



international UPDATE

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FOREIGN INVESTMENT ATTRACTION:

SOME SALIENT CHALLENGES FOR ZAMBIA

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Since the new government in Zambia took office, serious efforts have been made to translate into reality the need to improve the country's attraction for foreign investors, in general, and to those based in the region (including South Africa), in particular. So far, some initiatives have been taken by both the government and a number of business organisations (particularly the Zambia Confederation of Chambers of Commerce and Industry - ZACCI) to improve the country's investment climate. In this regard, one notes the efforts the government has made so far with respect to the establishment of the Investment Centre and the Zambia Privatisation Agency. While the Investment Centre attempts to facilitate an easier access by investors to the Zambian market through minimisation of bureaucratic delays and the provision of basic information to potential investors, the Zambia Privatisation Agency provides an institutional framework within which the sale of the public sector to private investors, both foreign and local, is conducted.

Similarly, the new government is currently emphasizing the need to facilitate the emergence and consolidation of private sector development at a time when the state is moving out of direct involvement in economic activities through the ongoing privatisation programme. At the private sector level, ZACCI has sponsored and/or

facilitated the mounting of business tours by Zambian businessmen abroad and arranges business contacts between local and foreign investors with a view, *inter alia* to providing opportunities for joint ventures.

Notwithstanding the above initiatives, a number of organisational and structural constraints still inhibit a fuller realisation of Zambia's efforts to "sell" herself abroad. It is evident that a hospitable environment for foreign direct investment in the country still requires to be created. A number of considerations are important in this regard. To begin with the most obvious, basic, and yet very fundamental, considerations, there is the need to create an efficient and effective communications system; a functioning and dependable banking system; conducive policy environment that is sustainable and predictable; and carefully worked out packages that attracts investors, both foreign and local.

Equally fundamental is the need for Zambia to put in place an effective information database on the country's investment opportunities. Such a system should assist investors and exporters by putting them in touch with their counterparts locally and abroad. The phenomenal level of bureaucracy that characterises the Zambian setting is one such challenge that the new government has

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to address, in order to remove the average foreign investor's impression that trying to open business in Zambia is "a rather involved exercise".

Similarly, Zambia is slowly recognising that she is competing with other countries for the same foreign investors. In this regard, the country needs a well-targeted marketing strategy that aims at selling the country abroad. The "information drought" abroad on Zambia's business opportunities is so severe that a collective effort by both the government and the indigenous business community is necessary to address the problem.

At a macro-economic level, a number of steps need to be taken in the country's efforts to attract foreign investment. Perhaps the most crucial consideration for Zambia at the moment is the need to arrest inflation, which registered a phenomenal increase of 211% during 1992. The problem of inflation requires a combination of economic, fiscal and monetary measures. At the macro level, economic stabilisation policies under the country's structural adjustment programme appear to be the most decisive, albeit painful (in the short term), policy option for Zambia at the moment. Economic liberalisation, the primary component of structural adjustment policies, is crucial in order to enhance the sustaining of a market economy, especially after the country's many years of unproductive and costly experiments in socialism. This position is maintained in recognition of the fact that direct foreign investment is more likely to emerge and become consolidated in a competitive macro-economic environment that is composed, *inter alia*, of a package made up of positive interest rates; market-determined prices; absence of tariff barriers; and easier repatriation of profit and dividends through the relaxation of stringent foreign exchange control regulations.

A hospitable political environment is also being recognised by many analysts of the Zambian scene as being crucial if the country is to create an investment-friendly economic environment. The democratisation process that resulted in the coming into power of a new government in October 1991 has been received very well by both the donor community and potential investors, and the friendlier investment climate implied in that single development should be translated into economic dividends, good governance, and the facilitation of liberalisation policies that promote private sector initiative. The current charges of corruption and abuse of office in high political circles require urgent attention by those with the power and authority to correct the increasingly poor image of the country portrayed by such allegations.

At the level of infrastructural provision, perhaps the worst hindrance to Zambia's foreign investment attractiveness is the present poor state of the roads, which require urgent rehabilitation. Already a serious programme is underway in this area, and the government hopes that, when this is completed, the country will earn an improved image *vis-a-vis* foreign investment attraction.

At the level of institutional capacity-strengthening, with a view to attracting more investment into the country, there is need for the government to facilitate quick consolidation and aggressive marketing of a one-stop Investment Centre that should provide intending investors with such things as information on investment opportunities in the country; a directory of business companies in Zambia; information on existing business finance institutions and their services; detailed procedures on how to go about opening business ventures in Zambia; data on the country's investment codes/legislation; business statistics and related data on the country's investment and trade profile; information on foreign market opportunities; and, perhaps most importantly, simplified procedures for the processing and registration of new foreign investment.

Complementary to the above requirements is the growing recognition of the need for Zambia to develop a well-conceived, aggressive and targeted marketing strategy to make known business opportunities in the country. Presently, such sectors as gemstones, agriculture, tourism and manufacturing constitute fields with most promising potential for foreign direct investment in the country.

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