principles of sustainable development and with other legitimate social and economic policy objectives'. The Model BIT also has an exception for preferential treatment based on BEE.

The Finance and Investment Protocol's Annex on Investment does make reference to member states making exceptions for policy space and enhancement of economic development. However, Member States are currently in the process of reviewing the FIP as there is a general understanding that it does not allow for policy space that can lead to signatories pursuing more development focused policies. Botswana and Namibia are also in the process of reviewing their domestic FDI regulatory policies. Namibia's envisaged FDI regime is much more like that of South Africa, if not more radical. Botswana due to it having a different economic history, has a more different approach.

SADC FDI POLICY - AN INSTRUMENT TO DELIVER INCLUSIVE GROWTH IN SOUTHERN AFRICA?

Southern Africa remains one of the sub-regions with the highest levels of inequality with indicators spanning the economic, social and political. These inequalities establish themselves at a regional level among countries; as well as at a spatial level, between rural and urban areas. Within countries there are racially-based inequalities, as well as gender-and age-based.

Economic inequality factors include: access to and ownership of key natural resources such as land and minerals; income; access to debt (in the form of loans) and employment.[7] FDI cannot be seen to be contributing to sustainable development unless it helps societies meet basic needs and improve lives for citizens. Social progress is typically not associated with rapid FDI growth, unbalanced across sectors. Positive spillovers of FDI associated with social development include infrastructure advancement, enhanced institutional capacity, political stability and security, and higher skills levels and quality of life.[8]

Inequalities also remain very high in the sub-region, as illustrated by the following table which shows the latest figures for FDI stock in each SADC state as well as three measures of inequality. The first measure is the conventional Gini index which measures the extent to which the distribution of income (or consumption expenditure) across a country deviates from a perfectly equal distribution[9]. A Gini coefficient of 0 represents perfect inequality, while an index of 100 represents perfect inequality. The second measure is the social progress index (SPI) developed by the Social Progress Imperative. The SPI moves beyond economic measures of inequality and includes a broad range of factors contributing to social progress. The factors are divided into three categories: 1) basic human needs (food and water, sanitation, shelter, etc.); 2) foundations of wellbeing (access to knowledge, health and wellness, ecosystem sustainability, etc.); and 3) opportunity (personal rights, tolerance and inclusion, access to advanced education, etc.). Scores for each category are combined to produce an index ranging from 0 to 100, with scores closer to 100 indicating greater social progress achieved[10]. The last measure is the Miser Index developed by the Centre for the Study of Equality, Social Organisation, and Performance at the University of Oslo. The index provides a measure of how “miserly” a country is – a country being considered more miserly if it is very rich and has large differences in the standard of living between rich and poor. The index is defined as $M = h(\bar{Y} - \bar{Y}_p)$ where h is the share of the population below the poverty line, $\bar{Y}$ is the mean income among the non-poor, and $\bar{Y}_p$ is the mean income among the poor. A poverty line of 2 purchasing power parity dollars a day is used for the calculations. The index can be interpreted as the total income gap needed for all the poor to have an income above the poverty line[11]. The greater the index, the more “miserly” a country is and the more unacceptable high rates of inequality should be.

***Table 2:* Inequality and FDI in each SADC Member State**

	Gini 2003-2011	SPI 2015	Miser Index 2011	FDI Stock 2013 ($ Millions)
Angola	43	40	1.96	2348
Botswana	57	65.22	6.68	3337
DRC	44	-	0.18	5631
Lesotho	53	52.27	2.26	1237
Madagascar	44	44.5	1.76	6488

[7] UNECA, Twentieth Meeting of the Intergovernmental Committee Of Experts for Southern Africa (ICE) 12-13 March 2015. Victoria Falls, Zimbabwe

[8] Deloittes, Foreign Direct Investment and inclusive growth: The impacts on social progress

[9] The World Bank. Nd. Gini Index (World Bank Estimate). *Data.* Available: http://data.worldbank.org/indicator/SI.POV.GINI

[10] Social Progress Imperative. Nd. Social Progress Index. *Social Progress Index*. Available: http://www.socialprogressimperative.org/data/spi

[11] University of Oslo. Nd. *The Miser Index*. ESOP – Centre for the study of equality, social organisation, and performance. University of Oslo. Available: http://www.sv.uio.no/esop/english/research/theme/the-miser-index/

Malawi	44	48.95	0.74	1285
Mauritius	39	73.66	-	3530
Mozambique	46	46.02	0.95	20967
Namibia	60	62.71	6.51	4277
Seychelles	66	-	-	2256
South Africa	63	65.64	8.21	140047
Swaziland	48	50.94	8.59	838
Tanzania	38	47.14	2.13	12715
Zambia	55	51.62	1.87	14260
Zimbabwe	42	-	-	3001

Regional integration is often advanced as a means to improve member states attractiveness to foreign investors; however, Kubny et al[12] advise against such generalised enthusiasm for several reasons:

- Country-specific factors are often more important than potential regional synergies;
- Member countries are unlikely to share in equal portions FDI inflows coming in to the region;
- Hub economies have often played a limited role in fostering effective regional integration despite being major outward FDI players, and they continue to attract the lion's share of FDI.
- In addition, in the African context, the overlapping membership in regional economic communities has hindered harmonisation of institutional and legal frameworks and in particular has had limited handling of investment issues.

More recently, the new Tripartite Free Trade Area (TFTA) brings together 26 countries from across three RECs – SADC, COMESA and EAC and in part seeks to eliminate some of the duplication of regulation with overlapping membership. Apart from the gains in potential market access gains, the negotiated FDI framework (currently underway in SADC and Comesa) will have significant potential to harmonise its management in order to create more sustainable investment framework, with the rider that institutional capacity and implementation mechanisms must be effectively enforced.[13]

However, FDI brings benefits as well as costs which should be assessed on a case-by-case basis within a country-specific context. There are no universal policies which fit every particular milieu and there are implicit trade-offs between the governments' interests and the requirements of foreign investors. Aitken and Harrison caution that investors typically invest in more productive sectors,[14] implying that the less productive sectors are often overlooked for consideration.

UNCTAD has suggested that "policy makers in Africa should give more careful consideration to …trade-offs [for instance, between government requirements and investor interests] if they wish to maximise the benefits from FDI".[15] The implication is that the domestic policy framework is crucially important in determining the net outcomes of FDI inflows.[16]

Clearly articulated policy approaches in converging areas need to combine to ensure that the investment contributes to the country's or region's developmental objectives. International organisations, including UNCTAD,

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[12] Kubny, Julia; Mölders, Florian; Nunnenkamp, Peter (2008): Regional integration and FDI in emerging markets, Kieler Arbeitspapiere, No. 1418.

[13] Ralf Krüger and Ilan Strauss, Africa rising out of itself: The growth of intra-African FDI. Columbia FDI Perspectives, No. 139 January 19, 2015.

[14] (1999) 'Do Domestic Firms Benefit from Direct Foreign Investment? Evidence from Venezuela' *American Economic Review: Volume 89, No. 3 (June 1999)*

[15] UNCTAD. *World Investment Report 2005: Transnational Corporations and the Internationalization of R&D*, page 65.

[16] Wentworth, Langa & Schoeman, Domestic versus Foreign Direct Investment, 2015 (forthcoming).

the World Bank and academic research institutions have been promoting a new generation policy framework for sustainable investment, which focuses on 1) creating synergies with wider economic development goals or industrial policies, and achieve seamless integration in development strategies; 2) fosters responsible investor behaviour and incorporate principles of corporate social responsibility (CSR); and 3) ensures policy effectiveness in their design and implementation and in the institutional environment within which they operate.[17]

In order to release the continent's potential, African leaders need to emphasise structural transformation to achieve the goals of inclusive and sustainable growth.[18] This requires economic policy which is able to enhance inward FDI flows towards this objective by, for example, directing FDI into strategically important sectors, inducing firms to train and employ locals in sustainable jobs, and ensure long-term commitments to their investments. There could also be the option of taxing those investors who do not comply with these requirements, with the view to using these taxes in sustainable developments elsewhere.

The case studies in this paper will consider which policy aspects relating to FDI regulation are most crucial to achieving these goals by considering the experiences of five Southern African countries: South Africa, Namibia, Botswana, Mozambique, and Angola. The chief policy lessons taken from each case will be channeled into recommendations for a regional investment policy covering the whole SADC region.

CASES

Angola

With lack of finances, local skills and technological expertise, the seemingly quicker way for the Angolan government to promote economic growth and development in the post-war period (post 2002) was through the exploitation of its abundant natural resources, particularly oil. Consequently, initial FDI interests in Angola were focused on exploitation of natural resources. Economic and social inequality gaps started to grow as a result, accompanied by the development of political elites. Foreign investors saw a great opportunity in these political elites, whom had an increasingly growing purchasing power matching the country's (then) increasingly growing oil revenue. Besides the growing purchasing power of the political elites, Angola also represented a great opportunity for foreign investors because it is a relatively young country with a number of untapped or under-developed markets.

Table 3: **Top 10 Angolan Sectors Receiving FDI, by Capex flow, January 2003 – May 2015**

Industry Sector	Capex (USD Million)	Projects
Coal, Oil and Natural Gas	65575.8	32
Real Estate	4137.72	2
Financial Services	1241.9	129
Building and Construction Materials	1197	11
Beverages	841.2	20
Communications	559.01	13
Business Services	220.4	4
Metals	487.77	8
Hotels & Tourism	477.2	6

[17] UNCTAD, 2012. Investment Policy Framework for Sustainable Development. Geneva.
[18] Deloittes, Foreign Direct Investment and inclusive growth: The impacts on social progress

Food & Tobacco	401.3	12

Source: fDi Intelligence, from the Financial Times Ltd. 2015
Notes: All Capex figures shown are in USD – United States Dollar Million; Capex and Job figures include estimated values

Poor execution of investment regulation has meant that there was no pressure on foreign investors to prioritise local skills development or the transfer of technological expertise. A large number of local investors thus preferred to hire more-qualified foreign workers, who were generally from the same country as the investor. Even when locals were employed, lax labour laws meant that the employment relationship was generally informal, with local workers having little/no recourse to legal action in case of legal disputes with the foreign employer. National government's priority has been post-war reconstruction, with a greater emphasis on infrastructure development. Development of local human capital and some skills transfers in sectors that were oil-dependent/associated has occurred, but this was not the case in the other sectors of the economy which involve most of the population.

Up to this point, FDI has played a passive role in promoting inclusive growth. This is by and large a reflection of the national government's lack of commitment (at least in practice) to promoting sustainable development. This is somewhat evidenced by the nature of Chinese involvement in Angola, whereby Chinese nationals are often hired over local nationals, even for low-skill positions. With a rapidly growing young population facing un- or under-employment, and the impending social upheaval that that could bring about, the national government has been forced to reconsider the priorities in its national development plan. The recent decline in global oil prices (early 2014) has put further emphasis on the point, propelling the government to make diversification of the economy a key priority.

Within this framework there is scope for FDI to make a more meaningful contribution to inclusive growth. This is particularly relevant in line with the recent amendments to the national investment regulation, where the Angolan government defines priority areas for investment, as well as seeks to implement stricter requirements for national involvement (e.g. minimum labour force requirement, indigenization policies, etc.). Whether that will materialize will, of course, depend on the political will of the national government to execute and monitor the implementation of its development agenda, which in a context where corruption and rent-seeking are strife can be quite uncertain.

Botswana

There are two fascinating case studies in Botswana with regard to how FDI could foster inclusive growth and regional integration. The first one relates to how Botswana has been attracting foreign investment in the infrastructure sector with a view to deepening regional integration. With regard to infrastructure projects, the Trans Kalahari Corridor (TKC) and the Kasane Bridge over the Zambezi are worthy highlighting. The TKC links South Africa to Namibia and Angola through Botswana. This road was constructed with the help of private investors. The project was structured in such a way that employment was offered to local communities through which the road passed. The TKC deepens regional integration in that it reduces the traditional journey from Namibia to Gauteng by over 400km. This will allow traded goods to move faster. In addition the project will help in decongesting the ports of Durban and Maputo. Furthermore, the TKC links SADC to the ports in Namibia, therefore allowing the region to be connected to the Americas in the western seaboard. The Kasane Bridge over the Zambezi allows for haulage trucks, which had hitherto been using ferry to cross the river, to speedily get into Zambia and the DRC. This is another example of private investors fostering regional integration. When the bridge is fully operational, the region could experience a decongestion of the Beitbridge Border Post in the South as truckers use Botswana as an alternative route.

Table 4: **Top 10 Botswanan Sectors Receiving FDI, by Capex flow, January 2003 – May 2015**

Industry Sector	Capex (USD Million)	Projects
Metals	2274.3	10
Coal, Oil and Natura Gas	1097.9	3

Minerals	1012.37	25
Communications	610.3	6
Real Estate	235.9	2
Financial Services	213.2	22
Building & Construction Materials	159.8	1
Hotels & Tourism	138.5	3
Consumer Products	133.63	6
Automotive OEM	77.82	6

Source: fDi Intelligence, from the Financial Times Ltd. 2015
Notes: All Capex figures shown are in USD – United States Dollar Million; Capex and Job figures include estimated values

Besides the infrastructure projects referred to above, Botswana provides another interesting study on how FDI could harness regional integration and sustainable development in the diamond sector. Since the end of 2013 the De Beers group relocated its diamond sorting and valuation facility from London to Gaborone. This is the largest diamond sorting and valuation facility in the world. It has created over 3000 jobs. In addition to diamond sorting and valuation, the De Beers group together with the Botswana government through the De Beers Aggregation Company, have added an aggregation component to the facility. The addition of an aggregation dimension will enable Botswana to not only sort and value diamonds produced in that country alone. Instead, it will allow Botswana to process and beneficiate diamonds produced throughout the world and most importantly from regional producers such as Namibia, South Africa, the DRC, Angola, Tanzania and Zimbabwe. This will definitely lead to deeper integration in line with SADC's integration policy. The emergence of Botswana as a regional and world diamond trading hub has immense development and integration implications considering that the whole region accounts for about 60% of diamonds produced in the world. This could actually increase when countries such as Zimbabwe become more functional and their Kimberlite deposits get to be fully exploited.

Mozambique

FDI in Mozambique has largely been defined by megaprojects, or large-size, foreign-owned projects, often in the natural resources sector.

In the decade after the civil war, economic reconstruction efforts, including the rehabilitation of Cahora Bassa hydropower station led to the share of agriculture falling from 38 % of GDP in 1992 to 20 % in 2001. The construction of the Mozal aluminum smelter (1998–2003) was Mozambique's initial post-war megaproject. In the post-war phase, the country relied heavily on aid flows to finance reconstruction. In addition, the country has benefited from debt relief through the Heavily Indebted Poor Countries (HIPC) Initiative in 1999 and 2001, and from the Multilateral Debt Reduction Initiative (MDRI) in 2006. Infrastructure FDI projects, apart from Cahora Bassa, include Mozal, and the Sasol gas pipeline to South Africa projects. Since 2004, mining companies began their foray into Mozambique, including the Kenmare heavy sands project, Vale and Rio Tinto's exploration for coal in the Tete Province, the gas exploration project by ENI, and Anadarko and several other smaller investments in the Rovuma basin off-shore in northern Mozambique.

Table 5: **Top 10 Mozambican Sectors Receiving FDI, by Capex flow, January 2003 – May 2015**

Industry Sector	Capex (USD Million)	Projects
Coal, Oil and Natural Gas	19604.1	31
Real Estate	9264.9	13

Metals	2535.8	15
Food & Tobacco	2526.99	19
Wood Products	2364.3	1
Paper, Printing and Packaging	2300	1
Chemicals	2007.85	3
Warehousing & Storage	985.5	5
Building & Construction Materials	938.6	10
Communications	857.1	11

Source: fDi Intelligence, from the Financial Times Ltd. 2015
Notes: All Capex figures shown are in USD – United States Dollar Million; Capex and Job figures include estimated values

Mozambique's Law on Investment (No. 3 of 1993) and its amendments (1993 and 1995) were replaced by Decree No. 43 of 2009 in August 2009. The sectors for local ownership restriction is confined to private security companies, media companies and game hunting concessions. In May 2011, the government passed the Public Private Partnership (PPP) and Large-Scale Project (LSP) law which sets some standards for PPPs. It reserves Mozambican participation in PPPs by requiring 5% to 20% of shares to be sold via the Mozambican stock market. For natural resource projects, the Mozambican government can acquire a 5% free-carry interest at any stage of the project. The new legislation also specifies the maximum duration for concessionary periods, which varies depending on the nature of the project.

In 2012, UNCTAD concluded a review of the country's investment policy framework at the request of the Mozambican government between 2010 and 2011. The evaluation focused on specific recommendations for Mozambique to improve its policy engagement with investors for enhanced socio-economic and political outcomes. Emphasis has been placed on removing the administrative burden on investments in pre-establishment processes, including recommendations to rationalise the issuing of investment licenses by the investment promotion agency (Centro de Promoção de Investimentos, or CPI) and enhance CPI's investment promotion efforts. In addition, UNCTAD advised that the government consider improved access to land and skills, and improved competition regulation. A further recommendation concerned defining industrial development and investment promotion strategies in key sectors, including agriculture and agro-processing; tourism; small-scale manufacturing and services, as well as infrastructure and logistics.

It is clear that the mega-projects in Mozambique may have made a significant difference to FDI flows and gross capital formation. However, this has not really translated into positive spillovers into local businesses or significant employment creation. There are views from within the country that benefits do not flow equitably to the domestic economy in comparison with what foreign investors enjoy. Perhaps more pertinently, UNCTAD[19] points out the inherent difficulty in establishing linkages between these mega-projects – which are capital intensive and export-oriented – and the local industries which have not yet reached the level of sophistication. A large proportion of the domestic economy is made up of an informal sector, focused on subsistence farming. The Investment Review remarks on the greatest challenge for Mozambique being employment creation.

Mozambique has displayed remarkably strong economic growth –certainly off a low base – since the end of its civil war in 1992 in its move towards market liberalisation. Real GDP growth has been 7.4% on average over the last two decades.[20] The mining, manufacturing, electricity, and construction sectors, dominated by foreign investors, contributed about 25 % of GDP by 2004. More recently, investments in commercial farms by Brazil and Japanese investors amongst others, has led to the agricultural sector growing apace, where by 2012 agriculture made up around 28 % of GDP. Commerce, transport, and government services have ranged at approximately 45 % of GDP.

[19] Mozambique, Investment Policy Review 2012.
[20] IMF, Mozambique Rising: Building a New Tomorrow, 2014. http://www.imf.org/external/pubs/ft/dp/2014/afr1404.pdf

However, the country still has massive infrastructure shortages: though the government has spent US$664 million per year (or around 10% of national GDP) on infrastructure development since the late 2000s,[21] the World Bank estimates that it needs to spend more than US$1.723 billion (or approximately 26% of GDP) annually for a decade to reach a broad set of infrastructure targets.[22] In particular, Mozambique's transport infrastructure challenges endure and the country's potential as a transit corridor and an access point to the sea for its landlocked neighbours - e.g. Zimbabwe, Zambia, and Malawi – is beginning to receive attention from several major investors.

Tete – Coal mining province

Coal prices have plummeted since their peak in 2011. In March 2014 the price of thermal coal was half its 2011 price ($70/t at the port of export compared to $140/t) and the coking coal price was down to one-third of its 2011 peak ($120/t from $350/t).[23] The result has been massive profit losses for coal miners. On 30 July 2014, Rio Tinto, the other big coal mining MNC in Mozambique, announced intentions to sell all its Tete assets to an Indian joint venture, International Coal Ventures Private Limited (ICVL)[24] for $50 million – having originally paid $3.7 billion to buy the concession in Tete.

Vale held extensive interests since 2014 in Tete's coal-rich Moatize district, and also needed a reliable route to transport the coal for eventual export. The company mined 3.77 million megatonnes of coal in 2012 (the first year of full operation) and the second phase of the project, Moatize phase II, is under development. Vale is also constructing the Nacala Corridor to connect Moatize to the Nacala port, and restoring Sena Railway to connect Moatize to the Beira port.

In December 2014, Mitsui & Co. agreed to pay nearly US$450 million for a 15 per cent stake in the Brazilian group's Moatize mine, and invest a further US$188 million to fund the mine's expansion. Mitsui also agreed to pay US$313 million for a 35% per cent stake in Vale's subsidiary that has been busy with construction of the Moatize-Nacala railway line and the development of the Port of Nacala.

Implications of mining-driven infrastructure

Scholvin and Plageman[25] explore the link between today's mining-driven transport infrastructure and the colonialist model of infrastructure development intended to extract resources from Africa to drive the economic engines in the home country. Today, the coal-driven economic engines are mostly located in China and India – the countries to which the bulk of Mozambican coal is exported.

Just how beneficial the Moatize to Nacala railroad will be outside of its utility to Vale is still unclear. With large physical infrastructure projects of this nature, there is the associated relocation of communities, farms and businesses. Inevitably, this leads to dissatisfaction – even when this is a delayed dispute well after the relocation costs have been found to be inadequate *post factum*. Vale has put efforts into its corporate social responsibility (CSR) programmes and it has been announced by Tete Provincial Finance and Planning Director Maria de Lurdes Fonseca recently that the company has so far fulfilled its promised CSR obligations.[26]

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[21] Maennling N, Shah A & S Thomashausen. 'A Framework to Approach Shared Use of Mining-Related Infrastructure: Case Study: Mozambique' March 2014. Australian Government, Department of Foreign Affairs and Trade. Page 8.

[22] This includes $156 million on ICT; $771 million on power; $403 million on transport; $331 million on water and sanitation services; and $61 million on irrigation, quoted from *Africa Infrastructure Diagnostic: Mozambique* 2009 - http://siteresources.worldbank.org/INTMOZAMBIQUE/Resources/AICD-Mozambique_Presentation-Nov_09.pdf

[23] Southern Africa Resource Watch, 10 August 2014, http://www.sarwatch.org/mozambique/end-tete-coal-boom

[24] ICVR was established by the Indian government to acquire coal assets overseas to meet the needs of some state-owned companies such as Steel Authority of India Limited, Coal India Limited, Rashtriya Ispat Nigam Limited, National Minerals Development Corporation Limited and National Thermal Power Corporation Limited.

[25] Scholvin S & Johannes Plagemann. Transport Infrastructure in Central and Northern Mozambique: The Impact of Foreign Investment on National Development and Regional Integration. SAIIA Occasional Paper No 175, February 2014 - http://www.thetradebeat.com/news-blog/topic/infrastructure.

[26] Campbell K, Most coal miners in Mozambique not yet meeting social obligations Mining Weekly 28th March 2014 http://www.miningweekly.com/article/most-coal-miners-in-mozambique-not-yet-meeting-social-obligations-2014-03-21

With respect to secondary transport infrastructure and multiple use of the Moatize-Nacala railroad, Abrahamson *et al.*[27] recommend that:

- The stations on the rail link and crossings with rural roads, as well as main roads should be carefully considered to ensure the benefit of the railway for the majority of the population.
- The government ensure that general freight transport is extended for general freight to open the market for local businesses, and decrease their total transport costs.
- The government ensures that user fees charged to passengers and local traders are affordable for the income levels of the area.

Beyond community development programmes, it would be expected that the 900-plus km railway line would stimulate economic developments in sectors other than coal mining. Ideally smallholder and commercial farmers in Malawi, Zimbabwe and Zambia should be linked to major markets via this rail corridor. This represents a critical market access factor that could unlock agricultural potential in the region. In addition, the development of formal commercial hubs around the mining developments and along the rail link should be further encouraged. While local content requirements are being pushed by the Mozambican government, regulation and rigorous implementation of quality standards would encourage the utilisation of locally produced goods by foreign investors.

Namibia

After independence, Namibia implemented the Foreign Investment Act of 1990 which created a liberal FDI regime that opened the economy to foreign investment and allowed the signing of fifteen BITs, seven of which are currently in force. However, the Namibian government is dissatisfied with the role FDI has played in creating local employment, transferring skills and technology, and economically empowering previously disadvantaged Namibians, with a persistent unemployment rate of just over 28% in 2015.[28] As a result, Namibia seems to be following South Africa's lead with the planned overhaul of its FDI regulation, in the form of the New Investment Bill (NIB), and the planned phasing out of its BITs.

The NIB aims to address these previous shortfalls by reserving certain business activities for Namibian citizens (such as taxi and shuttle services, small retail businesses, hairdressing, and the cosmetics industries) and introducing performance requirements on foreign investors.[29] This relates to Namibia's desire to see a transfer of the country's productive assets from foreigners to Namibians – a process referred to as "Namibianisation" – in order to create wealth redistribution and empower previously disadvantaged Namibians.[30] The NIB will require all investors to be registered with the Ministry of Trade and Industry and for large investors to meet mandatory performance requirements, such as employing a certain number of Namibians or entering into a joint venture with local firms, in order to operate in Namibia. If foreign investors do not comply, the Minister can revoke their business licences – the "stick" approach to FDI regulation. The opposite "carrot" approach is to induce desired behaviour among foreign investors by offering them incentives, such as tax exemptions or cash grants. Namibia offered a comprehensive incentive scheme under its former FDI regulatory regime through incentives for foreign investors, special incentives for manufacturers and exporters, and export processing zone incentives. However,

[27] D Abrahamson et al. 'Mozambique mobilizing extractive resources for development' Mozambique: Extractives for Prosperity, Volume II Capstone Report: School of International and Public Affairs, Columbia University - http://mozambiqueextractivedevelopment.weebly.com/uploads/1/1/0/9/11096909/03_the_need_for_inclusive_infrastructure.pdf

[28] Namibian Statistics Agency. 2014. *The Namibian Labour Force Survey 2014 Report*. Available: http://cms.my.na/assets/documents/9b8e77842e3dec459407c2a76b9d79ab.pdf

[29] Based on primary interviews with the Ministry of Trade and Industry's Namibian Investment Centre.

[30] Armstrong, C.,Sumaila, U., Erastus, A. and Msiska, O. 2004. Chapter 10: Benefits and Costs of the Namibianisation Policy in *Namibia's Fisheries: Ecological, Economic, and Social Aspects*. Amsterdam University Press.

many of these schemes have not resulted in substantial host state benefits and there is concern of a "race to the bottom" among developing country incentive schemes – leading to a loss of fiscal revenue.[31]

The success of mandatory ownership requirements often depends on the bargaining power of the host state. Generally, ownership requirements have been more successful in the natural resources sector where foreign firms don't have alternative sites for producing exports. The bargaining power of host states increases if there is a large domestic market, and decreases if the foreign firm exports non-resource based manufactures or if host states exist in a common market with alternative investment opportunities and tariff-free access.[32] As Table 6 below shows, most of Namibia's FDI occurs in the mining sector where the state enjoys greater bargaining power over resource-seeking firms that factor entry requirements into their costs. However, Namibia also relies on FDI in other strategic sectors, such as transport and logistics which is crucial to Namibia's plan to become the logistics hub of Southern Africa[33]. In these sectors, the cost of an unwanted mandatory joint venture may tip the scale of the cost/benefit analysis investors make when choosing a destination. There is a risk of scaring away much-needed FDI in non-resource based sectors. Conversely, offering incentives to foreign firms which find local partners or divest equity to locals reduces the cost of local ownership and increases the likelihood that the foreign partner will engage in a meaningful transfer of expertise and technology.

Table 6: **Top 10 Namibian Sectors Receiving FDI, by Capex flow, January 2003 – May 2015**

Industry Sector	Capex (USD Million)	Projects
Metals	4 756.8	20
Coal, Oil and Natural Gas	1 144.3	7
Building & Construction Materials	670.6	4
Real Estate	495.8	6
Financial Services	253.4	25
Minerals	232.9	12
Business Services	220.4	4
Chemicals	208.2	6
Food & Tobacco	205.0	5
Communications	176.1	5

Source: fDi Intelligence, from the Financial Times Ltd. 2015
Notes: All Capex figures shown are in USD – United States Dollar Million; Capex and Job figures include estimated values

Namibia's fisheries sector is a good example where such incentives have been successful. In 2009, Namibia introduced new fishing rights allocation and quota fee structuring to encourage local ownership, job creation, and fish processing. Rights and quota fee rebates were offered depending on the degree of Namibian ownership, employment of Namibian crew, and whether fish was landed and processed within Namibian borders. The Namibianisation policy has resulted in a significant transfer of ownership, an increase in the number of Namibian-

[31] British High Commission. 2014. *Doing Business in Namibia: A Guide for UK Companies*. British High Commission.
[32] United Nations Conference on Trade and Development. 2003. Chapter 1: The Overall Picture in *Foreign Direct Investment and Performance Requirements: New Evidence from Selected Countries*.

[33] Republic of Namibia. 2012. *Changing Gear Towards Vision 2030.* Namibia's Fourth National Development Plan (NPD-4): 2012/13 to 2016/17. Windhoek, Namibia.

based vessels, and an increase in employment from local processing activities.[34] However, the primarily Spanish fishing companies which dominated the sector before the policy was implemented have been accused of maintaining their control of Namibia's fisheries by setting up joint ventures with politically-connected Namibians who successfully secured fishing rights, yet are not involved in the running of the new companies.[35] This is a problem of fronting, similar to the problem experienced by South Africa after the implementation of its black economic empowerment policies. South Africa has now criminalized fronting[36] to address the problem which should be replicated in Namibia to ensure that the incentives results in meaningful ownership transfer.

Incentives schemes are, therefore, only as beneficial as they are well-designed and monitored. Incentives should be dispensed over time and only once the investor has met the requirement, not at the time of investment. Furthermore, it is important to compliment local ownership incentives with capacity building for local firms so that they can properly absorb the technology and skills the foreign firm brings with them.

South Africa

Since South Africa's transition to a democracy in 1994, inward FDI flows have been unable to reach the levels of similar countries in Asia and Latin America, averaging less than 1.5% of GDP between 1994-2002 and 1.4% of GDP in 2011 compared to 2.9% in Poland, 3.6% in Hungary, 4.3% in Malaysia, and 7% in Chile.[37] This has been partly due to South Africa's "dual economy" of sophisticated financial markets and industrialisation in some sectors but with persistent unemployment and poverty, the policy uncertainty caused by political instability, and South Africa's uncompetitive tax profile. In addition to low FDI inflows, South African policy-makers have recognised the need to attract FDI which provides the maximum domestic benefit as evidenced by the recent regulatory reforms that have already been discussed in the previous section. However, FDI policy needs to be designed in conjunction with industrial policy to achieve social progress objectives such as employment creation and reduced inequality. The recent merger and acquisition (M&A) case of Walmart entering the South African market provides a good example of the nexus between investment and industrial policy in Southern Africa.

South Africa's FDI inflows have been historically dominated by the natural resources sector, particularly mining, followed by manufacturing and services, as shown in Table 7 below. However, a significant portion of recent FDI inflows are accounted for by M&A investment in the services sector – particularly in the banking, telecommunications, and retail industries.[38] The most recent of these involved the purchase of 51% of South African retailer, Massmart, for $2.4 billion by the global retail giant, Walmart. Globalization is increasingly driven by large lead firms that are entering local economies, establishing a presence and, through their global value chains, creating a sourcing footprint. This has major implications for the domestic economy: for consumers in terms of price and product choice, for local firms as new outsourcing dynamics are established, and for workers as employment alters. As such, there are welfare, industrial policy, and employment implications as developing economies are integrated into global value chains.

Table 7: **Top 10 South African Sectors Receiving FDI, by Capex flow, January 2003 – May 2015**

Industry Sector	Capex (USD Million)	Projects
Metals	13905.59	70

[34] Benkenstein, A. 2014. Rents, Rights and Restructuring: Namibia's Lessons for the Governance of Africa's Fisheries. *SAIIA Occasional Paper 207*.
[35] Garcia Ray, M. and Grobler, J. 2011. *Spain's hake appetite threatens Namibia's most valuable fish*. The Centre for Public Integrity. Available: http://www.publicintegrity.org/2011/10/04/6769/spain-s-hake-appetite-threatens-namibia-s-most-valuable-fish
[36] Republic of South Africa. 2014. Government Gazette No. 37271. Amendment to Act No. 46 of 2013: Broad-based Black Economic Empowerment Act 2013.
[37] Wocke, A. and Sing, L. 2013. Inward FDI in South Africa and its policy context. *Columbia FDI Perspectives*. Vale Columbia Centre on Sustainable International Investment.
[38] Ibid

Coal, Oil and Natural Gas	11792.27	43
Alternative/Renewable Energy	10638.99	50
Automotive OEM	6317.02	76
Communications	5387.34	86
Hotels & Tourism	2415.8	25
Software & IT Services	2382.7	167
Financial Services	1681.7	124
Building & Construction Materials	1583	8
Food & Tobacco	1550.03	45

Source: fDi Intelligence, from the Financial Times Ltd. 2015
Notes: All Capex figures shown are in USD – United States Dollar Million; Capex and Job figures include estimated values

A number of issues were raised by the key interest groups (Walmart/Massmart, government, and organised labour) concerned about the Walmart/Massmart merger. Employment considerations were chief among them as Walmart's business practices anticipated the retrenchment of staff in Massmart stores, as well as the potential loss of employment among local Massmart suppliers as Walmart uses its global value chain to source cheaper products from other parts of the world. However, despite these risks, the merger also represented a significant opportunity. Walmart acquired Massmart in order to use South Africa as a logistics and supplier hub to expand into the rest of Southern Africa. This represents a consumer market much larger than the domestic one with more opportunities for growth and employment creation. Furthermore, with the incorporation of a South African subsidiary into the global Walmart enterprise, there exist significant opportunity for South African suppliers to be included in Walmart's global supply chain.

The subsequent court case through the Competition Tribunal and the Competition Appeals Court (CAC) highlighted the need for South Africa to have a coherent industrial policy to address these concerns and harness the potential opportunities for growth and employment creation. The CAC ruled that the merger would not be anti-competitive and Walmart/Massmart struck a deal with government and organised labour in which a moratorium on staff retrenchments was placed and a $13 million fund was created to aid small business development among Massmart's existing and potential supplier base. Part of the CAC ruling involved each interested party appointing an expert to advise the court on the design and size of this fund. One of the proposals was for non-distortionary policy interventions aimed at improving the efficiency and global competitiveness of local producers so that they can be integrated into larger global value chains. Such an approach recognises that the effects of globalisation are inevitable and that they represent a significant welfare gain to consumers. Rather than trying to counteract the effects of globalisation, it attempts to harness the opportunities it poses by nurturing the comparative advantage of domestic producers. In so doing, this approach may come with a short-term drop in employment as local producers adjust to competitive pressures. However the long-term prospects for growth and employment creation are significant as these domestic producers become efficient enough to compete globally.[39]

The government already provides a large amount of assistance to SMMEs and medium-sized firms through a variety of funds to improve competiveness. However, with the exception of the textiles sector, this assistance is mostly in the form of grants or loans.[40] While financing can help these firms to expand their production or purchase costly capital equipment, what these firms really need is the knowledge and expertise related to upgrading in a retailing value chain. To this end, there is a whole industry related to supply chain upgrading and there exists, both in South Africa and internationally, a number of specialist firms who possess the technical

[39] Morris, M. 2012. Wal-Mart/Massmart Study for the Competition Appeal Court. Expert Report
[40] Hodge, J. & Stiglitz, J. Guidance on the Wal-mart/Massmart Merger Condition: Report to the CAC. Export Report

know-how and expertise related to this process. It is important to note that Massmart already has its own supply chain development fund which undertakes a similar process. However, this fund is spent almost exclusively on non-tradables (such as services) or fresh produce, since these cannot be easily sources from other parts of the world. Therefore, government policy interventions should focus on local suppliers producing tradables and non-agricultural products, since these are the local suppliers most in need of assistance. Since the goal of these policy interventions is to incorporate or retain local suppliers in Wal-mart/Massmart's supply chain, the focus should also be on current SMME suppliers to Massmart, potential medium-sized suppliers to Wal-mart, 2nd tier SMMEs feeding into larger firms in Massmart's overall supply chain, and clusters of micro enterprises.[41]

The key issue the CAC case raised is that South Africa's industrial policy was unable to deal with the unique risks and opportunities presented by the rising amount of M&A FDI the country is receiving. M&A investment is both the result of, and a contributor to, the process of globalization and the global dispersion of production. In order for FDI policy to successfully harness this type of investment towards inclusive growth in the face of globalisation, it needs to be accompanied by industrial policy interventions which capacitate local firms (particularly SMMEs) to take advantage of opportunities to enter and move up global value chains.

CONCLUSION

It has been pointed out that the host country's absorptive ability is a significant factor in determining the impact of FDI and its spillover effects. Not only is the presence of resources and local firms important, but also the productivity of these resources. This includes the ability to receive, and adapt to, new skills and technology.

Also, of great importance is the government's ability and willingness to engage and negotiate with foreign investors for the best potential outcome for the economy and its citizens. This presupposes that a strategic path for sustainable socio-economic development is mapped out; that rules and regulations for engagement with investors is clearly and transparently set out; and that implementation, monitoring and assessment is accompanied by a corrective mechanism for non-performance, including satisfactory legal recourse and remedy.

Governments can help local suppliers become more competitive by developing complementary infrastructure, using targeted cluster policies (including training and innovation strategies), and judiciously adopting local content requirements (when possible). Essential for integrating smaller suppliers and upgrading producer capabilities is the facilitation of competitive market access to regional as well as global input and output markets.

In SADC, there is a nascent legal framework which, when consistently implemented will direct the FDI relationship between investor and host country. In addition, each country is at different stages of investment policy evolution – with the growing awareness that FDI has great potential for delivering inclusive and sustainable growth when transacted correctly.

Government should demand greater bargaining power in the extractives sector where mandatory performance requirement can be used without scaring away potential investors. Other crucial sectors, particularly infrastructure development sectors such as health, education, construction and information technology, should consider the use of measured incentives to attract foreign investors. Incentives schemes are only successful if they are well designed and monitored. Monitoring is essential to the successful achievement of the scheme's objectives and other legislative action, such as criminalising fronting, should be considered to enforce the scheme's effectiveness.

Regional FDI policy should recognise the need for co-ordination among SADC states on incentives. For example, across the board a decision should be made not to use incentives in the natural resource extraction sector because all countries have greater bargaining power and could gain from mandatory performance requirements. Also agreeing not to "under-cut" one another on incentives in other industries to prevent a race to the bottom. This can be accomplished with a regional extractives strategy.

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[41] Morris, M. 2012. Wal-Mart/Massmart Study for the Competition Appeal Court. Expert Report

Given the process of globalisation and the global dispersion of production, FDI policy needs to be accompanied by industrial policy interventions which allow local firms to enter and move up global value chains, creating employment and reducing inequality.