Foreign Direct Investment in Swaziland: Benefits and Drawbacks

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Foreign Direct Investment (FDIs), Costs and Benefits, Impact, SMMEs, Infrastructure, Skills 'development

Abstract
There has been a longstanding debate on whether foreign direct investment (FDI) benefits developing countries, particularly those that are small and poor with a limited market size. The paper explores this issue in Swaziland, a country that has attracted a great deal of FDI in the past, but is still struggling economically to grow. The benefits of FDI to Swaziland have been mixed, but research has not explored the less obvious drawbacks, assuming that FDI is beneficial. The paper concludes that it is not FDI that is the problem, but rather how it is managed and balanced with the needs of the indigenous firms.

Introduction
The considerable advantages of FDI for developing African countries has been recognised for some decades, and African governments have been urged to increase FDI in their countries. FDI stimulates infrastructure developments, increases national productivity and exports, it introduces new knowledge and expertise into the country. It not only creates new jobs, but jobs with a career structure and benefits. Successful inward investment produces new income to governments through increased taxation. In some industries FDI leads to significant multiplier effects through creating suppliers, boosting service industries and increasing local purchasing power. Africa, however, has lagged behind other continents in attracting FDI, and only a small percentage of companies seeking to invest abroad have chosen Africa to locate (Moss *et al.*, 2005). In 2011 Africa's share of the total world FDI inflow was only 2.8 per cent compared to 22 per cent for East and South east Asia and 14.2 per cent for Latin America (UNCTAD World Investment Report, 2012). Low levels of skills amongst its people, problems with security and governance, and the poorly developed and unreliable infrastructure, have provided a toxic cocktail for foreign investors. These can be overlooked to some extent if FDI is targeted at profitable natural resources, and in some countries such as Nigeria and Angola, FDI has risen over the last 15 years despite low levels of reform and security (Yehoue, 2009) . For African countries with fewer resources, however, the ability to attract FDI does require a commitment to improve conditions for investment.

This introduces a dilemma, in that FDI is needed to develop the country, but unless it is developed, FDI cannot be attracted. Hence, many African governments have had to attempt to improve human capital through education, improve governance, and upgrade infrastructure as well as providing subsidies and incentives, to attract FDI. In the longer term, it could be argued, the need to attract FDI is in itself beneficial, in that it promotes improvements as a means to make FDI more attractive. As a result of improvements since the millennium, and the rising image of Africa as a continent of opportunity, FDI levels have risen in many African countries, with some registering spectacular increases during the "resource boom" of 2008. . For example Benin increased FDI inflows from $million 53.4 in 2005 to $million 216.8 in 2010 (fivefold rise) while in Niger it rose from $million 30.3 to 946.9 (UNCTAD, FDI Statistics, 2011). This rise is likely to continue in the longer term, despite the fact that the Global recession has slowed down FDI inflows since 2008 in many African countries (UNCTAD, 2012).

Most of the literature on FDI in Africa has thus assumed that FDI is mainly a good thing, and should be encouraged. At a more theoretical level there has been an on going debate on the determinants of FDI, and how a better knowledge of these will help governments target and compete for FDI more effectively. There has in contrast been less emphasis placed on researching how effective FDI actually has

been in developing African countries. Critics of FDI in Africa have tended to take a macro view, that it is a form of "resource imperialism", in which greedy foreign companies take advantage of poor African countries to derive raw materials and commodities cheaply, and in so doing suppress the ability of people to add value to the raw products within their own countries. The more micro effects on people have been less well studied.

There is some evidence that small countries are particularly sensitive to the effects of FDI. If one assumes that FDI is beneficial, and needs to be attracted in quantity, then small countries are less likely to attract it, as they lack market size, a primary factor in the ability of a country to attract FDI (Musuku and Dlamini, 2009). If they do attract FDI, then the impact on the economy is likely to be proportionally greater than in a large economy, and any detrimental or beneficial effects are likely to be magnified. These effects are likely to be dramatic if there is a sudden outflow of FDI from the country.

It is in this context that Swaziland provides an interesting setting for examining the effects of FDI. Swaziland is a small landlocked country with a total area of about 17,000 square kilometers just about the size of Wales, and with a population of about 1 million people. In the 1970s to 1990s it succeeded in attracting significant levels of FDI as a result of multinational companies using Swaziland as a base to trade with South Africa, at a time when direct trade with South Africa was highly restricted due to sanctions against the Apartheid regime. This led to significant improvements in the infrastructure and human capital of the country. Since the mid 1990s, however, FDI has suffered as direct trade with South Africa resumed, bypassing Swaziland, and the political situation in Mozambique improved. Many companies have left Swaziland and relocated directly to South Africa and/or Mozambique. This shortfall was made up since the 1990s by attracting FDI in textiles, a consequence of the AGOA treaty with the United States that gave preferential treatment to goods manufactured in African countries (Madonsela, 2006). Further factors that contributed to the slight improvement of 2010 are growth in the agricultural, retail and transport and communications sectors coupled with improved performance by South Africa, the market for more than half of Swaziland's exports. However, growth in foreign direct investment continues to be low with stiff regional competition.

Even the preferential treatment through AGOA is coming to an end in 2015, and the overall prognosis for continuing levels of FDI is uncertain, and registering a long term decline and weak performance (Masuku and Dlamini, 2009). A substantial number of textile industries have already closed down.

Thus to date, Swaziland's economic situation remains precarious, mainly due to significantly reduced Customs Union revenue and the economic melt down, resulting in a liquidity crisis that is expected to continue for considerably longer than the previously anticipated 12 months. Forecasts indicate GDP growth of 2% for 2010, showing a marginal improvement over growth of 1.2% in 2009. However, the GDP is expected to decline in 2011/12 with, among other factors, forced reduced government expenditure impacting across the board (Ministry of Commerce, Industry and Trade, Swaziland Business Year book, 2012).

Although FDI continues to be attracted, the source of FDI has tended to rely increasingly on inflows from South Africa rather than from non African countries ((Ministry of Economic Planning, Swaziland Economic Outlook, 2010). How far has Swaziland benefited in the longer term from FDI has yet to be resolved? This paper contributes to this debate by exploring how far FDI has been beneficial, particularly in terms of its effects on indigenous competitiveness, entrepreneurial attitudes, and the ability to compete.

Theoretical Issues

Foreign Direct Investment (FDI) has been defined in a number of ways, but in this paper the definition advocated by Masuku and Dlamini (2009:178) is adopted, that FDI is "Foreign Direct Investment (FDI) is defined as international interest in which a resident in one country obtains a lasting

interest in an enterprise resident in another country. It is a situation where a foreign country creates a subsidiary to provide goods and services (Makola, 2003)" As stated earlier, the effect of FDI on a host country has attracted considerable attention from researchers in the past, but the research findings have been inconclusive and divergent, and even conflicting. The assumption that it is beneficial as predicted by economic theory, has been driving policy makers to encourage it, but the conflicting empirical results have led some researchers to question its overall impact. A fundamental question is whether "these countries are foolishly pursuing an ephemeral fad?" (Lipsey and Sjoholm, 2005:23).

The benefits of FDI are summarised by the OECD as leading to technology spillovers, transfer of knowledge, the improvement of human capital, leads to international trade integration, creates a more competitive business environment, enhances enterprise development, creates jobs, and alleviates poverty. It can also lead to more indirect social improvements such as cleaner and more regulated business practices, better governance and social responsibility (OECD:2002:Overview). There are also benefits from increases in corporate tax revenues, though this will depend on how far this is reduced by Governments offering tax incentives and subsidies.

The more specific benefits to African countries have been researched by Moss et al. (2005) in a survey of FDI firms in East African countries. Their survey data reveals that foreign firms:

- Are larger than local firms;
- Have much greater production and productivity;
- Added value per worker is significantly higher;
- Possess greater management skills and experience;
- Are twice as likely to have a formal training programme for their employees – investment in training shows significant production gains in manufacturing;
- Export more and import less;
- Are more connected to global markets;
- Are much more likely to have improved infrastructure;
- Are better capitalised to improve deficiencies;
- Are much more likely to provide health and other benefits in the form of social services.

These authors argue that African leaders in the past have been hostile to FDI, bringing in many impediments to foreign investors. However, the negative attitude has since changed as most African countries now compete on investor' attraction and as such they continue to search for better ways to create a conducive environment for investors (Joubert: 2008). A number of factors have contributed to this change among which are the slow pace of economic development, need for greater competitiveness in the global market, Financial crisis of 2008-2009 and economic melt down, Need for investment diversification exacerbated by the diminishing benefits of highly specialised Asian textile industries whose settlement into Africa were on the main to take advantage of the Preferential Status within the AGOA. Most African leaders as a result of these factors have embarked on poverty reduction strategies, improved economic policies that include stringent Fiscal adjustment programmes and Investment attraction programmes, particularly FDI's.

The benefits of FDI, the OECD Report (2002) emphasises, are conditional on the appropriateness of host country policies, and the basic level of development. In the absence of these the effects of FDI can be detrimental. There is some evidence that while many of the benefits of FDI are real for countries that are already wealthy, their overall value in enhancing economic growth are less clear in developing countries where meeting the conditions even halfway is far fetched because of immense challenges faced by the African continent. Expressing this view, Foster and Briceno-Garmendia (2010), argued that in almost every country, the lack of Physical infrastructure is a constraint to growth an poverty reduction. Not only is infrastructure lacking, it is also significantly more expensive than elsewhere in the developing world. Average electricity costs of US$0.18 per kilowatt hour are about double the cost in other developing

countries. Infrastructure gaps are largely by far in energy with citizens in 30 of the 47 countries in sub-Saharan Africa facing regular power shortages and service interruptions.

Thus many empirical studies situated in developing countries have failed to find beneficial spillovers from FDI, and that country specific factors are so important that it is impossible to generalise (Lipsey and Sjoholm, 2005). These authors point out that by increasing efficiency of production, less efficient indigenously owned firms are unable to compete, hence their performance is adversely affected by the presence of FDIs. The power of foreign companies often leads to concessions by governments in improving the business environment (through regulation and incentive policies) that unfairly favour foreign companies at the expense of local ones (particularly sensitive when it comes to government procurement). The practice of foreign firms in providing social and other services to their workers creates local resentments, and inhibits the development of such services locally as Governments assume the foreign firms are providing them. This is also true for infrastructure developments, where Government concentrates on making sure that it is the foreign companies that have priority in developing the nature and distribution of infrastructure. For example many local firms have to put up with serious load shedding of electricity, whilst large multinationals are not affected.

The overall impact on human resource development is perhaps one of the most contentious issues. Whilst it is true that foreign firms have their own training, and stimulate the improvement in further education to provide a skilled pool of labour for incoming firms, the usefulness of such education and training once the firms leave becomes a contentious issue. There are also wider implications, in that the presence of foreign firms offering steady well paid jobs denies trained workers to local firms, and sets up levels of career expectations that cannot be met for more than a small section of the population. In aspiring for secure employment, the entrepreneurial spirit and ambition can be significantly reduced.

Methodology

Following a review of FDI trends in Swaziland from secondary sources, an exploratory approach is taken based on an analysis of secondary sources, and interviews of personnel of key government departments, parastatals, and educational institutions. These interviews were conducted over two intervals in 2008 for the analysis of challenges in attraction of inward investment; and in 2010-2011 specifically to investigate the problems of small enterprise and entrepreneurship development in Swaziland.

Discussion of Results

As stated earlier, Swaziland is a small country, and especially sensitive to FDI inflows. The pattern revealed by Table 1 is one of volatility, with periods when FDI inflows have been considerable (though very small compared to those of larger countries), and other periods when they have been low, and even negative. In the early 1980s, FDI was not a priority of Government policy, with a newly independent nation to consolidate. However with the tightening squeeze on South Africa, and an increasing openness to attract FDI, the flow of FDI increased substantially up to 1995. With South African liberation, many companies relocated in the mid and late 1990s. This shortfall was addressed by the attraction of new companies through AGOA, and the opening up of new land for sugar and other agricultural commodities. The decline of the AGOA effect is seen in the 2003 to 2005 period, but has since been patially addressed by a much more vigorous policy of attracting FDI (Swaziland Review, 2010).

Table 1: FDI Inflows into Swaziland ($USMillions)

1982	-13.6		**1997**	-15.3
1983	-5.7		**1998**	152.7
1984	5.0		**1999**	98.3
1985	11.6		**2000**	90.7
1986	31.1		**2001**	29.3

1987	56.3		**2002**	92.1
1988	50.6		**2003**	-60.9
1989	67.2		**2004**	69.6
1990	30.1		**2005**	-45.9
1991	82.1		**2006**	121.0
1992	87.3		**2007**	37.5
1993	71.9		**2008**	105.7
1994	63.2		**2009**	65.7
1995	51.8		**2010**	135.6
1996	21.7			

Source: *World Bank Data Bank – data.worldbank.org*

The early phases of FDI inflow were manufacturing companies, many from outside Africa. They would not normally have located in Swaziland, if it was not a means to overcome trade sanctions with South Africa. When they arrived they found a labour-force that was inadequately trained for their needs. Many of the colleges of further education in Swaziland were established with the aim of creating a skilled labourforce for the newly located companies, to supplement and even host internal training programmes. This form of education and training based on technical skills and apprenticeships, in collaboration with foreign firms, was highly successful in plugging the skills gap. The foreign firms created new jobs, stimulated technology transfer, helped local technical colleges improve their facilities, and provided a pool of secure employment. All these were seen as substantial benefits. Furthermore, government built massive factories/warehouses as part of its infrastructural support and improvements to attract FDIs, which have become what is termed wild elephants. Government is now struggling to maintain them and has so far not decided on how to put them into effective use as most of the Companies have relocated.

The technical colleges have continued to produce a consistent stream of technically- able graduates, but they have not been able to get the jobs. The technical training, provided is traditional, emphasising the importance of learning best practice, often in a mechanical way. The students are discouraged from being enterprising, and from being taught adaptation and self reliance. The problem now faced, as the Principals of several establishments emphasised, is a dispirited youth with no entrepreneurial spirit. One Principal contrasted, …"*with the entrepreneurial spirit of visiting Mozambique workers, who are willing to take on any problem, and learn new skills as needed to do the job, the local Swazi skilled workers are reluctant to take on casual jobs, and mostly become unemployed*". The foreign companies are no longer there to employ them, but their legacy remains.

Additionally, the inflow of so many large foreign firms also introduced foreign attitudes to labour relations, particularly those associated with unionisation and organised negotiation. The foreign firms that have relocated have left behind a legacy of a union mentality that most smaller local companies have difficulty managing, and which arguably may be inhibiting their growth.

Finally, the stifling effect of the large foreign firms is perhaps reflected in the poor development of indigenous Swazi medium sized companies compared to other areas of Africa. Those who developed as suppliers to foreign firms in the 1990s have had a hard time surviving and growing once they left. Most of the larger medium sized companies that can be identified involve South African entrepreneurs who are more equipped to see opportunities, and have the capital and expertise to exploit them, whilst on the contrary Swazi SMMEs are on the main termed as "*tender entrepreneurs*" arising the view that they were formed mainly to take advantage of government tenders. When there were reforms in the tendering process for greater corporate governance, most have had to struggle as most got tenders through special connections. Others benefited from the FDIs in construction and services industries who were encouraged to team up with locals for capacity building. When the economic and finical crisis heightened in 2009-2010, most shutdown their businesses living the SMMEs vulnerable and unable to survive.

Another important aspect of Swaziland, is that the past practice of Swazi Governments to attract large inward investors by granting them a monopoly has also had an important effect on dampening indigenous enterprise in Swaziland. A notable example is the granting MTN the sole rights to delivering telecommunication services in Swaziland. Their website appears to show considerable benefits to the country:

- *MTN Swaziland LTD is a subsidiary of the MTN Group, Africa's leading cellular telecommunications company, and started operating in September 1998. MTN Swaziland is the only mobile telecommunications company in the country.*
- *MTN partnered with the Swaziland Post and Telecommunications Corporation (SPTC) in July 1998, and two months later, during the Swazi Independence Day celebrations, King Mswati III made the first cellular call in the country. By December 1998, MTN Swaziland was commercially operational.*
- *In 1999, MTN launched a E4 million voicemail system, which met the 12 month coverage obligation nine months ahead of schedule. By February 2002, the company increased coverage to 75% and launched SMS services in the same year, earning the company 71 million Emalangeni in Revenue. The success of the company has since continued with additional products and services now available to customers. Such products included the launch of Fax Mail in March 2003, an SMS information service, Virtual Recharge and Call Back services. In 2006, MTN launched 'Access 90', a product that gave subscribers up to 90 days' free access.*
- *On 30 June 2008, MTN Swaziland recorded an impressive 457,000 strong subscriber base, which is approximately half of the Swazi population" (Cooperate Communications, Http:// www.mtn.sz)*

Compare this with Kenya and Uganda, for example, which have no monopoly, and which have witnessed a proliferation of telecommunication providers. The competition between them has led to consumers benefiting with prices much lower than those Swazis have to pay, with superior internet services, and with much speedier development of modern forms of 3 and 4 G telecommunication standards. The explosion of enterprising mobile phone applications by Kenyan and Ugandan entrepreneurs have not materialised in Swaziland. the effect of MTN has been to create a more expensive business environment than necessary, and to dampen enterprise in the country. Thus as also earlier noted that the Infrastructural support that include energy, telecommunication services is very expensive in most African countries, including Swaziland. Thus on the main, these countries do not feature positively but are on the least in terms of Doing Business Index, a factor that to a great extent mitigate against attraction of most needed FDIs, particularly in a small country like Swaziland? Should it then such countries pursue other forms of investment attraction, that for instance pursued by smaller countries like Luxembourg in Europe and become a tax heaven? If so, what would be the challenges and constraints for pursuing such options? These are questions for future research.

Conclusions

This paper has shown that there are benefits and disadvantages of FDI in small African countries such as Swaziland. The current policies assume that benefits are much greater than the drawbacks, and focus on how to make the country more friendly and receptive to FDI (Masuku and Dlamini, 2009; Swaziland Economic Outlook, 2010). However, an uncritical faith in FDI as a solution to structural economic problems can be counterproductive, and may encourage FDI at the expense of indigenous growth. In Swaziland, FDI is volatile, and short -term advantages of FDI can rebound if companies leave in significant numbers. The local regional effects can be particularly severe where the skills and services which the companies provided are no longer sustainable or relevant. While new FDI can at a national level compensate for that which relocates, there is no straightforward substitution at the local level. How far is the lack of a national entrepreneurial spirit in Swaziland and the low numbers of indigenous growth-oriented medium sized companies, a reflection of putting too much emphasis on FDI? Finally the paper shows that How FDI is attracted is also important in determining how beneficial it is likely to be. The awarding of monopolies to foreign companies, it was argued, has been especially detrimental in the short term. There is a need for more research on the longer term structural effects of FDI, particularly on its effect on indigenous enterprise and indigenous led economic growth. As Loungani and Razin (2001:1)

state, "*Although there is substantial evidence that such investment benefits host countries, they should assess its potential impact carefully and realistically*".

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