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Foreign Direct Investment in the Retail Sector of Namibia: An Analysis

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ABSTRACT Namibia remains an upper middle income country with significant numbers of people either unemployed or underemployed and living in poverty. To address this problem the Government has adopted policies to attract Foreign Direct Investment (FDI) with the expectation that these investments will spur growth and generate employment thus reduce poverty. This research is an attempt to assess the impact of such investments in the retail sector on the Namibian economy. In doing so, this study validates or invalidates current policies and opens the door for a search for alternatives. The purpose of the study is to investigate the influence of FDI in the retail industry on economic growth and employment creation in Namibia since independence, and formulate recommendations to enhance the positive effects and lessen the negative effects of such investments.

INTRODUTION

FDI can be a powerful catalyst to spur competition in the retail industry, due to the current scenario of low competition and poor productivity. Permitting foreign investment in food-based retailing is likely to ensure adequate flow of capital into the country, and its productive use in a manner likely to promote the welfare of all sections of society, particularly farmers and consumers. It would also help bring about improvements in farmers' income and agricultural growth and assist in lowering consumer prices inflation (Bhattacharyya 2012). Apart from this, by allowing FDI in retail trade, Namibia will significantly flourish in terms of quality standards and consumer expectations, since the inflow of FDI in retail sector is bound to pull up the quality standards and cost -competitiveness of Namibian producers in all the sectors of the economy. It is therefore obvious that we should not only permit but encourage FDI in retail trade.

Since independence, Namibia has succeeded in generating positive economic growth almost every year and this has led to a steady rise in average income. The economy has become less dependent on mining and agriculture and has diversified its exports to include a variety of goods and services. However, growth has not reached the levels required to substantially decrease the levels of poverty and is nowhere near the level required to attain the objectives laid down under Vision 2030. Vision 2030 is a National Development Plan aimed at ensuring that Namibia becomes an industrialised country through the effective use of its resources in an environment of harmony and political stability where emphasis is on economic growth, economic stability, development and employment creation (Sherbourne 2009).

Namibia remains an upper middle income country with significant numbers of people either unemployed or underemployed and living in poverty. To address this problem the Government has adopted policies to attract Foreign Direct Investment (FDI) with the expectation that these investments will spur growth and generate employment ((Rena 2010). This research is an attempt to assess the impact of such investments in the retail sector on the Namibian economy. In doing so, this study validates or invalidates current policies and opens the door for a search for alternatives.

The influence of FDI has been demonstrated in a number of ways both for the develop-

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ment of a country in terms of economic growth and the impact it has on employment generation, hence poverty reduction. FDI could be a source of advantage for the domestic economy through technology, skills, and capital transfer; however, it also has certain costs which affect the domestic economy negatively such as the crowding out of small domestic retailers (displacement of workers) or the exploitation of workers. Therefore this study aims to enlighten the public in the formulation of policy alternatives.

Global FDI Flows in Recent Years

The objective of this research is to look at the influence of FDI in the retail industry on the economic growth and employment in Namibia since independence in 1990. Although most FDI flow into industrialised countries, FDI flows to developing countries have been increasing over the last 20 years to about 20% of the total FDI (LaRRI 2002). However, FDI flow to developing countries is unevenly spread, with Africa receiving 5% in the 1990s (down from 25% in the 1970s); FDI to the entire Africa amounted to about US$ 9 billion in 1999 – the same as received by Singapore alone. Most FDI in Africa comes from France and other Western Countries with a notable growth of FDI originating from South Africa and Asia. Angola has attracted most FDI in Africa, particularly in offshore exploration of gas and petroleum (LaRRI 2002), whereas, Zimbabwe attracted the least FDI in 1999. Between 1996 and 1999, metal and mineral products attracted the largest amount of FDI in the SADC region. About 75% of the profits made by foreign investors in Africa are repatriated (Gardiner 2000; LaRRI 2002). However, as the financial and economic crisis continues to spread across the world, Africa, where FDI flows peaked in 2008 after six years of uninterrupted growth, saw a fall in inflows in 2009, UNCTAD's annual review of investment trends reports.

The World Investment Report 2009 reveals that FDI inflow to Africa reached a record high of US$88 billion (N$655 billion) in 2008. However, based on preliminary data, in the first quarter of 2009 it plummeted by roughly 67 percent year-on-year. According to UNCTAD, FDI flow to the continent continued to be highly concentrated in only a few countries during 2008, marked by particularly strong growth in flows to West Africa.

In Southern Africa, the increase in inward FDI was almost entirely due to the strong performance of Angola and South Africa. The drastic fall in FDI to the continent in the first quarter of 2009 has important ramifications for development activities, as FDI is a major contributor to gross fixed capital formation: its share was 29% in 2008. Furthermore, FDI inflow to Africa's 33 least developed countries (LDCs), which peaked in 2008 after eight consecutive years of growth, are also at risk of falling.

In agreement with conventional development thinking, governments in most developing countries, including Namibia, try to attract FDI for its expected beneficial effect on employment, export growth, balance of payment, technology spillover, wages, sustained industrial and economic diversification, and overall national development. They are usually not, or at least have not been in the past, concerned with costs that may also be associated with such inflow. Artivor (2006) noted that investments recorded during 2006 in Namibia for example include: the N$100 million investment by Bank Windhoek into one of Namibia's most modern shopping centres, Maerua Mall in Windhoek. The N$95 million investment by Namcot Diamonds into a diamond cutting and polishing centre in Windhoek; and the N$60 million investment by the South African retail group, Trade Centre, into a leading department store in Windhoek (Artivor 2006).

Research Problem

Many developing regions of the world need a substantial inflow of external resources in order to fill the savings and foreign exchange gaps required to overcome widespread poverty and to lift living standards to acceptable levels. The need for external financing is nowhere more pressing than in Africa, where income levels are too low to generate adequate domestic resources for the attainment of even modest rates of investment and growth. FDI is currently the best alternative source of external capital for the development of Africa (Ngowi 2003), as donor funds continue to dwindle.

Due to many socio-economic problems facing African countries, most have become desperate in trying to find solutions. The problems vary from high unemployment rates, abject poverty, and lack of technology. In their efforts to overcome these problems, most African countries have taken advice from bodies such as the IMF and the World Bank to liberalise their economies in order to attract FDI which in turn, they believe, will bring development. The liberalisation of economies have led to African countries engaging in privatisation, introducing incentives to attract FDI in the form of tax holidays, relaxing regulatory framework, and introducing investment promotion agencies responsible for attracting FDI (Mwilima 2003).

Since most of the African countries have liberalised their economies, it would be expected that FDI flows to African countries would have risen, but to the contrary, actual flows of FDI to Africa have been on the decline. The privatisation process, which has been preached by the IMF and the World Bank as one of the prerequisites for attracting FDI to developing countries was not successful and often resulted in further hardship for the poor as was the case in Zambia and many other African countries.

One of the main outcomes of using incentives to attract FDI has been the increase in competition among African countries. This has lead to countries engaging in a 'race to the bottom', offering investors more and more attractive financial incentives, and reducing the regulatory requirements on firms. Engaging in this type of competition almost inevitably means that even the country that 'wins' (the investment) has paid too high a price for it. Competition on investment incentives raises the distinct possibility that every country – big or small – could be worse off than if it were to refrain from using FDI incentives altogether (Mwilima 2003, 2006).

It has been argued that FDI will lead to employment creation, but evidence shows that Foreign Direct Investment is not always accompanied by substantial employment creation and in most cases leads to job losses when public companies are privatised and employees are retrenched in the process (Mwilima 2003).

Available statistics shows that Namibia has been able to attract substantial Foreign Direct Investment flow, from slightly less than N$100 million at independence in 1990 to over N$2 billion by 2002. The total foreign direct investment in Namibia as a percent of GDP increased from 17.8 percent in 1998 to over 25 percent in 2004. This is high when compared to neighbouring countries such as South Africa, Swaziland, Zimbabwe and Zambia but below that of Botswana. Foreign Direct Investment can still be considered as key for Namibia's economic development (Loots 2000; Fugner 2008). The recent investment opportunity by Malaysian Textile Company, RAMATEX and Skorpion Zinc shows that there is attractiveness in terms of the incentives and policies offered by the government in providing a conducive environment for increased foreign direct investment. The available statistics show that these investments has created employment opportunities of around 9 000 jobs (Artivor 2006).

Therefore, although countries are in a frantic frenzy to attract FDIs the question still remains, have they benefited from such investment? Therefore this study focuses on investigating the role played by the FDI in the retail sector in Namibia.

Research Objectives

Based on the above research problem the following research objectives were formulated.

1. To determine the role and quality of jobs created by FDI in the retail sector in Namibia.
2. To evaluate the effects of integrated value chain preferential procurement of foreign retail firms on local entrepreneurs and products.
3. To determine the extent to which FDI in the retail industry in Namibia have contributed to generating economic growth.
4. To recommend to the policy makers suitable interventions on how FDI in the retail sector can benefit the country.

Research Questions

(i) To what extent does FDI in the retail sector create jobs?
(ii) Are retailing FDI inflows driving the integration of the value chain?
(iii) What is the influence of foreign firms in the retail sector regarding the upliftment of economic growth in Namibia?
(iv) What policies should the Government pursue in accepting FDI in the retail sector?

Hypotheses

Based on the research questions above, the following hypotheses have been formulated:

(i) There is a relationship between FDI in the retail industry and job creation.
(ii) There is an integration of value chain preferential procurement between foreign retail firms on local entrepreneurs and products.
(iii) FDI in the retail sector in Namibia has led to enhanced economic growth.

Theoretical Framework on Foreign Direct Investment (FDI)

In order not to confuse FDI with other kinds of investment that cross national borders, this study adopts the general definition of FDI as determined and reported by the United Nations Conference on Trade and Development (UNCTAD), whereby it is "…. an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (WIR 2000:267). The significant part of this definition is that FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy.Such investment "involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated, this means that, individuals as well as business entities may undertake FDI (WIR 2000: 267).

FDI has also been defined as an international interest in which a resident in one country obtains a lasting interest in an enterprise resident in another (Carbaugh 2002: 305-326). It is a situation where a foreign entity creates a subsidiary to provide goods and services in another country. Thus a firm undertakes FDI in a foreign market if it possesses an ownership advantage over the local competitors. FDI represents the primary means of transfer of private capital (that is, physical or financial), technology, personnel and access to brand names as well as marketing advantages.

Finally, when discussing foreign direct investment, it is important to distinguish between the flow of FDI and the capital stock of FDI. The flow of FDI refers to the amount of FDI transferred over a given time period (normally a year). The stock of FDI refers to the total accumulated value of foreign-owned assets at a given time. The outflows of FDI mean the flow of FDI out of a country, and inflows of FDI, the flow of FDI into a country (Hill 2009). In this paper, emphasis is placed on the inflow of FDI in the retail industry by market-seeking firms in the sense that they wish to gain access to more customers and consumers.

FDI and Sovereign Development Objectives

International organizations such as the IMF and the World Bank have suggested that attracting large inflows of FDI would result in economic development (LaRRI 2006). As a result Sub–Saharan African Governments have been very eager to attract FDI. They have changed from being generators of employment and spillovers for the local economy to rulers of states that promote competition and search for foreign capital to fill the resource gap. This orientation is attributed to changes that are caused through structural adjustment programmes and the internalization of neo-liberal economic assumptions promoted by the World Bank (LaRRI 2006).

In most countries, FDI serves as one of the engines of transition from a developing to a developed country. While most of the FDI are production-oriented (locating in other countries to take advantages of manufacturing and labour cost factors), some FDI are market-seeking. This study will address market seeking FDI's in Namibia, specifically investments in the mass distribution retail sector by firms such as Shoprite, Pick'n Pay, Edgars, etc.

All African countries are keen on attracting FDI. Their reasons could differ slightly but may be summarised as: trying to overcome scarcities of resources such as capital and entrepreneurship; access to foreign markets; efficient managerial techniques; technological transfer and innovation; and employment creation. In their attempts to attract FDI, African countries design and implement policies; build institutions; and sign investment agreements. The benefits of FDI to African countries are difficult to assess but will differ from sector to sector depending on the capabilities of workers, firm size, and the level of competitiveness of domestic industries (Mwilima 2003, 2006).

Some difficulties that deter foreign investors, which are common to African countries, include limited market size and growth potential (that is, in terms of per capita income), skills shortage and poor infrastructure.

RESEARCH METHODLOGY

Sources of Information

In addition to secondary data, a survey was conducted targeting people who work in the retail industry, government institutions such as the Ministry of Trade and Industry, Bank of Namibia, Namibia Chamber of Commerce, National Planning Commission and Ministry of Labour. The information was collected from these institutions because they deal with the economic policy decision making, processing and dissemination of statistics in Namibia.

Sample Size

Sampling provides a range of methods that enable the researcher to reduce the amount of data needed to collect by considering only data from a subgroup rather than all possible cases or elements. The method that was used is based on the number of people interviewed. Random sampling was used in the retail sector (random sampling allows the researcher to generalize findings across the population. The sample includes people with different positions or ranks in the mentioned institutions and retail employees, both locals and expatriates), while non-randomly sampling was used in government institutions where the researcher was targeting high ranking officials for specific departments. This enabled the study to use subjective judgements; therefore stratified purposive sampling was used. Due to the fact that this study is very broad the sample size was limited to between 50-70 participants across the spectrum, given practical constraints.

Research Instrument

The research is based on a survey and the researcher used structured questionnaires in organisations (retailers) where there are many employees, while interviews were carried out in the government institutions, this is because of other factors such as situation and time frames, which were also considered.

Research Process and Data Analysis

This process involved the administration and collection of the questionnaires from the research population and the information was captured (analysis of data). Microsoft Excel was used to analyse the results by means of generating reports on line graphs, bar charts, pie chart and tables to give a clear picture of the findings. In the same vein a descriptive analysis was conducted with the formulation of graphs to show and visualise the responses.

The Research Questionnaire

The questionnaires were drawn up in such a way that they were simple to answer, therefore they were presented in a multiple-choice format where the respondents had to choose from available options. This means that most of the questions were close ended, where the respondent had to tick the appropriate response. Some questions were open ended requiring the respondent to elaborate.

Research Strategy

The study employed both quantitative and qualitative approaches:

Quantitative method was used to give the numerical analysis to assess the relationship between FDIs, economic growth and employment creation. Bar charts, histograms, pie charts, line graphs and other appropriate data presentations were used to illustrate the findings.

Qualitative method was used to provide a descriptive and deeper understanding of the context; nuances that are not captured by a purely quantitative analysis. Existing literature and secondary information were considered to harness the analysis results. The applicability of secondary data in the Namibian context was limited and the researcher conducted a rigorous evaluation of such data.

Data Collection and Sources

The data were collected from the publications of the Ministry of Trade and Industry, Bank of Namibia, Namibia Chamber of Commerce and Industry, Ministry of Labour, National Planning Commission and retailers' for example are, Shoprite, Pick'n Pay, Jet, Truworths etc. in Namibia.

RESULTS AND DISCUSSION

Looking at the living standard and income distribution in Namibia, one needs to earn an income of N$ 3999 per month in order to cope with today's cost of living (A review of Poverty and Inequality in Namibia 2008) (Republic of Namibia 2008). The study reveals that most of the respondents indicated that their earnings or income falls between N$3 999 to N$1000 with 56%, while 30% of the respondents earn an income less than N$999 a month. Individual earning such incomes will not be able to sustain themselves, to posses belonging or properties such as a house, car. In fact, the income distribution inequality will continue thereby alarming the poverty level in the country because individuals who work in the retail sector will not be able to afford quality education for their children. Eventually their children will end up securing jobs only in the retail sector or other line sectors which employment requirements do not need tertiary qualifications which is linked with the level of income.

The study reveals the dissatisfaction by the respondents with regard to positions held by foreigners compared to Namibians within the retail sector, as most of the retailers have given all top management positions to foreigners leaving all lower positions to Namibians. This leads to the exploitations of workers and lack of careers opportunities to the Namibians as foreigners will never allow Namibians to acquire necessary skills and knowledge to occupy or secure themselves high positions since foreigners want to keep their positions.

The study reveals that most of the respondents are dissatisfied by the terms of employment conditions as most of them do not get permanents jobs or benefits compared to other sectors such as banking. The study also reveals that some employees work even for more than 3 years without signing any contract, employees get fired or dismissed for no reasons, employees work long hours without extra remunerations. Looking at the *Namibian Labour Law which is governed by the Labour Act (11 of 2007) which* prescribes certain basic conditions of employment, to which all employees are entitled to a maximum working week of 45 hours per week, overtime payment for work done outside the normal working hours, weekends or public holidays, a certain number of consecutive days of annual leave, sick leave, maternity leave and compassionate, the right to belong to a trade union not to be unfairly dismissed.

In terms of the Namibian judiciary system with regard to courts handling employment, the Namibian courts use the principle of fairness in determining if a dismissal is lawful. Any employee, who is dismissed without a valid and fair reason and not in compliance with fair procedure, shall be regarded to have been dismissed unfairly. In order to be able to dismiss an employee the internal process needs to be substantially fair. This includes but is not limited to; an employee may not be dismissed unless a disciplinary hearing is held, the employee should be informed of the charges against him/her and be given sufficient time to prepare for the hearing, the presiding official at the hearing should be unbiased and should make a fair ruling on the matter and determine an appropriate sentence, an employee may only be dismissed if there are sufficient fair grounds therefore.

The study reveals that in this sector employees work long hours without any extra remunerations, employees get dismissed for no apparent reasons, employees do not sign contracts although they work for a particular firm for too long. In addition the study reveals that employees do not get benefits such as fringe benefits (pension, medical aid) which are in contradiction with the Labour Act 11 of 2007. It seems like the government is turning a blind eye on the situation in the retail sector.

It was found that 79% of the respondents suggested that the products in the retail shops are foreign-made, most of the respondents felt that while Namibia is a developing country Namibian producers will produce less products. Developing countries are in general countries which have not achieved a significant degree of industrialization relative to their population, and which have, in most cases a medium to low standard of living. There is a strong correlation between low income and high population growth, respondents suggested that, Namibians do not have the necessary capacity to produce their own products; it was also found out that more foreign made product in Namibian market because of the quality and brand name of foreign made products. Some suggested that local producers use labour intensive rather than capital intensive which slow down the production process resulting in lower quantities and no brand names. Most of the retailers prefer foreign suppliers than the local ones because of honouring order delivery agreements. The local producers lack the capacity to produce required quantities by the market and in most cases fails to honour their contracts. Unaffordability of latest technology in Namibia prevents Namibians to supply more local products; level of education is also compromising the production capacity. Only 16% of the respondents suggested that, the products in the retailers are locally-produced. Looking at 16% of the locally produced products, this is a very lower percentage, and it does not matter that Namibia is a developing country, Namibia as a country it has abundant natural resources, it is hard time for Namibian to start producing their own products and stop to rely on foreign made products. Namibia being a developing country, government should encourage FDI's to partnership with the local producers, for the transfer of technology, skills, technical knowhow from the developed countries. With this in mind local producers will be able to start to produce their own products that they can sell local and export.

Namibian Products in the Retail Shops

The study reveals that if Namibian products are not sold in the foreign retailers it will have a very negative effect on the economy. This is because the retailers profit that is made in Namibia by selling foreign products which is imported from their countries of origin will go out of the Namibia enabling foreigners to expand and develop their production capacity at the expense of the local producers. Eventually, this will result in unemployment, lower economic growth since local producers are not expanding in order to employ more Namibians, and also for the local producers to invest into the country which will result in economic growth. The study also found out that the products are expensive since they are imported into the country which burdens the pockets of the local consumers. The study also found out that if Namibians are to start producing their own products it will lead to high production resulting in high economic growth, more employment and foreign investment can help to raise the level, content and value of what we already export. If, instead of selling just the raw materials overseas, we can supply consumer-ready locally value added products based on those materials, then the overall value of the country's exports increases (Artivor 2006).

The study found that, 46% of the respondents clearly stated that, if Namibian products are sold in the foreign retailers this will create more jobs. Local entrepreneurs will be encouraged to produce more which will enable the entrepreneurs to make more profits and employ other local people; the products are going to be cheaper since there are no importation costs which will lessen the pockets of local consumers. Local consumers will be able to save and invest their savings into other developmental projects that will benefit the country. With this in mind, it will boost the economy which will result in high GDP, money will remain in the country and foreigners are going to be attracted to the local products. If local products become attractive to foreigners, this means that the market has expanded for the local entrepreneurs to compete in the world market which will encourage entrepreneurs' to explore their potential talents through innovation and creativity which will be good for their businesses. In addition, domestic and foreign investments into the economy will increase as required standard which is necessary to increase the level of gross fixed investment and capital formation as a condition for growth in the county's production and export sectors. It is from such investments that economic growth and diversification as well as high levels of employment creation and increased income can be realised (Artivor 2006).

Foreign Products in the Namibian Market

The study reveals that, 72% of the respondents felt that they are more than satisfied to the number of foreign made products in the Namibian market; this is a very high percentage. What implication will this have on the economy of Namibia; one will be that revenue (profit) made in Namibia will not be injected into the development of their countries because the money is sent back to their home countries. The local producers will be forced out of the market, instability in the balance of payments and the exchange rate, loss of control over domestic policy (on government side), establishment of local monopoly, increased unemployment (FDI's might bring their own employees) (Appleyard et al. 2010: 227-233). The study also revealed that, 28% of the respondents are less satisfied by the number of foreign made products found in the Namibian market this can be for the reason that if local producers produce products to be sold in these foreign firms, this will boost the economy in many ways such as job creations, increase output, increase wages/salaries, increase tax revenue for the government, provision of technical and managerial skills and of new technology and weakening of power of domestic monopoly (Appleyard et al. 2010: 227-233).

FDI Flows in the Retail Industry

It was found that, 48% of the respondents suggested that, foreign firms in the FDI contribute to the economy of Namibia through job creations; this will uplift the living standard or livelihood of the Namibian since they earn an income, and foreign firms have contributed by bringing in technology into the country which makes people life easier. Foreign companies contribute towards the development of requisite technical and managerial skills through exposure to machinery, skilled foreign workers, technological processes and practices, which are then transferred to and adopted by the local people whom they employ (Rena 2011). This means that Namibian people develop expertise which they can use to their own advantage in the labour market and to most importantly contribute to productivity and economic growth for the country as a whole (Artivor 2006).

Some of the foreign firm's bank their money into the local banks which will enable the banks to make profit and recruit more people. The study also reveals that foreign firms bring in foreign currencies (Foreign Exchange) into the country (Hill 2009).These leads to appreciation of the currency, money is injected into the country rather than repatriated, availing more funds for developmental projects.

CONCLUSION

The influence of FDI has been demonstrated in a number of ways both for the development of a country in terms of economic growth and the impact it has on employment generation, hence poverty reduction. FDI could be a source of advantage for the domestic economy through technology, skills, and capital transfer; however, it also has certain costs which affect the domestic economy negatively such as the crowding out of small domestic retailers (displacement of workers) or the exploitation of workers.

The study also reveals that inflation will decrease, because FDI's will bring more competition which eventually lead to lower prices as a result of more firms supplying more of the same product to fewer consumers. Inflation as a threat to the economy, with many foreign firms coming to the country it will decrease the level of inflation, since competition will exist between these firms which will decrease the prices of goods which will lead to the citizens to save and invest their savings into something else. It was also found out that foreign firms will advertise their products through the local media, which in return the firms will pay for advertising resulting in the Media making some profit and inject the money into the country either by investment opportunities or by employing more people. Furthermore the study reveals that, foreign firms attract tourists to the country, tourists come to Namibia and buy foreign made products but at the same time they stay in local hotels thereby benefiting the economy as a spillover effect. While some respondents have suggested that local people likes brand names which attracts more foreign firms to import foreign made product to Namibia.

However, the study also revealed that foreign firms have not contributed much and only small opportunities were given to the locals and foreign firms are here to rip people off by providing cheap labour and transfer off profit to their home countries. FDI can have a substantial negative impact on development (so negative that the host community would be better-off not receiving the FDI at all). For instance, the monopolistic tendencies of FDIs may crowd out domestic investment.

With this in mind the advantages of foreign firm's outcast the disadvantages which indicates that foreign firms in Namibia contributes immensely to the economic growth of Namibia. But much is needed to be done, a good example can be drawn from India where Indians boycotted foreign products come from Britain under the leadership of M. K Gandhi which was popularly known as *Swadeshi* (domestically produced) movement.

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