ERSA Research Brief
August 2015

A Regional Perspective on Aid and FDI in Southern Africa

H Bezuidenhout

The global trend for official development assistance continues to decline in favour of philanthropic focussed and specific assistance on the one hand and Foreign Direct Investment (FDI) on the other. A further development in the global development sees 2015 the introduction of the New Development Bank (NDB) (NDB, 2015). This multilateral bank sponsored by the BRICS[1] states aim to provide development support for the developing world with less interference in domestic affairs than the Worldbank. The new model will mostly be funded by China and provide long-term low or zero percent interest (Forbes, 2015).

The African growth story during the last decade had placed the aid versus FDI debate on the back burner as African countries have become more democratised and interstate conflict declined. Countries that have opened themselves up for Multinational Enterprises (MNEs) have seen exceptional growth and a slight decline in income distribution disparity (Bezuidenhout, 2015a).

The original study produced ambiguous results for both FDI and aid in their relation to growth (Bezuidenhout, 2009). The last five years have not only seen a substantial increase in the availability of data but a significant increase in MNE activity in the region. Bezuidenhout (2015a) also indicates that the linkage between FDI and growth is highly dependent on the type of FDI. FDI in the southern African region is mostly resource seeking, which is nor a growth generator, but rather a channel for entrancing rent seeking political corruption. South Africa has additionally received large FDI inflows in strategic asset seeking FDI that has no clear correlation with growth.

Bezuidenhout (2009) and Bierman and Bezuidenhout (2010) shows that the dispersion and linkages of FDI into the economy extends from the MNE through its supply chain, labour force and sales through entire economy to the government in taxes, technology and infrastructure development. Aid on the other hand goes to government and is then disbursed into the economy via various channels. From a growth perspective FDI is more effective as it has a wider impact on the economy than aid.

The policy prerogative in FDI and aid is not whether one should be chosen above the other, but how to optimally combine these factor flows into an optimal growth and development strategy. Bezuidenhout (2015b) advises that the FDI focus should be on attracting market seeking and efficiency seeking FDI in order to facilitate this. Especially efficiency seeking FDI requires technology, infrastructure and productivity. This is where development assistance can be strategically used in order to create a competitive and welcoming environment for MNEs to operate in.

The current global slump in commodity prices will severely dampen revenue streams based on rent seeking activities of governments on FDI in resource based industries. Global competitiveness has given MNEs more options to choose from for their investment destinations and new shift to Bilateral and Plurilateral investment agreements has shifted the risk appetite of MNEs. The net result is that it has become increasingly difficult to secure resource based FDI on older models of investment attraction

[1] BRICS is an Acronym for Brazil, Russia, India, China and South Africa

(Bezuidenhout, 2015b).
The traditional take on development assistance has also shifted and securing aid flows has become cumbersome and requires significant guarantees. Even assistance for a country like China requires either political support for Chinese global strategies or long-term performance. This impact of factor flows has directly started to affect the sovereignty of recipient states and requires careful deliberation in the policy space.

Countries who fail to adjust their existing policies to the new realities or cling on to dated ideological world views will see a decline in their global position and will not receive the benefits that both FDI and aid can deliver to a developing market. This point of view is echoed by the decline of South African FDI inflows, the manufacturing sector in South Africa and South Africa's position as the premptive hegemon of Africa.

References

BEZUIDENHOUT, H. (2009). A regional perspective on Aid and FDI in SADC: International Advances in Economic Research special edition, focus on Africa. Vol: 15:310-321

BEZUIDENHOUT, H. & NAUDE, W.A. (2010). Southern engines of growth: Chapter 11: "FDI and Trade in SADC". Oxford University Press. London

BEZUIDENHOUT, H. (2015a). Chinese FDI in Africa, something old something new, an OLI approach. (Global Transformations - forthcoming)

BEZUIDENHOUT, H. (2015b). SADC Investment Perspectives in a Changing International Investment Landscape. South African Institute for International Affairs, Policy Insights. No 12. April 2015 http://www.saiia.org.za/policy-insights/sadc-investment-perspectives-in-a-changing-international-investment-landscape [Accessed: August 2015]

BIERMAN, E. & BEZUIDENHOUT, H. (2010). Foreign Direct Investment in Post-Conflict Countries: Chapter: "FDI in post conflict Angola and Mozambique a policy review". Adonis Abbey. Tokyo

Forbes. 2014. BRICS New Development Bank Threatens Hegemony Of U.S. Dollar. http://www.forbes.com/sites/realspin/2014/12/22/brics-new-development-bank-threatens-hegemony-of-u-s-dollar/ [Accessed: August 2015]

New Development Bank. 2015. http://ndbbrics.org/index.html [Accessed: August 2015]