Attracting MNCs and enforcing local content laws: the double breasting dilemma in less developed countries in sub-Saharan Africa

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Multinational Companies (MNCs) has become important players in international trade and development over the past three decades (UNCTAD 2012; Aseidu 2006; Meyer 2004).

Africa endowed with numerous natural resources is yet to benefit fully from such natural resources (Aseidu 2006).

There still remain many structural and macroeconomic challenges that limit the capacity of the continent to achieve sustainable improvements in the standards of living of its people (IMF, WB, OECD).
Background (2)

• (a) The continent low application of science, technology and innovation in the production and distribution value-chain
• (b) The over-reliance on rain-fed agriculture
• (c) The over-reliance on primary production without linkages to other sectors
• (d) The worsening income inequalities, education and skills formation, health, social protection, poverty and unemployment
• (e) Wide-spread corruption, mismanagement and institutional weaknesses.
• It has become imperative for Africa to adopt strategies to attract MNCs into their economies as one of the surest way of promoting economic growth and development with a resulting benefit of spillovers.

• In order to benefit fully from the activities of MNCs in these economies, they must ensure the strict enforcement of local content laws.
Local content policy

• local content policy gives preference to the use of local expertise, goods and services, people and businesses that add value to the host country’s economy (Ngoasong 2014).

• local content policy regulations became recognized and significant development tool in less develop economies after many economies with numerous natural resources were still experiencing extreme poverty and underdevelopment (Ngoasong 2014).
strategic purpose of any local content policy framework (IPIECA 2011)

• (1) The recruitment of local workforce

• (2) Developing local suppliers capacity

• (3) Purchase of locally manufactured goods and services

• (4) Providing support for human resource development through training, and knowledge transfers

• (5) Investment in new technologies through technology transfers to the local economy
Research question

- There is a double breasting dilemma in developing economies in relation to the adoption of investment incentive policies and programs for attracting FDIs on the one hand, and the strict enforcement of local content laws on the other.
- This situation has become a challenge for many developing countries in Africa as they struggle to establish the best way, which lead to the research question:

- **What is the best way to ensure developing countries attract more FDIs into the local economy and at the same time ensure they benefit fully from the activities of FDI firms through the enforcement of local content laws?**
Our proposed framework

- we propose that less developed countries with strategic natural resources may employ a strategic-balance approach (see fig.1) for attracting FDIs and also enforcing local content regulations to guarantee they achieve maximum benefits from such strategic resources resulting in the growth and development of the host country.

- The strategic-balance model (fig. 1) we propose is driven by two main components

  - (1) Investment incentive packages implemented by less developed countries to attract MNCs and FDI firms.

  - (2) The enforcement of local content laws and regulations
A strategic-balance framework for attracting FDIs and enforcing local content policy regulations in less developed economies

**INVESTMENT INCENTIVE PACKAGES TO ATTRACTING MNCs**

- Business support and development
- Free trade zones incentive packages
- Tax holidays
- 100% repatriation of profits
- Elimination of bottlenecks for business registrations by FDIs firms
- Developing transparent legal system
- Investment in human capital
- Investment in science, innovation and Technology

**AREAS OF LOCAL CONTENT REGULATIONS ENFORCEMENT**

**pivotal position**

**Resulting outcomes**
- Increased in the number of MNCs
- New job opportunities
- Expansion of the domestic economy
- Human capital development
- Knowledge transfer
- Technology transfer
- Increased government revenue

**Final outcome**
- Domestic economic boom through MNCs and FDIs activities
Our proposed framework

- The enforcement of local content laws and regulations must address two critical areas to remain effective and beneficial to the domestic economy
  - (1) Advancing the human resource development
  - (2) Advancing technology transfer and development
Our proposed framework

- The inter-play of investment incentive packages and enforcement of local content laws and regulations at a pivotal position will ensure that less developed countries derive maximum benefits from MNCs activities through the resulting outcomes:

  - Increased in the number of MNCs
  - New job opportunities
  - Expansion of the domestic economy
  - Human capital development
  - Knowledge transfer
  - Technology transfer
  - Increased government revenue
Managerial implication

- It is essential that MNCs operating in less developed economies in sub-Saharan Africa need not only pay attention to the amount of taxes paid to governments, but also have to consider how their economic activities can help develop:
  - The capabilities of the local workforce through their training and development activities,
  - Transfer of global best HRM practices
  - Transfer of modern technology
  - The development of the capacity of local suppliers
  - Sourcing of raw materials and other inputs from the local economy to guarantee domestic economic boom and employment creation
Conclusion

- The low returns accrued from MNCs activities in Africa may be attributed to the lack of local content laws and regulations enforcement.

- The only way for less developed countries in sub-Sahara Africa to benefit fully from such investment incentives provided to foreign firms is to ensure there is a balance between the investment packages provided and the enforcement of local content laws and regulations.

- We conclude the lack of strategic-balance in the provision of investment incentives and the enforcement of local content policies will result in the poor advancement of the domestic economies of less developed countries in Africa.
• Thank you !!!!!!!!!!!!!!