BRIEFING PAPER

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Investment for Development – Civil Society Perceptions

Investment for Development (IFD) Project implemented by CUTS over 2001-2003, conducted a survey on the civil society's views on Foreign Direct Investment (FDI) in seven select countries representing different geographical, political, social and economic scenarios. The survey intended to obtain the views/perceptions of the civil society on a number of issues pertaining to FDI. Following are the main findings of the survey:

- Greater awareness about the experiences of FDI in their respective countries;
- Positive orientation towards FDI, in a significant manner, in all 7 project countries;
- High consensus levels in countries with a positive experience of FDI;
- General acceptance of technology, management and capital as the key contributions of FDI;
- Highest consensus on the positive aspects of FDI in South Africa whereas the least in India and Brazil;
- Greatest concern about the impact of FDI on the community;
- Most desired policies to increase FDI benefits included strengthening of domestic businesses and adoption of effective competition policies;
- Most in favour of specific government interventions on FDI in Tanzania and India whilst SA is least; and
- Greatest support, in all countries, on the requirements from FDI on employment and technology.

Background

The emergence of civil society movements world-wide has led to the intensification of human interactions on governance issues that go beyond the formal governmental processes. This is more explicitly linked with globalisation, both as a cause and as an outgrowth.

On one hand, globalisation with its emphasis on market forces and devolution of power has created a wider role for civil society organisations (CSOs). On the other, local communities have formed networks of CSOs to address common concerns generated by globalisation.

In fact, CSOs have increasingly been able to exert considerable pressure on states and international organisations 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 globalisation, in reality, they have become a significant force behind it due to their global networks.

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 (SAP) in the South and technological advancement in general. Production has been progressively getting internationalised and one major driving force behind this is FDI.

Faced with stagnant demand *vis-à-vis* sharp rise in production costs in home countries, transnational corporations (TNCs) have been shifting their production bases to countries where there exist untapped and growing markets for their goods and services, and where production costs are much lower owing to cheaper raw materials and labour.

As of now, 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 globalisation of markets for goods, services, and capital. The expansion of FDI is closely linked to the following three major phenomena:

- Growing internationalisation of production;
- Increasing global trade; and
- Rising financial inflows.

Given the wide nature of factors involved with it, FDI has also generated strong feelings among various sections of society. The supporters of FDI consider the gains in employment, gross domestic product (GDP), 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.

History reveals 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.

Given these conflicting signals, the question that arises is, "What is the layperson's view on FDI?" And in exploring the answer, civil society plays an important role in shaping views and opinions of the common people. These, in turn, affect the shape and structure of countries' policy towards FDI.

Unlike policy-makers, economists and industry associations, civil society tends to look at many non-economic dimensions involved with FDI as well, not just the 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. This consensus, in turn, can be more easily achieved if there is active support of the CSOs.

The IFD Project and Civil Society Survey

Investment for Development (IFD) Project was a two-year project implemented by Consumer Unity & Trust Society (CUTS), Jaipur, India and supported by the Department for International Development (DFID), UK. For conducting regional and international seminars, including technical inputs, UNCTAD provided assistance to CUTS while local partners were involved in country specific activities in the selected countries.[1]

The project sought to study 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. In addition, it aimed to raise awareness and build capacities of civil society, policymakers and investors on investment issues. Taking the above concerns into consideration, the IFD project conducted a survey on the civil society's views on FDI in seven different countries.

The countries included in the Project survey were chosen for various reasons, such as diversity in economic characteristics, geographical spread, and the size of the economy – some of the key factors – that will help in reaching a feasible conclusion covering a wide and diversified spectrum.

The objectives in the country choice were primarily related to looking at a diverse range of experiences by including a range of countries with entirely distinctive, dissimilar or different economic scenario having distinctive as well dissimilar socio-economic conditions. On this basis, therefore, three groups of countries are classified: Large Emerging Economies (LEE), which includes India, South Africa and Brazil; Least Developed Countries (LDCs), which includes Zambia, Tanzania and Bangladesh, and one transition economy – (TE) Hungary.

Each country's perceptions and its society's views are also shaped by their real-time experiences. What have their experiences about FDI been so far? How have specific industries/sectors been affected by FDI? Have these experiences been positive? Have there been gains for specific sectors from FDI? are some important questions dealt within this part of the study.

For the purpose of this study, questionnaires were sent to the potential respondents or target audience from a range of organisations such as: trade unions, business associations, non-government organisations (NGOs), religious organisations and representatives of the academia and the media. The respondents were asked to provide their views/perceptions on a number of issues related to FDI policy and performance.

Findings of the Survey

In order to get the complete picture, the questionnaires covered both positive and negative perceptions towards FDI. Overall, it was found that in all countries, in a significant manner, civil society is positively oriented towards FDI.

Importantly civil society is highly aware of their own countries' experiences. Countries that have a positive experience in certain aspects of FDI showed high consensus levels. For instance, FDI in India is considered to be more oriented towards serving the domestic market rather than using the land as a base for exporting elsewhere. Consequently, less than half (47 percent) the civil society respondents from India think that FDI can help enhance exports.

Table 1 shows the positive civil society responses, which are in the 50-100 percent range. The highest average percent (almost 88.28 percent) agreement among all the potential respondents was with the first factor i.e. FDI brings in valuable new management technologies followed by third factor (with 88.14 percent), while the lowest average percent (46.84 percent) went with the last factor i.e. FDI helps reduce imports.

Table 1: Positive Perceptions – Percent Responding 'Yes'

Factors	Bangladesh	Brazil	Hungary	India	S. 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

On the whole, the responses from all the countries studied, the import reduction impact is not considered to be an important factor influenced by FDI. Among the different factors under consideration, it shows up as the one with which the least proportion is in agreement.

As per the civil society positive perceptions responses, technology, management techniques and capital are the key contributions of FDI. However, there is less agreement on other potential advantages of FDI, such as making up for lack of domestic investment (average 64.71 percent), helps to enhance exports (average 73.85 percent) and access to world markets (average 76.42 percent).

Civil society in South Africa is the most in agreement with the positive perceptions (with a score of five 100s out of eight key factors). Significantly, civil society in Brazil and India tends to have lower agreement with the positive aspects as compared to their South African counterpart. This is because both Brazil and India are large markets with a strong domestic manufacturing base, therefore, the marginal impact of FDI on the factors queried (insufficient domestic investment and imports) is lower. The study revealed that civil society in Tanzania responded in a manner similar to Brazil and India.

Table 2: Negative Perceptions – Percent responding 'Yes'							
Factors	**Bangladesh**	**Brazil**	**Hungary**	**India**	**S. Africa**	**Tanzania**	**Zambia**
FDI brings in environmentally 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

The table 2 above reports the perceptions regarding some potential negative aspects of FDI. The findings show that overall, countries tends not to agree on the negative aspects. However, there are significant inter-country differences.

Table 2 above shows civil society in general perceives that foreign investors do not care about impact of their investment on the community. This is, however, less so in the case of India and Brazil and South African civil society respondents who seem not to share this view. Indian civil society also largely agrees (72 percent) with the perception that investors are 'only' interested in gaining access to domestic markets, a view also shared by a majority of respondents from Bangladesh, Brazil and Zambia.

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. Negative perceptions are the least in South Africa, followed by India and Brazil.

The civil society, in general, is strongly in agreement with the positive aspects than the negative 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 aired views on the role that the government should play. Many queries, related to the direction that government policy should take, were asked to secure the civil society views on desired policies to increase the benefits of FDI. This set of questions was aimed to overcome or reduce the negative civil society perceptions.

Table 3 show that 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 among countries – 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.

The gains from FDI can be the most significant when there is a high level of competition, as it 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.

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

Generally, civil society is in favour of imposing certain requirements on FDI. This 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

Table 3: Views on Desired Beneficial FDI Policies– Percent Responding 'Yes'							
Factors	**Bangladesh**	**Brazil**	**Hungary**	**India**	**S. 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

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.

Among the required restrictions, job creation, technology and skills transfer receive the overwhelming support in all the countries studied. Within these classes 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 from 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.

Table 4: Restrictions to increase Benefits – Percent Responding 'Yes'*

Factors	Bangladesh	Hungary	India	S. Africa	Tanzania	Zambia
Impose Requirements to:						
• Create jobs	84	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

*The questionnaire administered by the Brazilian partner did not have questions to collect information on these issues

Conclusion

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 liberalisation and openness in economic policy, and perhaps more importantly, on the actual experiences of their countries.

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.

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.

In as much 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.

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 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.

Endnote

1 Following are the country partners in the project: Bangladesh Enterprise Institute, Dhaka, Bangladesh; *Nucleo de Economia Industrial e da Technologia (NEIT), Instituto de Economia,* Sao Paulo, Brazil; Budapest University of Economics and Public Administration, Budapest, Hungary; National Council of Applied Economic Research (NCAER), 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.

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