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A Contribution to WDR 2005 on Investment Climate, Growth and Poverty

Investment for Development Project (IFD) – Civil Society Perceptions

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Key Messages

1. Civil Society is positively oriented to Foreign Direct Investment (FDI) in all 7 countries surveys.
2. Technology, management and capital are perceived as the key contribution of FDI.
3. There are significant concerns on some negative aspects of FDI, the greatest concern being that foreign investors do not care about the impact of their investments on the community.
4. Civil Society highlights the strengthening of domestic businesses and adoption of effective competition policies as the most desired policies to increase FDI benefits.

The views and opinions expressed in this study are those of the author and do not necessarily correspond to the views or policies of the Department for International Development (DFID), UK.

Introduction

1. The emergence of civil-society movements worldwide has led to intensification of human interactions on governance issues beyond the formal governmental processes. This is more explicitly linked with globalization, both as a cause and as an outgrowth. On the one hand, globalization with its emphasis on market forces and devolution of power has created a wider role for CSOs. On the other hand, local communities have formed networks of CSOs to address common concerns generated by globalization. In fact, CSOs have increasingly been able to exert considerable pressure on states and international organizations for taking account of their concerns in the global governing process. Interestingly, although in principle CSOs have generally taken a critical view of the process of globalization, in reality, they have become a significant force behind it due to their global networks.

2. The 1980s and 1990s have witnessed rapid expansion in production all over the world facilitated by market-oriented policies in the North, structural adjustment programmes in the South and technological advancement in general. Production has been progressively getting internationalized and one major driving force behind this is foreign direct investment (FDI). Faced with stagnant demand and sharp rise in production costs in home countries, TNCs have been shifting their production bases to countries where there exist untapped and growing markets for their goods and services and production costs are much lower owing to cheaper raw materials and labour.

3. Not only is the volume of FDI booming, but also TNCs are deploying strategies that give them increased leverage. Globally, the corporate world is becoming increasingly intertwined. This trend toward surging foreign investment and rising TNC activity is likely to continue as a result of the globalization of markets for goods, services, and capital. The expansion of FDI is closely linked to three major phenomena: internationalization of production, increasing global trade and rising financial flows.

4. Given the wide nature of factors involved with FDI, it has also generated strong feelings. The supporters of FDI consider the gains in employment, investment, and as a result on growth to far outweigh any potential pitfalls. Those inimical to FDI consider the dangers such as repatriation of funds, cultural 'invasion', etc., to far outweigh any potential economic benefits.

5. History has revealed a picture that is far from clear in terms of the 'net' benefits. The trading firms of the colonial days, the exploitation of natural resources, the meddling in the political environment of host countries, are well documented. Modern economic history has however, shown in many different ways the great advantages that FDI brings with it.

6. Given these conflicting signals, the question that arises is, "What is the lay-person's view on FDI?" Civil society plays an important role in shaping opinions of the common people. These in turn affect the shape and structure of countries' policy towards FDI.

7. Unlike policy-makers, economists, and industry associations, civil society tends to look at many non-economic dimensions as well. Not just capital inflows, or technology improvements, or profitability. For any broad consensus to be achieved, countries need to take into consideration the views of the civil society. Sustained and long-term improvements in FDI policy can be achieved if there is consensus among the general public. This consensus in turn can be more easily achieved if there is active support of the CSOs.

The IFD Project and its Civil Society Survey

8. Keeping these in view the Investment for Development (IFD) project conducted a survey on the civil society's views on FDI in seven different countries. IFD project is a two-year project implemented by Consumer Unity & Trust Society (CUTS), Jaipur, India and supported by the Department for International Development (DFID), UK. UNCTAD assisted CUTS for conducting regional and international seminars, and provided

technical inputs, while local partners are involved for country specific activities in the selected countries.¹ The project seeks to study investment - particularly FDI trends, policies and perceptions in select developing and transition economies by identifying the factors encouraging or hindering FDI in these countries, identifying problems or deficiencies that exist at the national levels and, designing solutions. The project also seeks to raise awareness and build capacities of civil society, policymakers and investors on investment issues.

9. The countries included in the project are Bangladesh, India, South Africa, Zambia, Tanzania, Brazil and Hungary. The mix of countries was chosen for many reasons. The objectives in the country choice were primarily related to looking at a diverse range of experiences by including a wide range of countries. Diversity in economic characteristics, geographical spread, and the size of the economy were some of the key factors. There are therefore three groups of countries: Large Emerging Economies - India, South Africa and Brazil and Least Developed Countries (LDCs) - Zambia, Tanzania and Bangladesh and one transition economy – Hungary.

10. Each country's and its society's views are also shaped by their actual experiences. What have their experiences been? How have specific industries/sectors been affected by FDI? Have these experiences been positive? Have there been gains for specific sectors? Are some important questions dealt with in this part of the study?

11. For the purpose of this study, questionnaires were sent to potential respondents from a range of organizations such as: trade unions, business associations, NGOs, religious organizations and representatives of the academia and the media. The respondents were asked to provide their perception on a number of issues related to FDI policy and performance. Between 11 to 50 respondents were surveyed in each of the seven countries on various aspects of FDI. The civil society survey was intended to obtain the views/perceptions of the civil society on a number of issues pertaining to FDI.

Findings of the Survey

12. The queries were such that both positive and negative perceptions towards FDI were covered. Importantly too, civil society is highly aware of their own countries' experiences. Overall we find that in all the project countries, in a significant manner, civil society is positively oriented towards FDI. Countries that have a positive experience in certain aspects show high consensus levels. For instance, FDI in India is more oriented towards serving the domestic market rather than using the land as a base for exporting elsewhere. Consequently, less than half the civil society respondents from India think that FDI can help enhance exports.

Table 1: Positive Civil Society Perceptions – percent responding 'Yes'

Factors\Countries	Bangladesh	Brazil	Hungary	India	South Africa	Tanzania	Zambia
FDI brings in valuable new management techniques	84	100	90	89	100	70	85
FDI is a valuable source of foreign capital	82	100	60	89	100	80	59
FDI brings in valuable new technologies	88	82	92	82	96	92	85
FDI increases access to world market	85	55	82	61	100	76	76
FDI increases the competitiveness of national economy	85	73	90	79	100	73	62
FDI helps to enhance export(s)	76	64	72	47	100	76	62
FDI makes up for insufficient domestic investment	68	45	80	56	88	48	68
FDI helps to reduce import(s)	58	45	53	34	65	41	32

Source: CUTS Survey on Civil Society Perceptions on FDI, 2002-2003

13. As can be seen in Table 1 almost all of the responses are in the 50-100% range. This implies that majority of the respondents are convinced that FDI can bring benefits to country through different ways.

14. Overall, in all the countries studied, the import reduction impact is not considered to be an important one. In all the countries under consideration, it shows up as the one factor with which the least proportion is in agreement. International evidence on import reduction and FDI is also lacking.

15. As per the civil society perceptions, technology, management techniques and capital are the key contributions of FDI. However, there is less agreement on its other potential advantages such as making up for lack of domestic investment, competitiveness, and access to world markets.

16. Civil society in South Africa is the most in agreement with the positive aspects of FDI. Significantly, civil society in Brazil and India tends to have lower agreement with the positive aspects. Both Brazil and India are large markets with a strong domestic manufacturing base. The marginal impact of FDI on the factors queried would therefore be lower. It was also found that civil society in Tanzania responded in a manner similar to Brazil and India.

17. The table below reports the perceptions regarding some potential negative aspects of FDI. It finds that overall, countries tends not to agree on the negative aspects. However there are significant inter-country differences.

Table 2: Negative Civil Society Perceptions – percent responding 'Yes'

Factors\Countries	Bangladesh	Brazil	Hungary	India	South Africa	Tanzania	Zambia
FDI brings in environment-ally harmful technologies	38	18	28	39	23	38	12
FDI reduces the profitable opportunities available to domestic investors	47	45	60	33	27	50	74
Foreign investors are only interested in getting access to domestic market	58	55	46	72	23	47	56
FDI results out of unfair advantages of multinational firms	65	27	58	38	31	45	79
Foreign investors do not care about impact of their investments on community	62	45	56	45	23	57	71

Source: CUTS Survey on Civil Society Perceptions on FDI, 2002-2003

18. As may be expected, civil society in general perceives that foreign investors do not care about their impact on the community. This is however, less so in the case of India and Brazil. However, South African civil society respondents seem not to share this view. South Asian civil society also largely agrees with the perception that investors are 'only' interested in gaining access to domestic markets, a view also shared by a majority respondents from Brazil and Zambia.

19. The experiences of Zambia and Hungary, and to a lesser extent Tanzania may have contributed to the responses from these three countries which show that most consider FDI to negatively affect domestic investors. Overall, the responses suggest that negative perceptions are the least in South Africa, followed by India and Brazil. For the rest these negative perceptions have persisted.

20. Overall, therefore, the civil society is strongly in agreement with the positive aspects of FDI. However, there is significant concern related to the negative aspects in most countries. Given these concerns it is but natural that respondents would have views on the role that the government should play. Many queries related to the direction that government policy should take were asked. The responses are reported and discussed below.

Table 3: Civil Society views on desired policies to increase the benefits of FDI – percent responding 'Yes'

Factors\Countries	Bangladesh	Brazil	Hungary	India	South Africa	Tanzania	Zambia
Support local businesses to upgrade technology/gain access to finance, etc.	91	100	84	86	100	98	68
Strengthen environmental regulation	77	0	88	81	54	93	59
Introduce/strengthen competition policy	89	67	64	83	65	100	53
Strengthen sectoral regulation	66	17	58	83	38	97	62
Strengthen labour legislation	69	17	40	76	4	98	41
Strengthen intellectual property rights legislation	88	33	63	95	69	90	82

Source: CUTS Survey on Civil Society Perceptions on FDI, 2002-2003

21. Except Zambia, in all the countries there is strong agreement with the potential policy action that would support the strengthening of domestic businesses. There is less agreement on the necessity of strengthening environment regulations – Tanzanian, Brazilian and South African civil society is not as much in support of this measure. This could also be the result of strong environmental regulations already in place in countries such as Brazil.

22. As has been discussed in other parts of this study, the gains from FDI can be the most significant when there is a high level of competition. Competition prevents FDI from extracting monopoly rents and repatriating them. Another aspect of competition is that counter-balancing forces are present in the economy that could prevent exploitation. Strengthening of competition policy gets among the largest affirmative responses in all countries.

23. Civil societies from countries that have had among the highest FDI historically also do not display enthusiasm for putting greater regulation on FDI. Responses from South Africa, Brazil, and Tanzania, all show lesser agreement for greater government intervention than other countries.

Table 4: Restrictions on FDI to increase the benefits – percent responding 'Yes'

Factors\Countries	Bangladesh	Brazil ²	Hungary	India	South Africa	Tanzania	Zambia
Impose requirements to:							
▪ Create jobs	84	N.A.	84	89	46	95	74
▪ Employ local managers	80	-	54	75	62	97	65
▪ Transfer technology	91	-	82	86	73	94	62
▪ Source supplies from local firms or impose local content norms	71	-	78	68	38	94	76
▪ Export from the economy	80		53	85	46	94	47
▪ Balance foreign exchange impact	62	-	38	47	12	88	65
▪ Transfer skills and know-how to local subsidiary firms	94	-	88	80	69	100	68
▪ Transfer skills and know-how to local non-affiliate firms	63	-	62	67	38	81	62
▪ Train local technical and managerial manpower	94	-	92	87	100	97	59

Source: CUTS Survey on Civil Society Perceptions on FDI, 2002-2003

24. Generally civil society is in favour of imposing certain requirements on FDI, although many of the scores are not as high as in previous tables. This again indicates that though FDI is considered to be positive, there is a strong perception that specific government regulations and requirements can have a positive impact. Of the countries studied, the Tanzanian and Indian civil society is the most in favour of specific government interventions. Curiously, South African civil society that has strong positive orientation towards FDI also calls for many specific interventions and policy measures.

25. Employment and technology related requirements receive the most support in all the countries studied. Within these class of interventions, those related to the training of local employees receive the strongest support. Overall, civil society in India is the most in favour of greater government action to increase the net benefits of FDI to the economy, while in Brazil, the responses are more varying and are highly issue specific. Significantly, balancing requirements for foreign exchange outflow have the least support.

Conclusions

The main findings of the survey may be summarized as follows:

- (i) Civil Society is well aware of the experiences of FDI in their respective countries;
- (ii) Civil Society is positively orientated to FDI, in a significant manner, in all 7 project countries;
- (iii) Countries that have a positive experience of FDI show high civil society consensus levels;
- (iv) Civil society perceives technology, management and capital as the key contributions of FDI. There is less agreement on its other potential advantages;
- (v) Of the 7 countries, South Africa is the one where civil society is mostly in agreement on the positive aspects of FDI, whereas India and Brazil have the least agreement;
- (vi) Civil Society does have significant concerns on some negative aspects of FDI, the greatest concern being that foreign investors do not care about the impact of their investments on the community;

- (vii) Civil society highlights the strengthening of domestic businesses and adoption of effective competition policies as the most desired policies to increase FDI benefits;
- (viii) Of the 7 countries, Tanzania and India CS seem most in favour of specific government interventions on FDI whilst SA is least &;
- (ix) Requirements on foreign investors pertaining to employment and technology receive the most support in all of the countries.

26. The civil society survey has shown that it is largely positively oriented towards FDI in all the countries studied. This is quite striking and appears to be contrary to the popular perceptions as civil society is generally considered to be against globalisation, of which an increasing FDI scenario is an integral part. However, it does have certain specific concerns related to FDI's contribution to the economy. These concerns are reflected in its orientation towards having some constraints in the functioning of foreign firms. Civil society perceptions, it appears, have been shaped by a combination of the current economic climate of greater liberalization and openness in economic policy, and perhaps more importantly, on the actual experiences of their countries.

27. Consequently, studying the experiences across countries has two advantages. First, it allows us to better appreciate the concerns of civil society. And second, it enables us to draw important policy conclusions directly from specific experiences, rather than from abstract theories.

28. Civil society plays an important role in shaping public opinion in the long run. An understanding of what its perceptions are and how they are likely to evolve, will also better enable us to gauge public opinion. Inasmuch as public opinion shapes long term economic policy, it also allows us to gauge the directions in which policy is likely to evolve in a range of countries. In other words, sensible and sustainable policy is one that takes into consideration the ground realities of the sector and the country. These 'realities' not only include the economic conditions and international business environment, but also public opinion.

29. One often finds hostile reactions on FDI related issues from the civil society. For example, often it is opined that more FDI is flowing into potato chip-type sectors rather than silicon chip-type operations. These seem to be due to ignorance, lack of understanding or even improper handling of specific FDI related cases rather than general antagonism towards FDI. Such hindrances can be overcome if governments adopt appropriate and sustained communications strategies to reach out to the civil society as well as take their views and concerns on board and bring in transparency in their operations. Lastly, it might also be helpful if a more intensive and extensive survey is done to gather finer details of how civil society perceives the role of FDI and how foreign investors look at countries where they would like to invest.

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List of Acronyms

CS	Civil Society
CSO	Civil Society Organisation
CUTS	Consumer Unity & Trust Society
DFID	Department for International Development
FDI	Foreign Direct Investment
IFD	Investment for Development
LDC	Least Developed Country
NGO	Non-governmental Organisation
TNC	Transnational Corporation
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development

Notes

¹ Following are the country partners in the project: Bangladesh Enterprise Institute, Dhaka, Bangladesh; Nucleo de Economia Industrial e da Tecnologia (NEIT), Instituto de Economia, Sao Paulo, Brazil; Budapest University of Economics and Public Administration, Budapest, Hungary; National Council of Applied Economic Research, New Delhi, India; Institute for Global Dialogue, Johannesburg, South Africa; Economic and Social Research Foundation, Dar-es-Salaam, Tanzania; and CUTS Africa Resource Centre, Lusaka, Zambia.

² The questionnaire administered by the Brazilian partner did not have questions to collection information on these issues.