NOTE TO USERS

DISSERTATION

AFRICA GROWTH AND OPPORTUNITY ACT IN THE CONTEXT OF SOUTHERN AFRICAN DEVELOPMENT COMMUNITY: FDI, TRADE, REGIONALISM AND ECONOMIC GROWTH

Submitted by

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In partial fulfillment of the requirements

For the Degree of Doctor of Philosophy

Colorado State University

Fort Collins, Colorado

Spring 2005

COLORADO STATE UNIVERSITY

November 08, 2004

WE HEREBY RECOMMEND THAT THE DISSERTATION PREPARED UNDER OUR SUPERVISION BY AVHAFAREI ALPHEUS NELUFULE ENTITLED "AFRICA GROWTH AND OPPORTUNITY ACT IN THE CONTEXT OF SOUTHERN AFRICAN DEVELOPMENT COMMUNITY: FDI, TRADE, REGIONALISM AND ECONOMIC GROWTH" BE ACCEPTED AS FULFILLING IN PART REQUIREMENTS FOR THE DEGREE OF DOCTOR OF PHILOSOPHY.

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ABSTRACT OF DISSERTATION

"AFRICA GROWTH AND OPPORTUNITY ACT IN THE CONTEXT OF SOUTHERN AFRICAN DEVELOPMENT COMMMUNITY: FDI, TRADE, REGIONALISM, AND ECONOMIC GROWTH"

This study first examines how government policy, economic, institutional, and political characteristics affect Foreign Direct Investment (FDI) inflows under the Africa Growth and Opportunity Act (AGOA) in the South African Development Community (SADC). The results indicate that countries with a large market size, a more liberalized trade regime—represented by a higher degree of openness, a low inflation rate, and highly skilled labor promote FDI inflows. A high inflation rate and low institutional quality have the opposite effect.

The second part of this study provides a quantitative assessment of the determinants of economic growth and the role of South Africa as a springboard to FDI in the SADC. I found that FDI and infrastructure are important determinants of economic growth in the region. The results also support my hypothesis that South Africa acts as a "leading goose" in the region through FDI and trade. I also found a positive and statistically significant impact of foreign income on the growth of the SADC.

Last but not least, in order to capture the geo-political dynamics of regionalization of members of the SADC, I investigate quantitatively which country or

countries' GDP per capita significantly impacts GDP per capita of other SADC members. I found that five countries' GDP per capita in the SADC region have a positive and statistically significant impact on growth of the region. Except for Mauritius, these countries have close ties with South Africa due to their geographical position. Countries that have a positive impact on regionalization are: Botswana, Lesotho, Mauritius, Swaziland and Zimbabwe.

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ACKNOWLEDGMENTS

First, I would like to thank God for giving me good health to pull through my studies sickness free. Then, I am deeply indebted to my academic advisor Dr. Ozawa who has been like a father to me during good and bad times. He has always made time available for me even though I emailed or visited him at odd hours. I do appreciate his time, knowledge, valuable assistance, willingness to help, guidance and support. I would also like to express my appreciation to my co-advisor Dr. Davies for his advice and encouragement, without which the task would have been difficult to undertake.

Many thanks also to my committee members Dr. Nancy Jianakoplos, Dr. Ronnie Phillips and Dr. Jerry Eckert for their useful feedback, comments, and suggestions which enriched this dissertation. Then, I would like to thank Dr. Bob Kling for all the countless things he has done for me to be where I am today. I am most grateful for my program sponsors Nathan Associates, Aurora International and Economics Department for funding my studies.

I am grateful to my extended family and friends who have been right behind me day-in and day-out in achieving my endeavors. Thanks to my father, my mother-in-law, brothers, my sister, and all my relatives for their encouragement, concern, and prayers and support.

I would like to take this occasion to express my gratefulness and thankfulness to my lovely wife Irene and my beloved daughters Shumani and Lufuno for standing

by me with your love. It would have been impossible for me to pursue my studies without their sacrifices, strong encouragement, constant support, love, patience and understanding. I would like to thank them from the bottom of my heart and I hope I can compensate them for their sacrifices. Last but not least, I would like to thank my friend Ahmed Mabrouk for being such a good friend and my proofreader Amy Jones for a job well done. Any errors or omissions are solely mine.

DEDICATION

This dissertation is dedicated to:

My parents, Rosinah T. and Azwidohwi A. Nelufule

My lovely wife Irene L. Nelufule

My beautiful girls Shumani and Lufuno

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LIST OF ABBREVIATIONS

AGOA	Africa Growth and Opportunity Act
AII	African Investment Initiative
AU	African Union
BEM	Big Emerging Market
DTI	South African Department of Trade and Investment
ERA	Economic Report on Africa
EU	European Union
FDI	Foreign Direct investment
GPT	Canada's General Preferential Tariff
GSP	Generalized System of Preferences
IMF	International Monetary Fund
MFA	Multi-Fiber Arrangement
MNC	Multinational Corporations
NEPAD	New Partnership for African Development
ODA	Official Development Aid
SACU	Southern African Custom Union
SADC	Southern African Development Community
SARB	South Africa Reserve Bank

SSA	Sub-Saharan Africa
TIFA	Trade Investment Framework Arrangement
TISA	Trade and Investment South Africa
TNC	Transnational Corporations
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Commission for Africa
USITC	United States International Trade Commission
WIR	World Investment Report

CHAPTER I

1.1 Introduction

Globalization—a worldwide trend towards integration of the economic markets—is changing strategies of multinational corporations (MNCs) and the way developing countries compete for foreign direct investment (FDI). Faced with increased international competition, MNCs' global strategies include maximizing their competitiveness by locating their corporations in multiple locations around the world. In this world of globalization, attracting FDI increasingly depends on the ability of the host country to provide a favorable FDI environment and regime. This requires a stable, efficient and service-oriented environment that welcomes investors into most economic activities without discrimination.

Governments of developing countries are now giving new attention to the potential for private FDI in their economies. This is so, because many developing countries now desire to extend their market-price system and private sector and to alleviate the external debt problem by attracting more private foreign investment. Modern legal and intellectual property rights, effective competition policies, a strong judiciary and minimum government intervention and harassment are all important to attract foreign investors.

Foreign direct investment is viewed as a major stimulus to economic growth in developing countries (Blomstrom et al., 1994 & Borensztein, et al., 1998). Its ability to deal with major obstacles, namely, shortages of financial resources and technology

and skills, has made it the center of attention for policy makers in low-income countries in particular (Borensztein et al., 1998). FDI is regarded as an important source of capital in developing countries. The assumption is generally made that FDI can contribute to economic growth and restructuring in developing economies (Ozawa, 1996; Hermers and Lensink, 1999; Levine et al, 1992). However, there is increasing competition between developing and developed countries to attract FDI flows to either enter into, or consolidate a position within, an increasingly integrated world production, trading and investment system.

To increase investment and trade is one of the major goals of economic policy in many developing countries. Also, governments of most Southern African Development Community (SADC) countries hope to attract foreign direct investment and increase private domestic investment. The reason for this renewed attitude in Africa is that empirical evidence shows that private investment in Sub-Saharan Africa (SSA) has a significantly stronger effect on growth than public investment due to higher efficiency in the private sector (Odenthal, 2001). For too many years, the world's efforts to promote Africa's development were focused on aid. Official Development Aid (ODA) is important, but by itself aid cannot transform societies. Improving trade is also important to boost investment in order to foster the sustained economic growth necessary for such transformation.

Most SSA countries in the past relied heavily on ODA. But as ODA declines, the need for foreign capital has to be met increasingly by FDI (Odenthal, 2001). Because market size is an important determinant of investment that aims to serve the local market, the process of regional integration should have a significant impact on

foreign and domestic investment. The trend towards faster regional integration among African countries is emphasized by the New Partnership for Africa's Development (NEPAD) initiative—a program to eradicate poverty in Africa and to place its countries on a path of sustainable growth and development, and at the same time, to encourage active participation in the world economy and body politic[1]. There is a growing trend to attempt creating a bigger market and cooperation amongst the SADC countries that could lead to economies of scale.

The U.S.-Africa Growth Opportunity Act (AGOA), which was promulgated in October 2000 and has been extended to 2015, could further accelerate the pace of regional integration. AGOA claims to "move Africans from poverty to prosperity by increasing their economic opportunities." The Act extends Generalized System of Preferences (GSP) status for qualifying African countries to September 2015 and expands the existing list of 4, 650 GSP products by 1 837. Thirty-seven Sub-Saharan African countries, including thirteen of the fourteen from SADC, qualify for AGOA (AGOA website, 2001)[2].

1.1.1 Objectives of the Study

FDI and trade as engines of growth are vital connections between U.S. and African markets, and this could reduce the human misery of poverty and the epidemic of HIV in Africa. The objective of this study is to analyze the role of FDI, trade and regionalization in economic growth of the SADC region under the AGOA dispensation.

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[1] For a detailed list NEPAD's objectives visit: http://www.nepad.org/documents/6.pdf
[2] Hereafter, referred to as AGOA

The specific objectives of the study are to:

a) Explain the institutional and policy factors that are most likely to influence FDI into the SADC.

b) Test the hypothesis that FDI and infrastructure are likely to be effective in promoting growth in the SADC.

c) To analyze the unique and special role of South Africa in the process of promoting economic growth and integration in the SADC in the context of AGOA.

d) To analyze the economic integration moves among SADC member countries.

1.1.2 Scope and Limitations of the Study

This study focuses on analysis of the impact of the selected macroeconomic variables on the FDI inflows and trade into the SADC and the effects of FDI on economic growth of the SADC countries under AGOA. The case study of South Africa's role as growth pole of the region is presented. Studies that use cross-section and time-series data face problems related to quality of data, and this study is no exception. For African countries, statistics from sources are in some cases incomplete and, at times, missing altogether. Even when the data is available, there are problems of access and they are also subject to a large margin of error. For this study, I rely primarily on data from World Development Indicators published by World Bank, IMF statistics, the United States International Trade Commission (USITC), and Freedom House. The data from these sources is more reliable than an individual country source. The period of study is 1985-2001. This period is significant because the quality of data from the mid-1980s onwards is relatively reliable for Africa.

Another limitation of the study is the aggregate nature of the data used in the study. Due to this, the analysis and results may not reflect many country-specific issues. The present study recognizes that specific internal economic factors and other non-economic factors, such as drought and famine, pose major issues in the economic development of SADC region. But, such issues will not be addressed in detail and it is beyond the scope of this to study to identify all factors affecting the performance of each individual country under study.

1.1.3 Relevance of the Study

There are two reasons for limiting the sample to African countries. First, results from investor surveys indicate that the factors that attract FDI to Africa are different from the factors that drive FDI in other regions (Jenkins and Thomas, 2002). The second reason for limiting the sample to African countries is the widespread perception that the region is structurally different from the rest of the world. African policymakers believe that lessons from East Asia or Latin America do not apply to them because their situation is different. But African leaders can learn from each other. Hence, an empirical analysis that focuses on performance within the continent will have greater credibility among African policymakers. This study is important to both policymakers and academics.

There is a dearth of literature on the determinants of FDI to Africa. Yet, none of the studies on FDI to Africa have included the impact of South Africa on the growth of the rest of the region. South Africa's trade and investment with the SADC has been on the rise since end of apartheid (see Chapter IV, Table 4-8). Initially, due to South Africa's political and economic isolation during the apartheid era, trade with its

neighbors remained modest. However, after 1994, South Africa's trade began to expand rapidly, fuelled by increases in the country's demand for primary and intermediate goods and the expansion of its manufacturing production (Appendix A, Table 3). As regards FDI, an expectation is that South African MNCs could help grow SADC and SSA economies through the provision of FDI capital, technology transfer, contributions to human resource development and generate export revenues. In addition, FDI flows could offset the rising trade deficits of many of South Africa's neighbors and further fuel trade. According to the South African Department Trade and Industry (DTI) annual report 2003, South Africa dominates investment in the SADC, receiving a substantial portion of new FDI inflows into the region and hosting the greatest number of foreign subsidiaries across a broad range of economic sectors. South Africa and China were most frequently mentioned as sources of South-South FDI (UNCTAD, 2004).

Against this background, South Africa's capacity to act as a magnet for FDI in the region, particularly in the context of AGOA, is an important feature of investment inflows. Thus, the most important question that needs to be answered is: Can South African firms go beyond their traditional role in neighboring economies and help them develop new industries and transfer technologies, most notably in the manufacturing sectors? South Africa's physical, financial and economic infrastructure is well developed and should be conducive to the growth of the region. The issue at the center of the debate is whether the Southern African region can learn from the model of regional economic integration pioneered by South-East Asia where several groups of countries followed each other through the stages of industrial development, driven

by the dynamics of changing intra-regional division of labor (Werkmans, 2002; UNTACD, 1997). This process is called the "flying geese" paradigm (originally developed by Kanane Akamatsi and further developed by Kiyoshi, Kojima and Terutomo, Ozawa, 1985; Ozawa, 1993; Kojima, 2000), with Japan generally labeled as a "lead goose". UNCTAD (1997) points that in the SADC case, the geese do not seem to be ready for take off. Rather, they are still in the "nest-building" stage.

Contrary to the UNCTAD nest-building conclusion, this study found that South Africa is starting to get out of the nest-building stage and is preparing to take a "lead goose" role. Another contribution of this study is that it highlights the importance of "non-natural resources" in directing FDI inflows in Africa.

Though I have searched to the best of my ability, I have been unable to locate empirical studies on the determinants of FDI, and its growth effects were found that use seemingly unrelated regressions (SUR) for Africa. Therefore, they were not noted in this study's Literature Review. The advantage of estimating the model using SUR is that it corrects for heterosakedasticity. The findings of this study are expected to provide insight into the causal relationship between FDI-flows and growth through empirical study. A South African (SA) case study is important because SA is by far the most important continental source of FDI outflows, with outflows dwarfing those of other countries (Table 4-8).

1.1.4 Organization of the Study

Chapter I is an introduction to and explanation of the purpose of the study, the scope of the study, and the organization of the study in addition to an overview of the SADC and its economic structure. Chapter II presents trends in FDI and trade inflows

to Africa. Chapter III, presents a brief literature review or theoretical framework of determinants of FDI, discusses the hypotheses, the data sources, and the methodology used to test the determinants of FDI and also describes the findings or empirical results of determinants of FDI. Chapter IV presents a discussion of the role of South Africa as a springboard to FDI in the SADC. Chapter V provides a quantitative assessment of SA's role as "lead goose" in the SADC region. The last chapter, Chapter VI, consists of a summary, a conclusion, and policy recommendations.

1.2 Overview of the Sub-Sahara Africa and the SADC

Many of the Sub-Saharan African countries gained political independence in the 1960s. After independence, most of these countries gave more emphasis to indigenous-oriented growth followed by protectionist policies that favored limited FDI and trade with the developed countries (Tekle, 1999). Some of the countries advocated self-reliance policies and regional economic integration. However, political independence of most Southern African countries came late. To mention a few, countries like Angola, Mozambique, and Zimbabwe became independent after the 1970s, followed by South Africa in 1994. On the other hand, countries like Kenya and Tanzania became independent in the early 1960s.

Most Sub-Sahara African countries have economic structures that are highly dependent and linked to their former colonies such as the UK and France. As in the past, their economies are dependent on primary goods and raw material exports to the European countries and the U.S. Unlike other Generalized System of Preference (GSP) beneficiaries in Latin America and Asia, African countries have not been able to create relatively independent economies (Jenkins and Thomas, 2002). The last four

Swaziland, Zambia and Zimbabwe (SADC Review, 2003). The SADC manufacturing sector's exports are dominated by South Africa, which accounts for approximately 88 percent of total SADC exports. Zimbabwe's manufactured exports are regarded as more diversified and sophisticated than those of other member states, second only South Africa, and accounting for nearly half of total exports. According to DTI (2002), South Africa also accounts for 85 percent of car exports to Africa.

The intra-SADC trade is mainly dominated by unprocessed primary commodities going to South Africa and Zimbabwe, and manufactured goods and semi-processed intermediate goods going the other direction. That is, both trade and investment relationships between South Africa and the rest of the SADC region exhibit the typical North-South patterns (Table 4-6, Appendix A, 5-11). This suggests that South Africa might be in a good position to embark on a catch-up growth with the SADC region and the rest of the world. There is however, a considerable cross-border trade in tourism and business services, mainly in favor of South Africa. Mineral exports account for nearly two-thirds of the SADC's total exports. In the late 1990s, mining provided approximately 60 percent of the SADC countries' foreign exchange earnings, between ten and eleven percent of regional GDP and about 5 percent of formal employment. However, SADC's manufacturing sector's exports accounted for only about 0.3 percent of the world's manufactured exports and contributed less than 5 percent of the region's total production (SADC Review, 2003).

1.4 Changing Perceptions and the Role of FDI and Trade

The ongoing process of integration of the world economy, which has gained momentum from the beginning of the 1990s, has led to a significant change in the

decades have witnessed economic decline in Sub-Sahara Africa and the region's marginalization in world trade. On the other hand, other developing countries, while they are also dependent on trade and investment, have been able to achieve export diversification and expand their participation in world trade during roughly the same period of time.

The Southern African Development Community was established in August 1992 in Windhoek, Namibia, to replace the Southern African Development Co-ordination Conference (SADCC), which was established in July 1979 to harmonize economic development among the countries in Southern Africa. At the time of its formation, the SADC group excluded South Africa and had as a key objective, the reduction of the countries' economic dependence on South Africa. The declaration and treaty establishing the SADC was signed in Windhoek, Namibia, in August 1992.

- The objectives of the SADC are to[3]:
- Achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the peoples of Southern Africa, and support the socially disadvantaged through regional integration.
- Evolve common political values, systems and institutions.
- Promote and defend peace and security.
- Promote self-sustaining development on the basis of collective self-reliance, and the inter-dependence of member states.
- Achieve complementarities between national and regional strategies and programs.

[3] Adopted from the SADC website: http:// sadcreview.com

- Promote and maximize productive employment and utilization of the resources of the region.
- Achieve sustainable utilization of natural resources and effective protection of the environment.
- Strengthen and consolidate the long-standing historical, social and cultural affinities and links among the peoples of the region.

Following the institution of a full democratic government in South Africa in 1994, the country became the eleventh member of the SADC group in 1994, followed by the 12th member, the island republic of Mauritius which was admitted in 1995. The Democratic Republic of Congo and the Seychelles were admitted in 1997. It currently groups fourteen member states; Angola, Botswana, the Democratic Republic of Congo (DRC), Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. The SADC countries signed a free trade protocol in 1996. The headquarters of the SADC are located in Botswana, but each member state has responsibility for overseeing an economic sector. The ultimate objective of the SADC is to build a region in which there will be a high degree of harmonization and rationalization to enable the pooling of resources to achieve collective self-reliance in order to improve the living standards of the people of the region.

The fourteen countries that make up the SADC have attracted increasing attention from the international business community since the early 1990s. According to Odenthal (2001), their combined share of total FDI to Africa rose from less than a third (32.5 percent) for the period 1990-94 to more than a half (56.5 percent) in

1995-99. The large increase was attributed primarily to a few large FDI projects in SA and Angola in 1997. In 1999, inflows into the SADC reached $4.5 billion, a figure that was only surpassed in the exceptional year of 1997, when the largest privatization deal in South Africa took place. Eleven source countries were each responsible for at least two percent of total FDI activity in SADC. One of the major goals of economic policy in the SADC is to attract more private investment. The governments of most SADC countries also hope to attract foreign direct investment and to increase private domestic investment. Support for the private sector also ranks high on the agenda of donor countries such as the U.S. and the European Union (EU). According to the SADC secretariat (2003), Europe is the SADC's largest trading partner, with the top country destinations of SADC exports including the U.S, the UK, Japan, Italy and Germany (Table 4-6).

In 2003, the combined Gross Domestic Product (GDP) for Southern Africa was estimated at $173.8 billion (Table 2.1). Individual national economies are structurally diverse and at varying stages of development. South Africa, the region's most developed economy, has a GDP of $156.9 billion, which is nearly ten times the combined GDP of the other Southern African countries. While the region's economies grew at a combined rate of 2.7 percent in 2003, the substantial external debt of individual states remains problematic. Challenges of post-war disarmament and reconstruction (in Angola and the DRC), and continuing internal strife in Zimbabwe have adversely affected economic performance in several states. According to the April 2004 International Monetary Fund (IMF) assessment, the Zimbabwean economy has experienced a sharp deterioration over the past five years. It reported that

Zimbabwe's real GDP has declined by about 30 percent from 2001 to 2003 and is still contracting, while inflation doubled in each of the last three years to reach 600 percent at the end of 2003. The economies of the DRC and Angola have begun to experience slight levels of GDP growth as peace agreements in both countries begin to take hold.

As a result of the peace agreements in Angola, on December 30, 2003, President George W. Bush approved the designation of Angola as the 37th Sub-Saharan African country eligible for tariff preferences under the Africa Growth and Opportunity Act (AGOA Report, 2004). As required by the legislation, this annual determination signifies which countries are making continued progress toward a market-based economy, the rule of law, free trade, economic policies to reduce poverty, and the protection of workers' rights. Comoros, the DRC and Zimbabwe were the only countries in the region not covered by AGOA.

Table 1-1 Economic and Demographic Indicators of the SADC

Country	Gross Domestic Product (GDP), 2003E (Billions of U.S. $)	Real GDP Growth Rate, 2003 Estimate	Real GDP Growth Rate, 2004 Projection	Per Capita GDP, 2002E	Population in millions
Angola	$10.00	4.40%	11.40%	$650	13.9
Botswana	$5.10	3.70%	3.60%	$2,980	1.6
DRC	$7.00	5.00%	6.00%	$90	53.6
Lesotho	$0.80	4.20%	4.40%	$480	2.2
Malawi	$1.50	6.50%	5.20%	$160	10.5
Mauritius	$4.50	3.30%	5.50%	$3,900	1.2
Mozambique	$2.40	7.00%	8.00%	$210	19.4
Namibia	$2.90	3.70%	4.70%	$1,840	1.8
Seychelles	$0.60	-5.10%	-2.00%	$6,530	0.1
South Africa	$156.90	2.20%	3.00%	$2,520	45.7
Swaziland	$1.20	1.50%	1.60%	$1,220	1.1
Tanzania	$8.90	5.50%	6.30%	$280	36.2
Zambia	$3.10	4.50%	4.50%	$330	9.8
Zimbabwe	$9.40	-11.00%	5.10%	$570	11.4
Regional Total/Average	**$214.30**	**2.70%**	**4.80%**	**$1,399**	**219.5**

Sources: International Monetary Fund (2004); World Bank (2003)

According to the U.S. Department of Commerce (2002), total regional exports, including intra-regional exports, were $48.5 billion in 2001. Southern Africa had a $5.3 billion trade surplus for 2001. The region's major export commodities were energy products (oil and coal) and various minerals including diamonds, gold, and copper. Trade growth between the United States and Southern Africa was nearly flat in 2001 (up only 0.7 percent). U.S. exports to the region grew 5.7 percent in 2001, to nearly $4 billion. U.S. imports from Southern Africa fell by 1.4 percent in 2001, to $8.8 billion.

1.3 Overview of the SADC Economic Structure

As stated previously, the economic structure in African countries differs from country to country. Similarly, the economic performance of each country differs from that of other countries but general economic performance of the region has been poor. Resource endowments are not evenly distributed and there are countries rich in oil and minerals, just as there are poor countries with limited resources. Land is a major factor of production and a source of income to the rural population as well as a means of livelihood for the larger part of the population. Thus, an improvement in the dominant sectors will have an important impact in raising the standard of living of these countries.

The value of the SADC's output and GDP is dominated by the service sector (which include tourism, transport and business services) followed by manufacturing. The manufacturing and agricultural sectors are also the largest import sectors, therefore suggesting a lopsided openness and excessive dependence on external factor inputs. The highest employer is the services sector (44%) followed by agriculture (37 percent). While the value of agricultural and mining product exports was greater than imports, the opposite was true for the manufacturing sector (SADC Review, 2003).

The countries whose production structure is dominated by the agricultural and mining sectors are Angola and Tanzania. Agriculturally centered economies are those of Malawi, Mozambique and Tanzania, while Angola, Botswana, and the Democratic Republic of Congo are mining-centered economies, and South Africa is the only country that has a diversified economy. The countries where over 20 percent of production is dominated by manufacturing are Mauritius, Mozambique, South Africa,

attitudes of host countries with respect to inward foreign direct investment. FDI and trade are no longer regarded with suspicion by developing countries, and controls and restrictions over the entry and operations of foreign firms are now being replaced by policies aimed at encouraging FDI and trade inflows. Along with this, there has also emerged an extensive network of bilateral and regional investment agreements, which seek to promote trade and protect FDI coming from partner countries (e.g. the SA-EU free trade agreement, the U.S. Africa Growth Opportunity Act, etc). The primary provisions of these agreements, whether bilateral or regional, are linked with: the gradual decrease or elimination of measures and restrictions on the entry and operations of foreign firms, the application of positive standards of treatment with a view to eliminate discrimination against foreign enterprises, and the reduction tariffs.

Until recently, there was a strong consensus in the literature that multinational corporations (MNCs) invest in specific locations mainly because of strong economic fundamentals in the host countries, for example: large market size, stable macro-economic environment, etc. (Dunning, 1993; Asiedu, 2002; Bende-Nabende, 1999). However, with the growing integration of the world markets and increased competition amongst the host countries to attract FDI, the host country's economic fundamentals may not be sufficient for inward FDI. Therefore it now becomes important to study afresh what determines inflow of FDI. In this regard, there is a need to focus on the role played by host government policies and investment agreements in attracting inward FDI.

The developing countries have also become more receptive to FDI. As mentioned above, in the early 1990s, most governments acclaimed FDI as "good

news" after a period of highly being critical—if not downright hostile—to these investments in the 1970s and early 1980s. According to Dunning (1986) there are a number of possible explanations for this change of heart:

- Renewed faith of most countries in the workings of the market economy, as demonstrated, for example, by the wholesale privatization of state-owned assets and deregulation and liberalization of markets over the previous ten to twelve years. He pointed out that while these events occurred primarily in Europe and China, the need to remove structural market distortions has also been acknowledged in other parts of the world—notably in the European Union, Latin America and East Asia.
- The increasing globalization of economic activity and integration of international production and cross-border markets in MNCs.
- Key ingredients of contemporary economic growth-created assets, such as technology, intellectual capital, learning experience and organizational competence are not only becoming more mobile across national boundaries, but are increasingly housed in the MNC system.
- The economic structures of major industrialized nations converging with the implication that competition between firms in different nations is becoming more intra-industry and more intensive.
- The criteria for judging the success for FDI by a host nation's government has changed over the years in a way which has made for a less confrontational and a more cooperative stance between hosts and foreign investors.

- The learning experience of countries about what MNCs can and can not do for the host countries has enabled their governments to better understand how to assess their impact and to take action to ensure that MNCs more efficiently promote host countries' economic and social goals.

According to Dunning, the world economy is now a very different place from that of a decade or two ago, and the changes that have occurred have had implications both for the responses of individual nation-states to FDI, as well as for the very character of FDI itself.

1.5 Africa Growth and Opportunity Act

The AGOA is the most recent in a series of regional initiatives in United States trade that are based on the general philosophy of " trade, not aid" as the chief tool for promoting economic growth and development. It was enacted into law as part of the Trade and Development Act of 2000 (Public Law 106-2000). The Act offers trade preferences to beneficiary countries as a complement to foreign aid, and encourages them to adopt reforms in their economic, investment and trade policies. The most immediate benefit that is it extends to Sub-Saharan African countries is expanded product coverage under Generalized System of Preference (GSP), as well as tariff and quota-free exports of textile and apparel products to the U.S. (UNCTAD, 2003).

The AGOA represents a meaningful and significant opportunity for eligible SSA countries, which could result in millions of dollars in new trade and investment flows between Sub-Sahara Africa and the United States (USITC Report, 2002). The AGOA is based on major findings that emphasize the mutual interests of the U.S. and the SSA countries. The sustained economic growth and development of SSA through

market-based strategies is supported by the United States. The aim of the AGOA is to reverse the declining economic trend and marginalization of the African countries and the private sector is expected to play a key role in this process.

Under Title I-B of the Africa Growth and Opportunity Act, beneficiary countries in sub-Saharan Africa that will be designated by the U.S. President as eligible for AGOA benefits will be granted what could be called a "super GSP". While the current "normal" GSP program of the United States expired in September 2001 and contains several limitations in terms of product coverage, the AGOA amends the GSP program by providing duty-free treatment for a wider range of products (AGOA, 2002). This includes, upon fulfillment of specific origin and visa requirements, certain textile and apparel articles that were considered import-sensitive and thus statutorily excluded from the program.

The AGOA includes an important section on eliminating barriers and encouraging exports. The United States decided to implement the Africa Growth and Opportunity Act based on the finding that the lack of competition in the manufacturing activity in Sub-Sahara African countries is less of a threat to domestic market disruption and job loss in U.S. Thus, on the basis of a USITC report, it is believed that opening U.S. markets for African products will not affect the U.S. economy negatively and will have a positive impact on African exports (USITC, 1997).

The USITC (1997) study by the U.S. Congress shows that SSA's annual textile exports to the U.S in 1996 were less than one percent of all textile and apparel exports. The Congress projects modest growth rates of textile apparel manufacturing in SSA over the period 2001-2008. On the basis of its findings, it concludes that it will be

difficult for the exporters from Sub-Sahara Africa to exceed three percent annually of the total U.S. imports of textile apparel. The study concluded that if U.S. imports of textile and apparel from SSA were around three percent, there would be no threat to U.S. workers, consumers or manufacturers.

Free and open trade is critical for developing countries such as Africa. No region in the world has a greater stake in global trade liberalization than Africa. Sub-Saharan Africa's share of global trade dropped from nearly four percent in the 1960s to less than two percent in 2001 (IMF Trade Statistics, 2002). As a result, African countries and people have not shared the growing prosperity that has accompanied the surge in global trade over the past few decades. Africa has not seen too much globalization but rather too little. Proponents of open trade believe that free trade, combined with AGOA and government policies, offers the best hope of expanding the circle of development to include African countries.

Since the Africa Growth and Opportunity Act provides for a series of preconditions and requires positive actions on the part of the 48 potential beneficiary Sub-Saharan African countries, the actual utilization of the trade benefits will depend on the capacity, at institutional level, to satisfy those preconditions and undertake the requested actions. The larger Sub-Saharan African countries may thus be better equipped to qualify as AGOA beneficiaries than other least developed countries in the region. The following is a detailed overview of the provisions of the AGOA.

1.5.1 Country Eligibility[4]

First of all, any AGOA beneficiary country must be eligible under the normal GSP program. As additional eligibility requirements, the President is authorized to designate a sub-Saharan African country if the country has made or is making progress in all of the following respects:

(a) The country must have established, or be in the process of establishing:

- A market-based economy that protects private property rights, incorporates an open rules-based trading system, and minimizes government interference in the economy;
- The rule of law, political pluralism and the right to due process, a fair trial and equal protection under the law;
- The elimination of barriers to United States trade and investment, including:
- The protection of intellectual property rights; and
- The resolution of bilateral trade and investment disputes;
- Economic policies to reduce poverty, increase the availability of health care and educational opportunities;
- A system to combat corruption and bribery;
- Protection of internationally recognized worker rights;

(b) The country must not engage in activities that undermine United States national security or foreign policy interests;

(c) The country must not engage in gross violations of internationally recognized human rights;

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[4] 1.6 &1.7 were adopted from http://www.AGOA.com.

(d) The country must have implemented its commitments to eliminate the worst forms of child labor.

If an eligible country does not continue to make progress in complying with the above requirements of AGOA country eligibility, the President of the U.S. shall terminate the designation of the country.

1.5.2 Product Eligibility

The AGOA authorizes the President of the United States to provide duty-free treatment for selected products from designated Sub-Saharan African countries if, after receiving advice from the USITC, he determines that the products are not "import-sensitive" in the context of imports from those countries. AGOA adds 1,835 products to the regular GSP products (approximately 4,650). All AGOA designated countries are granted duty-free treatment on all products currently eligible under the GSP program, including those on which, so far, only least developed beneficiary countries have been enjoying GSP treatment. AGOA-designated products, which were previously statutorily excluded by the GSP program, even for the Least Developed Countries, include watches, electronic articles, steel articles, footwear, handbags, luggage, flat goods, work gloves and leather wearing apparel, and semi-manufactured and manufactured glass products. This implies that the special GSP LDCs' preferences have been somewhat diluted since other designated non-LDC Sub-Saharan African countries can now benefit from similar preferential product coverage. AGOA provides unprecedented opportunities and aims to: Promote increased trade and investment between the United States and Sub-Saharan African countries by providing eligible African countries with unprecedented liberal access to the U.S.

market. Essentially all products of these eligible countries will have quota-free/duty-free access to the almost 10 trillion dollar United States market.

- Promote economic development and reform in Sub-Saharan Africa, moving across a wide range of industries, granting tangible benefits to entrepreneurs, farmers, and families.
- Promote increased access and opportunities for U.S. investors and businesses in Sub-Saharan Africa.

The African Growth and Opportunity Act offer a wide variety of benefits to businesses, workers, manufacturers, and farmers in eligible countries. It is important to remember that the Act can only offer opportunities. African countries are encouraged to seize the opportunities provided in the Act and to create enabling environments to strengthen prospects for expanded trade and investment.

The policy challenge for these countries is to prepare for eventual elimination of trade preferences, either by developing the capacity to provide the necessary inputs, by attracting FDI or finding competitive sources of input in other AGOA beneficiary countries. This situation is similar to that of countries that attracted exports-oriented FDI under the Multi-fibre Arrangement. The textile and clothing industry was extended from the general provision of the GATT and regulated by the Agreement Regarding International Trade in Textile, a commodity known as Multi-fibre Arrangement (MFA). This Arrangement allowed importing countries to establish quantitative restrictions on the imports of textile and clothing to prevent disruptions in their national market (UNCTAD, 2002).

CHAPTER II

AFRICA GROWTH AND OPPORTUNITY ACT, FDI, AND TRADE IN AFRICA

2.1 The Trends in FDI and Trade in Africa

The success stories of East and South East Asian countries suggest that FDI is a powerful tool of export promotion because MNCs have well-established contacts and up to date information about foreign markets. The experiences of these countries cannot be generalized to SSA, given the lower level of infrastructure and the rigidity in both the factor "factor" market as well as the commodity markets. As a result, it is important to study the determinants of FDI and its effect on growth in Africa.

Foreign investment has an important role to play in the development of African economies. The recent reform programs in African countries give as much attention to foreign investment as they do to trade. SADC countries aim to expand the private sector and encourage foreign investment in Africa. As mentioned earlier, the primary objective of AGOA is to encourage increased trade and investment between the U.S. and SSA through the reduction of tariff and non-tariff barriers to trade, expansion of U.S. assistance for regional integration, negotiations of mutually beneficial and reciprocal trade agreements, promotion of private sector engagements, and democratization. AGOA is a compliment to the overall investment strategy in the SADC region.

The question that African government policy makers have to ask themselves is this: Why does foreign investment matter for SADC countries? FDI represents inflows of foreign savings, which can be an important supplement in the SADC, given the relatively low levels of domestic savings. For many other emerging markets, FDI inflows have provided a reliable source of foreign savings, which has allowed for a sustained boost in investment levels. Other benefits are frequently associated with FDI as well. When undertaken by multinational firms accustomed to international competition, FDI can bring important technology and skills transfer with it. Also, since FDI projects often have a strong export orientation, the trade balance improves, increasing the economy's import capacity and providing an important stimulus to job creation.

In South Africa, the Department of Trade and Industry (DTI) vows to promote the growth of a globally-competitive clothing and textile industry that provides sustainable employment opportunities and exports to the value of $695 million (DTI, 2002). This will be facilitated through the aggressive promotion of South African exports, as well as inward investment in the industry, to take advantage of favorable market-access conditions for locally manufactured clothing and textiles provided by AGOA. According to DTI, value addition will be promoted through the development of a National Indigenous Fashion Technology Institute.

Businesses and investors seek dependable, transparent, and open regulatory regimes, adequate infrastructure, and political and economic stability. Most SADC countries are stable compared with the rest of Sub-Saharan Africa. AGOA is more likely to speed up the process of creating investor friendly economies in these

economies than in the rest of SSA. Thus, AGOA can be expected to work as an initiative for the SADC to reach the threshold of development that could trigger mass investment and trade into Africa.

According to AGOA Report 2002, in order to fully benefit from AGOA, countries must have more open economies and a friendly FDI policy, which could lead to growth. The long-run implication of AGOA for the SADC is to improve their FDI position by improving their macroeconomic management, improve their FDI policy, and broaden their export base. AGOA is a good incentive for these countries to accelerate export-oriented policies and liberalizing the FDI regime. In this study, it is believed that countries will benefit more from AGOA if they improve their manufacturing ability by attracting more FDI and transforming their economies.

In November 2003, the Organization for Economic Cooperation and Development (OECD) launched the African Investment Initiative (AII), which has been developed with African and international partners. The OECD believes that there are large, unexploited opportunities to promote growth in Africa through cooperative arrangements such as trade agreements and a cross-border infrastructure[1].

Many countries in SSA have come up with liberal trade and investment policies that allow foreign capital in different sectors. In some countries, foreign investors are only allowed to compete in some sectors that have been solely controlled by the government. However, there are countries that do not differentiate between domestic and foreign capital and that give foreign investors national treatment. Others

[1] Thabang Mokopanele Sunday Times website: http://www.suntimes.co.za , (accessed Nov, 3, 2003)

provide some preferences to local capital and encourage national rather than foreign investors in some areas (Tekle, 1999).

2.2 The Stock of FDI in Africa

During the past two decades, FDI continues to expand rapidly, enlarging the role of international production in the world economy. More than 60,000 transnational corporations drive global expansion of investment flows with over 80,000 affiliates abroad. Developed countries remain the prime destination of FDI, accounting for more than three quarter of global inflows (UNCTAD, 2001). FDI in Africa was rather static in prior to the 1980s. The exceptions were in 1974 and 1979, when heavy investment was made in oil-producing countries following the oil crises[2].

However, as Figure 1 below illustrates, in response to investment and trade policy liberalization, FDI surged in the early-1980s and peaked in 1997 due to large transactions in Angola and South Africa. However, it slumped in 1998 before recovering in 1999. Among the reasons attributed to the increase is the degree of investment profitability in Africa. According to the UNCTAD (1999): (i) in the case of U.S. FDI, the rate of return in Africa was above ten percent between 1983 and 1997 except in 1986; (ii) since the 1990s, the rate of return in Africa has averaged 29 percent; (iii) since 1991 the rate of return in Africa has been higher than in any other region, including developed countries as a group, in many years by a factor of two or more; (iv) in 1995, Japanese affiliates in Africa were more profitable (after taxes) than in the early-1990s, and were even more profitable than Japanese affiliates in any other region for Latin America and the Caribbean and West Asia.

[2] See Figure 5, UNCTAD, 1999.

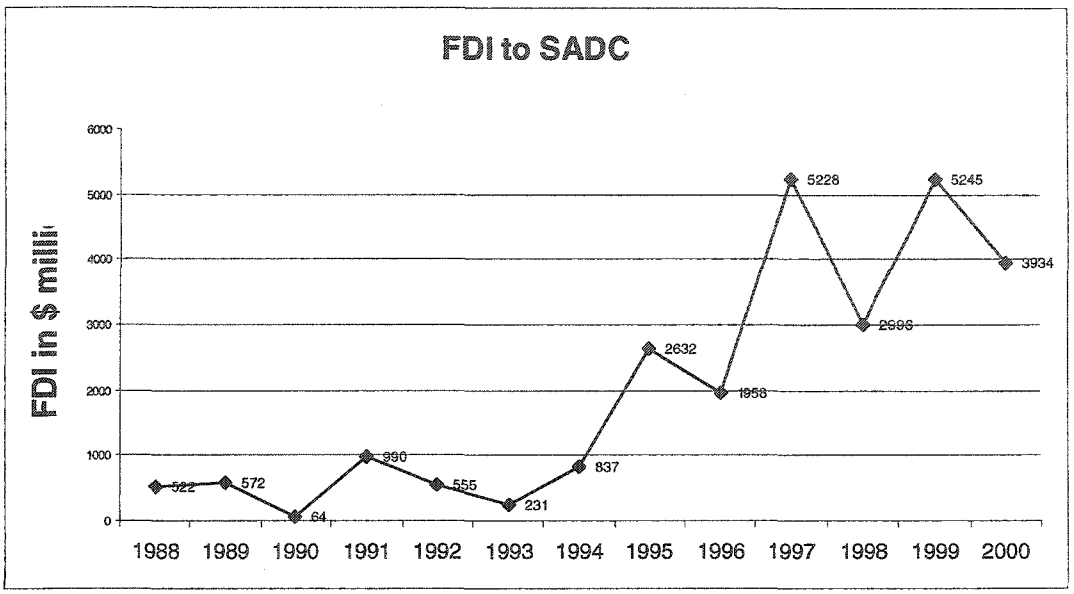


Figure 2-1 Source: World Investment Report (various issues)

As mentioned earlier, the importance of FDI in eradicating poverty is also echoed in the New Partnership for Africa's Development (NEPAD) declaration, which stipulates that in order for the continent to eradicate poverty, the region needs to fill an annual resource gap of $64 billion, about 12 percent of GDP. Since income levels and domestic savings in the region are low, a bulk of the finance will have to come from abroad: from (i) official sources (finance from multilateral organizations such as the World Bank); (ii) Foreign Indirect Investment (which includes portfolio investments, bond finance and bank lending) or from (iii) Foreign Direct Investment. However, official assistance to the region has been declining. For example, net official development assistance to Sub-Saharan Africa (SSA) declined from $17 billion in 1990 to $10 billion in 2001, a decrease of about 41 percent (World Bank, 2003a). Additionally, foreign indirect investment is unavailable to most African countries, since most of the countries in the region cannot raise funds from international capital markets. As a consequence, a bulk of the external resources needed for poverty

alleviation has to come from FDI. From 1995-2001, annual FDI flows to SSA averaged about $7 billion. Average annual flows fall to $2.9 billion when Angola, Nigeria and South Africa are excluded. Thus, filling the annual resource gap of $64 billion needed for poverty alleviation would require a substantial increase in FDI[3].

FDI inflows in Africa increased significantly between 1980 and 2000 (Appendix A, Table 1).[4] FDI inflows to the region gained momentum in the second half of the 1990s, and after increasing to a record $10.5 billion in 1999, declined to $9.1 billion in 2000 (Appendix A, Table 2). These volumes represent a significant increase relative to the flows that averaged about $3 billion per annum at the beginning of the decade. Despite the decline in overall FDI flows to Africa in 2000, and notwithstanding the fact that about 70 percent of the total was concentrated in selected countries, including Angola, Nigeria, and South Africa, a number of smaller countries, including Lesotho, Namibia and Uganda, continued to receive fairly large amounts of FDI, which as a share of their GDP or gross capital formation is quite significant.

Notwithstanding the sharp increase in absolute stock of FDI over the period of 1980-2000, Africa's share of the global stock of FDI has declined from about 5.3 percent in 1980 to 2.3 percent in 2000 (Appendix A, Table 1). In other words, although there has been an increase in the volume of FDI flows to Africa, they have

[3] South Africa is by far the largest market in Africa. Foreign investment flows, after increasing rapidly in the period immediately following the lifting of economic sanctions, have remained rather sluggish. FDI flows to SA gained significant economic momentum in 1997, to reach almost $3.8 billion, attributable, in large part, to the faster pace of privatization. Since then, however, FDI to the country has been modest with flows unrelated to privatization not gathering significant momentum. A major share of FDI in SA originates from just five countries: Germany, Japan, Malaysia, the United Kingdom and the United States.

[4] To some extent, the diminishing share of African countries in global FDI flows has been offset by an increase in cross-border mergers and acquisitions.

not kept pace with flows to other regions in the world. FDI flows to Africa averaged about 2 percent of annual global FDI flows from 1989 to 1994, and gradually declined to about 0.7 percent in 2000 while as a share of FDI flows to developing countries, Africa's share has declined from an annual average of 6.7 percent from 1989 to 1994 to approximately 4 or 5 percent through the second half of the 1990s (Appendix A, Table 2). Srinivasan and Basu (2002) pointed out that, despite the decline in Africa's share of global FDI flows, and notwithstanding the perception that Africa has suffered from recurrent problems regarding political and economic instability, social strife, and weak governance, it is heartening to note that over the past decade or so, some countries in Africa have done fairly well in attracting FDI[5]. Moreover, the share of least developed countries in total FDI flows to Africa increased from an average of about 22 percent from 1989-1994 to about 43 percent in 2000 (Appendix A,Table 2).

A joint survey of 296 of the world's largest multinational corporations, conducted by the United Nations Conference on Trade and Development (UNCTAD) and the International Chamber of Commerce in 1999/2000, suggests that FDI flows to Africa could increase for a sustained basis over the medium term. The survey found that more than one-third of the respondents planned to increase investment in Africa over the next 3-5 years, while a majority of the remainder expects their investments to be stable. Mozambique, South Africa, Tanzania, and Uganda were viewed as the more attractive FDI destinations in Africa.

A survey of investment promotions agencies (IPA) in Africa, conducted by UNCTAD (1999) for the World Investment Report reveals that a sense of optimism

[5] To some extent, the diminishing share of African countries in global FDI flows has been offset by an increase in cross-border mergers and acquisitions.

regarding prospects for FDI inflows to the region. A number of countries, including Botswana, Mozambique, Namibia, Nigeria, South Africa, and Uganda are viewed by IPA as having strong prospects over the near term to attract large volumes of global FDI flows. The optimism is arguably reflective of macroeconomic stability, implementation of essential structural reforms key to attracting FDI and the creation of a business-friendly environment in these countries.

2.3 FDI in Southern Africa: an Overview

2.3.1. The Macroeconomic Context

Table 2-1 records the rates of aggregate (gross domestic) investment, gross domestic savings, foreign direct investment, foreign aid and economic growth for each SADC member country in the 1990s. The difference between gross domestic investment and gross domestic savings is the resource gap, and developing countries can fund an excess of investment over domestic resources by attracting foreign capital inflows.

Table 2-1 Sources of investment, percent of GDP, average for 1990-99

	Investment	Domestic	Foreign capital			GDP
	Gross capital formation	savings	FDI	Aid	External Debt	Growth (%)
Angola	13.4	19.3	5.7	5.4	157.8	0.4
Botswana	26	33.7	0.3	2.4	13.3	4.3
DR Congo	7	8.5	0	4	178.2	-5.1
Lesotho	57.2	-39.4	13.9	14.4	69.5	4.4
Malawi	17.3	3	1.3	26.1	114.9	3.8
Mauritius	28.3	24	0.8	1.2	44.4	5.1
Mozambique	19.8	-6.6	2.7	39.8	238.3	6.2
Namibia	21.7	9.3	3.3	5.7	12.9	3.4
Seychelles	31.5	22.3	6.8	4.3	35.2	3.3
South Africa	14.8	17.6	0.6	0.3	17.5	1.9
Swaziland	24.8	21.7	5.3	4.2	22.8	3.1
Tanzania	21.4	1.8	1.3	18.8	127.6	2.8
Zambia	14.1	7.1	3.5	24.5	201.3	0.2
Zimbabwe	19.7	16.9	1.3	5.9	60.3	2.8

Source: *World Development Indicators 2001* CD ROM, World Bank
Notes: Numbers in italics indicate that the reported average has observations missing from the calculation.

2.3.2. FDI to Southern Africa in a Global Context

The East Asian and Latin American regions received around 80 percent of FDI going to developing countries (Table 2-2). This share has been roughly constant through the 1990s, although towards the end of the 1990s, Latin America became the preferred destination, in contrast to the first half of the 1990s when flows to East Asia dominated. Sub-Saharan Africa's share of total FDI to developing countries has generally remained between just 3 to 5 percent of the total over this period, indicating the marginalization of the continent in terms of attracting this key source of long-term private capital. For SADC economies, the approximate share of total FDI varied between 2 and 3 percent between 1995 and 1999.

Table 2-2 Foreign direct investment in low & middle income countries: percentage of total net flows

	1995	1996	1997	1998	1999
Low & middle income	100	100	100	100	100
East Asia & Central Asia	49.7	46.4	38	35.8	30.2
Europe	15.8	12.2	13.6	14.1	14.3
Latin America & Caribbean	27.8	33	37.7	40.8	48.7
Sub-Saharan Africa	4.3	4	4.8	3.6	4.3
SADC	2.6	1.6	3.1	1.9	2.7

Source: Calculated from data in World Development Indicators, 2001 CDROM, World Bank

Table 2-3 Foreign direct investment in low & middle income countries: net inflow, in US$ millions (nominal)

	1995	1996	1997	1998	1999
Low & middle income	106,990	131,451	172,571	176,764	185,408
East Asia & Central Asia	53,143	61,029	65,577	63,297	56,041
Europe	16,906	16,087	23,544	24,997	26,534
Latin America & Caribbean	29,781	43,320	65,139	72,052	90,352
Sub-Saharan Africa	4,635	5,212	8,317	6,294	7,949
SADC	2,735	2,040	5,363	3,409	5,039

Source: World Development Indicators, 2001 CDROM, World Bank

2.3.3 FDI in Southern Africa: Country Experience

The available data indicate that the experience of SADC countries in attracting long-term capital flows has been mixed. While in terms of the US dollar, the FDI received by SADC countries is small (Table 2-3), because of the small size of many of these economies; inflows as a percent of GDP have been, at times, quite high relative to other developing economies. These inflows are often explained by a relatively small number of large transactions and tend to occur in countries where there are unexploited natural resources. Direct investment inflows into SADC in terms of the US dollar were largely dominated by Angola and South Africa in the second half of the 1990s (Table 2-4).

Table 2-4 Foreign direct investment in SADC, net inflows in US$ millions (nominal)

	1995	1996	1997	1998	1999	2000	2001
SADC	2,735	2,040	5,363	3,409	5,255	2,893	10,387
Angola	472	181	412	1,114	2,471	879	2,146
South Africa	1,248	816	3,811	550	1,376	969	7,162
Rest of SADC			1,004	1,737	1,262	1,046	1,079
SADC as a % of developing countries			3.10%	1.90%	2.90%	1.80%	6.00%

Source: World Development Indicators, World Bank, 2003 CDROM

Table 2-5 provides data on FDI to the SADC as a percentage of GDP, compared to a selection of other emerging and developing economies.

Table 2-5 Foreign Direct Investment: Net Inflows as a Percentage of GDP

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Angola	-3.3	5.5	5	5.7	4.2	9.1	2.4	5.4	17.3	28.9
Botswana	2.5	-0.2	0	-6.9	-0.3	1.4	1.4	2	1.9	0.6
DR Congo	-0.1	0.1	0	0	0	0	0	0	0	..
Lesotho	2.7	1.1	0.4	1.8	2.2	29.5	30.6	26.2	30.2	18.7
Malawi	0	0	0	0	0.8	1.7	1.8	0.9	4	3.3
Mauritius	1.6	0.6	0.5	0.5	0.6	0.5	0.9	1.3	0.3	1.2
Mozambique	0.4	0.9	1.3	1.5	1.5	1.9	2.5	1.8	5.4	9.7
Namibia	1.2	4.7	4	2	3.2	4.6	4	2.8	2.9	..
Seychelles	5.4	5.3	2.1	4	6.1	7.9	5.9	10	10.3	11
South Africa	-0.1	0.2	0	0	0.3	0.8	0.6	2.6	0.4	1
Swaziland	3.5	9.4	9	7.3	6	4.1	1.8	-1.2	10.2	2.7
Tanzania	0	0	0.3	0.5	1.1	2.3	2.3	2.1	2	2.1
Zambia	6.2	1	1.4	1.6	1.7	2.8	3.6	5.3	6.1	5.2
Zimbabwe	-0.1	0	0.2	0.4	0.5	1.7	0.9	1.6	6.6	1.1
Brazil	0.2	0.3	0.5	0.3	0.6	0.7	1.4	2.4	4.1	4.3
Chile	1.9	2.4	2.2	2.3	5.1	4.5	6.8	6.9	6.4	13.7
Mexico	1	1.5	1.2	1.1	2.6	3.3	2.8	3.2	2.7	2.4
Peru	0.2	0	0.4	2	6.9	3.8	5.8	3	3.3	3.8
Indonesia	1	1.2	1.3	1.3	1.2	2.2	2.7	2.2	-0.4	-1.9
Malaysia	5.3	8.1	8.8	7.5	5.8	4.7	5	5.1	3	2
Philippines	1.2	1.2	0.4	2.3	2.5	2	1.8	1.5	3.5	0.7
Thailand	2.9	2.1	1.9	1.4	0.9	1.2	1.3	2.6	6.5	5
Czech Rep.	0.6	2.3	3.7	1.9	2.1	4.9	2.5	2.4	4.9	9.6
Hungary	0	4.4	4	6.1	2.8	10.1	5	4.7	4.3	4
Poland	0.1	0.4	0.8	2	1.9	3.3	3.4	3.3	4	4.7
Romania	0	0.1	0.3	0.3	1.2	1.3	0.8	3.8	4.9	3.1

Source: World Development Indicators, 2001 CDROM, World Bank and International Financial Statistics Yearbook 2001, International Monetary Fund (italicized)

While inflows into South Africa in US dollar terms are high by regional standards, they represent only a small fraction of GDP, in contrast to other large emerging market economies (Table 2-4). Expectations of significant inflows of FDI

following the political transition in South Africa in 1994 have not been realized. In recent years, annual inward direct investment has exceeded one percent of GDP only three times—in 1997, 1999 and 2001. On two occasions, privatization transactions accounted for the FDI inflows. In 2001, the higher flows of FDI was due to AGOA. In contrast, inward portfolio investment averaged more than 8 percent of GDP between 1997 and 1999 but declined dramatically in 2000 and 2001. Surges and reversals of foreign investment in the domestic bond market have been a particular source of volatility.

Angola has attracted huge amounts of foreign direct investment in recent years, although inflows have been volatile. FDI amounted to 17 percent of GDP in 1998 and 29 percent in 1999 and 2001. This FDI consists largely of investment in the oil and natural gas sector, which are arguably, relatively insulated from political and economic instability.

The relatively high levels of investment in Mozambique in the late 1990s are, in part, the result of a number of successful mega projects. The establishment of the Mozal aluminum smelter brought US$1.3 billion in foreign investment (Jenkins and Thomas, 2002). Also, investment in the Maputo Corridor transport and related infrastructure is specifically intended to act as a catalyst for further foreign investment. Infrastructure projects may also explain most of the substantial inflows into Lesotho since 1995 (particularly the Lesotho Highlands Water project, which is a long-term joint venture between Lesotho and South Africa), although there have also been inflows as a result of privatization and manufacturing investment (Jenkins and Thomas, 2002). Lesotho recorded inflows in excess of 20 percent of GDP between

1995 and 1998, while in US dollar terms; annual FDI in this period was of the same order of magnitude as that flowing into Mozambique in 1998-1999.

Seychelles experienced a sustained period of significant direct investment inflows during the 1990s; the tourism sector is particularly important, while the small size of the economy tends to overstate the scale of these inflows when expressed as a percentage of GDP. Namibia appears to have *consistently* attracted direct investment in contrast to many SADC partners, with annual FDI in the range 2-4 percent of GDP between 1991 and 1998. For Swaziland, large inflows throughout the first half of the 1990s may be associated, in part, with production for the South African market. (In the late 1980s and early 1990s, Swaziland secured several foreign investments from international companies seeking to relocate South African subsidiaries). More recently, following the start of the political transition in South Africa, there has been some reduction of FDI into Swaziland, although an inflow of 10 percent of GDP was recorded in 1998.

In Zambia and Tanzania, inflows of FDI as a percentage of GDP show a step increase in the second half of the 1990s. For Tanzania, the increase has followed the implementation of broad economic reform, which has included the privatization of state-owned enterprises. Similarly, in Zambia, economic reform and privatization have played a role in encouraging investment. In particular, the partial privatization of the copper mining industry—the country's main export sector—has been of importance for the Zambian economy[6]. Malawi, too, appears to have experienced

[6] However, this process has been set back by the announced withdrawal of one of the main investors in the privatized industry on the grounds of low copper prices and high operational costs (*Business Day*, 25.01.02).

some increase in inflows at the end of the 1990s, although it is too soon to know whether this will be sustained over several years, as in Tanzania and Zambia.

Despite having fast-growing economies over the decade, FDI in Botswana and Mauritius has been low in comparison to other SADC members. Neither country has had—nor needed—a large-scale privatization program, a major source of FDI in other African countries. Also, during the 1990s, there were fewer mega infrastructure projects as seen elsewhere in the region. It is worth noting, however, that net FDI inflows as a percent of GDP in Botswana were considerably higher during the 1980s.

Zimbabwe has also experienced relatively low levels of direct investment in comparison with most regional partners, although some limited improvement is evident in the second half of the 1990s, especially in 1998. However, given the level of economic instability and political uncertainty currently facing the country, it seems highly unlikely that substantial new inflows of direct investment will take place in the short- to medium-term.

Privatization has been one of the important sources of FDI in the SADC in recent years, although this has been a difficult process for the countries concerned from both political and administrative perspectives. Within the SADC, Mozambique and Zambia have had the most ambitious—and largely successful—programs, although the small number of South African privatizations has dominated the value of total asset sales in the region. In these countries, much of the revenue generated by divestiture has come from foreign investment. Privatization has also contributed to increased FDI inflows in Tanzania, as noted above. Nevertheless, for most countries in the SADC, slow progress in the sales of the largest parastatal entities suggests that

there is considerable scope for further inflows of FDI arising from privatization (SADC Secretariat, 2001).

2.3.4 Concentration of FDI in Southern Africa

As noted above, inflows of FDI into Southern Africa have been received primarily by Angola and South Africa. While the oil and natural gas sector has been the main destination of FDI in Angola, South Africa has attracted foreign investment across a broad range of economic sectors. South Africa offers investors a considerably larger market than its neighbors. The dominance of South Africa as a location for investment in the SADC is illustrated by an analysis of the main subsidiaries and affiliates of the largest MNCs. The Directory of Multinationals (Caritas Data, 2001) provides information on nearly 450 of the world's largest (non-financial) companies. Among the information provided on each multinational is a list of principal subsidiaries and affiliated companies[7].

Of the multinationals described in the directory, 133 have identified subsidiaries/affiliates in the SADC. Many of these companies have multiple interests in the region—either across countries or within one particular country. In total, 390 different subsidiary entities in the SADC can be identified from this source[8]. South Africa accounts for more than 70 percent of these entities. Mauritius is the next most important host country with 9 percent, followed by Zimbabwe with 7 percent. For

[7] This source covers only a small subset of the total number of multinational companies in the world. To put this into context, UNCTAD (2001:239-242) estimates that there are 63,312 multinational parent corporations.

[8] This set of entities may include holding companies and representative offices in cases where it is not possible to distinguish major from minor subsidiary companies. This figure may therefore overstate the number of *productive* entities in the region associated with multinationals.

other countries in the region, only a small number of *principal* subsidiaries could be identified, although this does not mean that multinational investment in these countries is insignificant. One important point to note is that there may be many minor subsidiaries located across the region that are not included in this dataset. There are also several subsidiaries based in South Africa with a Southern Africa focus; it is plausible to assume that some regional investments may have taken place through South African offices.

The available data indicate the experience of the SADC members in attracting long-term capital flows has been mixed. In US dollar terms, the amount of FDI received by the SADC is a small fraction of total flows to low- and middle-income economies: between 1998 and 2002, the approximate share of the SADC in total FDI to developing countries varied between 1.3 and 4.8 percent. However, for some countries in the region, annual inflows expressed as a percentage of GDP have, at times, significantly exceeded flows to other developing economies: for instance, Angola in 1998-99; South Africa in 1998-99 and 2000-2001; and Mozambique in 1999 and 2002. This is often explained by a limited number of large transactions in relatively small economies, including investment in natural resource exploitation and infrastructure development, and also privatization transactions. Privatization has been an important source of FDI for some SADC countries—such as Mozambique, Tanzania and Zambia—but, in general, slow progress in the sales of the largest parastatal entities suggests that there is considerable scope for further inflows of foreign investment over time.

Table 2-6 Overview of FDI in Top 10 SADC countries (US$ millions)

	1991-96 (annual Average)	1998	1999	2000	2001	2002	Share in 2002
Developing Countries (LDC)	91502	191284	229295	246057	209431	162145	
Africa	4606	8928	12231	8489	18769	10998	
SADC	1267	3198	5541	3114	10072	3407	
Share of SADC in LDC (%)	1.4	1.7	2.4	1.3	4.8	2.1	
Share of SADC in Africa (%)	27.5	35.5	45.3	36.6	53.7	31.1	
Angola	346	1114	2471	879	2146	1312	38.5
South Africa	450	564	1502	888	6789	754	22.1
Mozambique	39	235	382	139	255	406	11.9
Tanzania	63	172	517	463	327	240	7.0
Zambia	108	198	163	122	72	197	5.8
Namibia	112	77	111	153	275	181	5.3
Swaziland	62	152	100	39	78	107	3.1
Seychelles	24	55	60	56	59	63	1.8
Botswana	-28	90	37	54	26	37	1.1
Congo, DR	3	61	11	23	1	32	0.9

Source: World Investment Report 2003, UNCTAD
**implies the shares of select SADC countries in total FDI for SADC*

The United States, with new initiatives like AGOA, which improves the market access for African exports at favorable terms, is poised to be a major source of FDI to the African Countries. The European Union is also among the principal sources of FDI in Africa. To attract more FDI, the SADC countries have introduced various investment incentives in the form of protection against expropriation,

repatriation of profits, non-discrimination between foreign and domestic investors, etc. to actively promote foreign investment. These countries have set up investment promotion agencies that serve as a one-stop shop for all investment-related matters.

South Africa dominates foreign investment in the SADC, receiving a substantial fraction of new FDI inflows into the region and hosting the greatest number of foreign subsidiaries across a broad range of economic sectors. South Africa's capacity to act as a magnet for FDI in the region, particularly in the context of growing regional economic integration, is an important feature of investment flows. One issue that will be discussed in Chapter four is South Africa's capacity to act as a magnet for FDI in the region, particularly as regional integration gathers speed.

2.4 New Trade and Investment in SSA in Response to AGOA

Sub-Saharan Africa (SSA) continues to trail other regions in attracting FDI, despite a doubling of inflows to the region. Data provided by the United States Trade Representative (USTR) shows that FDI inflows to SSA from all sources recorded $12.4 billion, compared to $6.2 billion in 2001. South Africa registered FDI inflows of $6.7 billion, or half the total FDI for SSA. According to the World Investment Report 2002, the exceptional FDI inflows caused the SSA region to claim approximately 1.7 percent of worldwide FDI inflows in 2001, and 6 percent of inflows to developing countries. Angola and Nigeria were the number two and three recipients of FDI inflows after South Africa, each with $1.1 billion. According to The United States Department of Commerce, the United States was the leading provider of

FDI to Africa between 1996-2000, with $9.2 billion of cumulative flows[9]. France was second with $4.4 billion, and the United Kingdom was third with $3.3 billion.

At year-end 2002, the U.S. investment position in Sub-Saharan Africa stood at $8.9 billion, representing a 12 percent increase over the previous year[10]. The FDI position in South Africa increased to $3.4 billion in 2002 from $3.1 billion in 2001, while the figure for Nigeria stood at $1.8 billion in 2002. The U.S. direct investment position in South Africa is largely manufacturing while in the other three countries FDI is heavily concentrated in the petroleum sector.

According to the 2002 to 2004 reports of the President of United States on the implementation of AGOA (AGOA, 2002b, 2003, 2004), AGOA has started to generate new trade and investment responses in a number of beneficiary countries. AGOA is also continuing to encourage substantial new investments, job creation, and trade in Dub-Saharan Africa. AGOA is also stimulating intra-Africa investments, as Africans work together to access AGOA trade preferences through regional production. For example, Mauritian investors have invested in apparel production facilities in Senegal and Madagascar, while South African apparel producers have invested in Lesotho and Swaziland. Mauritius and South Africa are staring to show the signs of "leading geese" in the SADC. The following are some recent AGOA-related investments:

[9] Figure 1 and 2 show the U.S. direct investment position in SSA in 2002 and total FDI to SADC respectively.

[10] U.S. Department of Commerce, Survey of Current Business, September 2003.

Table 2-7 AGOA Related Investment in the SADC

Namibia	▪ A subsidiary of a Malaysian textile producer has invested over $200 million since April 2001, created 5,000 new jobs, and exported over $22 million in apparel products to the United States since initiating operations in June 2002. ▪ Two more apparel companies are in the process of beginning production. These firms will add another $115 million in investment and over 6,000 additional jobs. ▪ Once fully operational, these three companies will have brought over $300 million in investment, 11,000 jobs, and new exports of approximately $120 million per year to the United States.
Lesotho	▪ A Taiwanese investor is building a $100 million denim rolling mill to supply local manufacturers. This plant will employ 5,000 new workers when operational in 2004. The same investor has plans to invest an additional $50 million in a new yarn spinning plant. ▪ Other Taiwanese investors will contribute an additional $10 million to build a separate weaving and dying factory. These facilities will be able to supply most of the denim and knit fabric needed by Lesotho's garment industry.
Mauritius	FDI worth $78 million has already taken place. In the near future, there are prospects of Asian and European companies building cotton-yarn spinning mills. In addition there are reports of substantial new orders from major U.S. retailers
South Africa	The establishment of a new $100 million factory expected to employ 13,000 has been announced by a Malaysian company. South Africans are also receiving new orders from various United States clothing companies and retailers.
Malawi	AGOA has led to FDI in two garment factories by European and Taiwanese companies and the creation of at least 4,350 jobs. Total employment could increase by 10,000, for a total of 20,000 workers.

Source: http://www.agoa.gov/resources/2004-05-agoa.pdf

Table 2-8 AGOA Related Investment in Other African Countries

Ghana	A U.S. company is investing in a tuna-processing plant.
Mali	▪ In Mali, a $12.5 million cotton-thread factory opened in February of 2004. The modern facility is one of the few Sub-Saharan African plants outside South Africa capable of producing quality thread for use in manufacturing apparel for export under AGOA. ▪ Mauritians who plan to use the thread for apparel production in Mauritius were among the investors. The factory, the first of its kind in Mali, created 200 new jobs.
Madagascar	Four international investors and the IFC will establish a $10 million apparel manufacturer in 2003, specializing in knit casual wear, sleep wear, active wear and intimate apparel
Cameroon	The Chad-Cameroon Pipeline, the largest U.S- commercial investment in Sub-Saharan Africa, totaling approximately $350 million, began operation in 2003.
Kenya	The government has announced new investment, and expansions of existing investments, in apparel production, amounting to $13 million and providing over 20,000 new jobs.

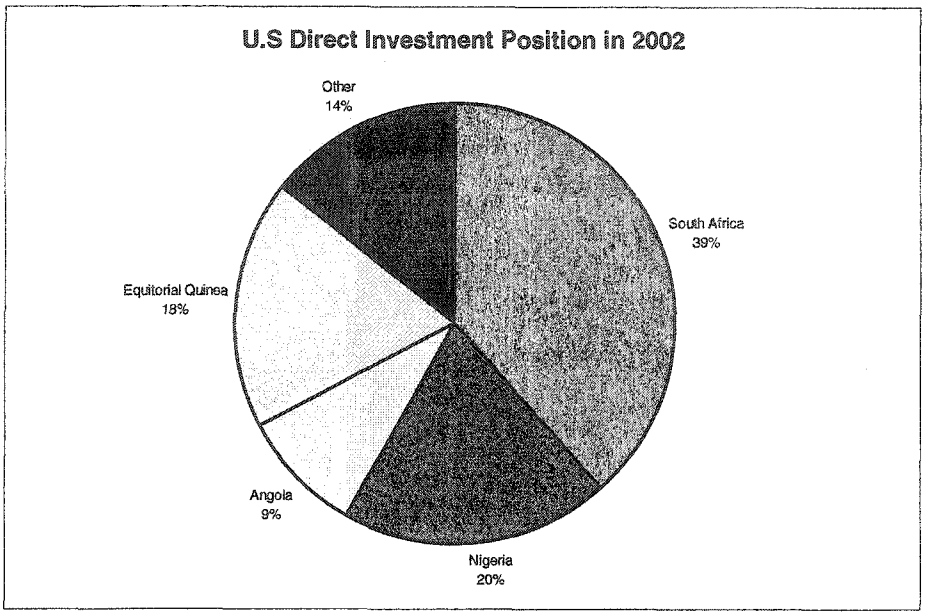
Source: http://www.agoa.gov/resources/2004-05-agoa.pdf

According to Tables 2-9 and 2-10, duty-free importation of goods from SSA under the GSP increased 9 percent in 2002 due to a tripling of GSP utilization by Equatorial Guinea, and smaller increases in Nigeria, Angola and South Africa.

Among AGOA countries, South Africa was the leading beneficiary with $552.9 million in benefits, a 9.2 percent increase from 2001.

Total trade between the United States and Sub-Saharan Africa fell substantially in 2002, as both export and imports declined. Two-way trade was just under $24 billion, down 15 percent from the previous year. U.S. exports declined 13.2 percent to $6 billion in 2002, due the decline in sales of aircrafts, motor vehicles parts, and computers and telecommunication equipment. U.S. imports fell 15.7 percent from 2001 to $17.9 billion, as a result of lower U.S. demand caused by recession. AGOA prevented an even sharper fall of U.S. imports. AGOA imports increased 10 percent to $8.3 billion in 2002. AGOA accounted for half of the imports in the region but 3/4 of AGOA imports were petroleum products. With these excluded, AGOA imports were less than $2.2 billion of total imports. Textile and apparel imports more than doubled the level of 2001, to $803.3 million. Transport equipment, mostly passenger cars from South Africa, accounted for $545 million, 81 percent more than in 2001, and agricultural products grew 38 percent to $212 million[11].

[11] Adopted from the United States Department of Commerce Report on AGOA and author's calculations.



Source: U.S. Dept. Of Commerce

Figure 2-2: U.S. Direct Investment Position

Table 2-9 Leading Sub-Saharan African GSP Beneficiary Countries

Country	2002 GSP benefits ($millions)
ANGOLA*	2,728.4
SOUTH AFRICA	552.9
EQUITORIAL GUINEA*	358.0
CONGO-KINSHASA*	111.5
ZIMBABWE*	54.9
COTE D'IVOIRE	22.5
GHANA	11.8
**GSP benefits lapsed September 30, 2001 for non-AGOA beneficiaries, reinstated retroactively August*	

Table 2-10 U.S. Trade with Sub-Saharan Africa ($ millions)

	1999	2000	2001	2002
Exports	*5,568.5*	*5,925.8*	*6,941.8*	*6,023.0*
Imports	*14,042.9*	*23,480.4*	*21,286.8*	*17,934.7*
Trade Balance	*-8,474.40*	*-17,554.60*	*-14,345.00*	*-11,911.70*
AGOA Including GSP provisions of the AGOA act		*0*	*8,179,347*	*8,991,729*
GSP imports		*704,462*	*600,190*	*630,307*
Duty-free items added for AGOA cts.		*0*	*7,579,158*	*8,361,422*
Source: Compiled from USTIC data web and own calculations				

AGOA utilization is dominated by a small number of eligible countries. Nigeria accounted for $5.4 billion of benefits, South Africa $1.3 billions, Gabon, $1.1 billion, Lesotho $318 million, and Kenya $129 million. These five countries accounted for nearly 93 percent of AGOA duty free benefits (USITC, 2002).

According to the U.S. Department of Commerce Bureau of Economic Analysis (2003), AGOA also contributed to indirectly to a surge of U.S export of motor vehicles to South Africa, although automotive shipments declined in 2001. Between 2000 and 2002, U.S motor vehicle exports to South Africa increased more than 88 percent, to $160 million. The increase was due largely to the efforts of the auto manufacturers to base their production for the United States in the AGOA region for duty free entry to the U.S market. This gives the South African manufacturers increased right to import U.S- manufactured autos under the South African Motor Industry Development Program.

Table 2-11 U.S. Trade with SADC (in `000 of U.S. $)

SADC	2000	2001	2002	2003 YTD
Total US exports	3,392,683	3,767,298	3,242,158	1,503,383
Total U.S. imports	8,487,660	8,223,917	8,788,615	4,925,855

Source: Compliled from AGOA website and author's own calculations

Table 2-12 shows that the United States is SSA's largest single-country market, purchasing 26 percent of the region's exports in 2001, followed by the United Kingdom at 9.5 percent, and France in third at 7.3 percent. The EU absorbed nearly 45 percent of SSA's exports in 2001, up from 40 percent in 2000. The U.S. market share increased from 7.15 in 2000 to 7.9 percent in 2001, as result of AGOA. Non-traditional partners also increased their share of the African market. South Africa

surpassed Italy and Japan as a supplier to the SSA region with exports of $3.3 billion, boosted by sales of motor vehicles, telecommunications equipment, and food gains to neighboring countries of Southern Africa. According to the U.S. Department of Commerce Report on U.S.-African trade profile, despite the 2002 decline, U.S. exports to SSA were 46 percent higher than those to the former soviet republics, and nearly twice to Eastern Europe. U.S. exports to South Africa alone were larger than U.S. sales to Russia, whose population is more than 3.5 times as large .

Table 2-12 Sub-Saharan Africa's Principal Industrial Country Trading Partners ($billions and Market Share)

Sub-Saharan Africa's Imports	2000	% Share	2001	% Share
France	8.7	10.5	8.3	9.5
United States	5.9	7.1	6.9	7.9
Germany	5.6	6.8	6.6	7.5
United Kingdom	4.8	5.8	5.1	5.8
Japan	3.7	4.5	3.3	3.8
Italy	2.8	3.4	2.9	3.3
Total EU	**30.5**	**36.8**	**32.0**	**36.5**
Sub-Saharan Africa's exports	**2000**	**% Share**	**2001**	**% Share**
United States	23.6	27.0	22.3	25.9
United Kingdom	6.3	7.2	8.2	9.5
France	5.5	6.3	6.3	7.3
Germany	5.1	5.8	5.6	6.6
Japan	4.4	5.0	4.1	4.7
Italy	4.5	5.1	4.0	4.7
Total EU	**35.6**	**40.7**	**38.7**	**44.8**

Source: Compiled from IMF Direction of Trade Yearbook, 2002

2.5 New Trade and Investment Opportunities in South Africa in Response to AGOA

Data provided by the AGOA (2003) reveals that South Africa is the largest supplier in Sub-Saharan Africa to the United States after Nigeria, with more than $4 billion in exports in 2002. Platinum, diamonds, and motor vehicles are the top U.S. imports from South Africa. The latter is perhaps surprising, and can be traced in large part to German automaker BMW's decision in the mid-1990s to make its South African plant an export hub for its 3-Series line of sedans, which are manufactured locally and then exported to the United States, Japan, and Australia. BMW, like many companies, was attracted to the low costs of land, water, and electricity (South Africa has among the lowest electricity rates in the world) as well as skilled labor. Further, the higher shipping costs are offset by export incentives offered by the South African government—since 1995 via the Motor Industry Development Program (MIDP)—as well as the import duty exemptions of the African Growth and Opportunity Act.

The MIDP and AGOA have been instrumental in attracting multinational vehicle manufacturers including Volkswagen, Daimler Chrysler, Toyota, BMW and Ford to build plants in SA, often geared to the export business. According to the DTI (2004), there has been a healthy growth of exports by the automotive component sector, although this has taken a knock from the strong rand. DTI said the MIDP has been highly instrumental in making the sector as successful as it has been over the past eight years. The sector contributed 6.6 percent of gross domestic product in 2003, making it one of the largest manufacturing sub-sectors. In 2003, exports of vehicles

and components measured by South Africa currency, the rand (R), were worth R42bn, with imports worth R44bn (DTI, 2004).

The automotive sector is the largest manufacturing in South Africa and is the country's biggest manufacturing exporter. South Africa's automotive exports may be small in global terms—around 0.2 percent—but its presence in the world auto industry is significant for a developing economy. The local industry has world beating cost ability on short or low-volume runs, competitive tooling costs, and a high degree of manufacturing flexibility. It also has good access to the Southern Hemisphere and African markets, and offers right-hand drive (RHD) production facilities (SA is a right-hand driving country). VWSA produces all RHD Golfs for the UK, while BMW exports 70 percent of its output (DTI, 2004).

Historically, new vehicle sales have correlated closely with the movement of the GDP growth rate in South Africa. With the anticipated higher economic growth rates of four percent, this trend is set to continue [South African Reserve Bank (SARB), 2004]. Medium and heavy vehicle sales were proportionately higher than passenger car sales in 2002. Since these vehicles are considered fixed investments and capital inputs to the economy, sales growth in this sector illustrates South Africa's increasing investment in productive equipment. This trend confirms that South African companies remained largely resilient to global uncertainties in 2002/2003.

Current exports of built-up cars are destined primarily for Europe, the United States, the Far East, and Africa. The majority of commercial vehicles are exported to SADC countries, including Mozambique, Malawi, Zambia, Kenya and Zimbabwe.

Table 2-13 gives a bird's-eye view of South Africa's car production for domestic and export market.

Table 2-13 South African Production of Cars and Light Commercial Vehicles						
	1998	1999	2000	2001	2002	2003*
Car						
For domestic market	174,870	159,944	172,373	172,052	163,474	164,000
For exports	18,342	52,347	58204	97599	113025	126000
Light Commercial Vehicles						
For domestic market	99,778	96,169	105,235	113,111	101,956	100,000
For exports	6,806	6,581	9,148	10,229	11,699	11,000
Total Domestic Production	299,796	315,041	344,960	392,991	390,154	401,000
Source: adopted from South African Department of Trade and Industry, 2004						

* estimates

According to the South African Motor Industry Development Program strategy, local assemblers should aim at producing over 30, 000 vehicle models by the middle of the decade, with some planning on higher figures of 60, 000 to 80, 000. The bulk of these will be produced for export (DTI, 2004). Local model ranges will be supplemented by imports to satisfy the needs of the local market. Ford South Africa recently announced that it would start producing two new vehicles for export under a R1-billion investment program, joining BMW, DaimlerChrysler, Volkswagen and Toyota as major exporters of vehicles from the country. The value of Ford's additional exports is expected to reach nearly R4-billion a year. As a result of the new investment in the country, exports of components by the local company will also increase. The company is expected to produce parts to support an estimated 70 000 vehicles per annum that will be exported from local suppliers to other international markets[12].

[12] Information presented was adopted from a South Africa information website: http://www.southafrica.info/doing_business/investment/oppurtunities/sectors.htm

In the future, Volkswagen South Africa (VWSA) will focus its export program on the Asia-Pacific region instead of the European market. VWSA expects to export 30 000 vehicles in 2004, bringing in R4-billion, with an additional R2-billion in component exports, but will withdraw from the European market. Despite a free-trade accord with the European Union (EU), local vehicle exports are still subject to a seven-percent import tariff, which makes them less competitive than European-produced vehicles. However, the similarity in freight costs from South Africa to Asia and from Europe to Asia mean that South African exports can compete with European exports in the Asian region, making it the sole Asia-Pacific supplier of Golf and Polo models. In 2002, Volkswagen SA produced 30 000 Golf 4s for export to Europe and the United Kingdom. VWSA also exported components to the value of R1.6-billion (Business Day, 2004).

Toyota South Africa (TSA) will start exporting its vehicles to Australia this year. Some 8 000 vehicles are expected to leave Durban for Australia, and this number is expected to increase to substantial volumes starting in 2005. In 2003, Toyota Motor Corporation (TMC) reached an agreement with joint-venture partner Wesco Investments to boost the percentage of shares TMC holds in Toyota South Africa from 35.7 percent to 74.9 percent. TSA is a holding company of Toyota South Africa Motors, which handles production and distribution of Toyota vehicles in South Africa. Wesco currently owns 64.3 percent of TSA. The company recently opened a new R168-million pressing plant for car side panels in Durban (Business Day, 2004).

From 2000 to 2004, BMW South Africa's Rosslyn plant near Pretoria has moved from operating as a completely knocked down production facility, assembling

vehicles with limited customization possibilities for the local market, to a world-class plant capable to producing customized 3-Series vehicles (4-door, right and left-hand drive) for global export. This evolution is largely due to BMW AG's R1-billion investment in the Rosslyn plant during the mid 1990s. The investment, used to upgrade the production facility into one of the most modern in the world, brought Rosslyn in line with other BMW plants worldwide. In the five years since 1998, BMW SA has grown its overall production volume by 220 percent, while its production of cars for export has quadrupled (NAAMSA, 2004).

Almost 80 percent of BMW's production of 55 555 units in 2002 were exported. Primary markets for South African manufactured BMWs are the United States (22 000 units, or 47 percent) and Japan (13 000 units, or 18 percent). Australia received 5 500 units, eight percent, of production, while the balance went to New Zealand, Hong Kong, Singapore and Taiwan. Export production was up 18 percent in 2002, with over 43 000 units leaving South Africa compared with 36 750 in 2001 (NAAMSA, 2004).

2.6 Conclusion

South Africa has been a major beneficiary of AGOA. As expected, AGOA has indirectly encouraged U.S. exports to South Africa. Between 2000 and 2002, U.S. motor vehicle and parts exports to South Africa increased more than 88 percent, to $160 million, due in large part to efforts by automakers to base more production for the U.S. market in South Africa. A study by a South African economic research firm concluded that AGOA supported more than 65,000 jobs in South Africa alone in 2001 and caused a 1-percent increase in GDP (Werkmans, 2004). Indeed, South Africa's

success with AGOA was a motivating factor in its decision to enter into free-trade agreement negotiations with the United States. Both countries realize the benefits that can accrue when the bilateral commercial relationship graduates to full partnership, when guaranteed preferential access to each other's market is the rule.

By creating tangible incentives for African countries to implement economic and commercial reform policies, AGOA contributes to better market opportunities and stronger commercial partners in Africa for U.S. companies. The Act has helped forge stronger commercial ties between Africa and the United States, while it helps to integrate Africa into the global economy. U.S. firms may find new opportunities in the privatizations of African state-owned enterprises or in partnership with African companies in infrastructure projects. U.S. firms can also benefit by forming joint ventures with African, or other firms, to take advantage of AGOA benefits.

South Africa's trade strategy has concentrated on gaining preferential access to important markets alongside a tariff phase down. Access to the European Union and the Southern African Development Community markets have been facilitated via the conclusion of Free Trade Agreements. The next phase of this strategy encompasses building strong trade relations with major emerging markets, such as Brazil, India and Nigeria. The access afforded to the United States market by the AGOA has served to bolster this strategy. South Africa is already beginning to reap the benefits of AGOA with large increases in exports to the United States in the first few years of meeting the qualification criteria.

CHAPTER III

TRADE OPENESS AND FOREIGN DIRECT INVESTMENT IN THE SADC: AN INSTITUTIONAL APPROACH

3.1 Introduction and Literature Review

For many observers, the capacity of African countries to attract FDI is principally determined by their natural resources and the size of their local market. According to the World Investment Report 2002, Africa's share of total foreign direct investment (FDI) increased from $9 billion in 2000 to $17 billion in 2001. This escalation in FDI flows was primarily to due a rise in FDI to South Africa and Morocco. In the global context, the share of FDI to Africa in world FDI inflows only rose from 1 percent in 2000 to 2 percent in 2001(UNCTAD, 2002). Factors contributing to this lag in FDI flows to Africa, relative to the rest of the world, include a perception of high corruption and political instability, weak governance, and poor infrastructure, among others. Therefore, it is instrumental to identify the factors that have the potential to either attract or impede FDI flows into a host country.

When it comes to FDI to Africa, what comes to mind is investment in natural resources, mainly investment in minerals and oil. This is not surprising since the region has large endowments of natural resources. For example, more than half of the world's cobalt and manganese, and over a third of the world's bauxite, are located in Africa (Morisset, 2000). Thus, the common perception is that FDI in Africa is solely

driven by natural resource availability. This perception, if true, is problematic because it suggests that FDI in the region is largely determined by an uncontrollable factor, and that natural resource-poor countries will attract very little or no FDI. In addition to resource endowments, economic reform has also contributed to Mozambique, Tanzania, Botswana, Morocco and Uganda becoming attractive FDI destinations (Basu and Srinivsan, 2002). Since the implementation of the Africa Growth and Opportunity Act, the list of countries becoming attractive FDI destinations has been growing. Economic theory suggests that foreign savings can be beneficial to developing countries in many ways. FDI inflows stimulate capital accumulation by adding to domestic savings and raising the recipient economy's efficiency through improving resource allocation, instilling competition, improving human capital, deepening domestic financial markets and reducing local capital costs (Todaro, 2000). All these factors contribute to economic growth. In this regard, FDI is undoubtedly a major source of investment for Africa.

The literature has provided several alternative explanations for the existence of FDI. For instance, Vernon's (1966) product-life-cycle theory of investment suggests that FDI is a natural stage in the life cycle of a new product from its inception to its maturity and to its eventual decline. New products are first introduced in the home market, and a close coordination of production and sales is then undertaken while the products are improved and the production process standardized. After a short time lag, the product is exported. As the new product reaches maturity, competition from nearly similar products narrows the profit margins and threatens margins in both

export and home markets. At that stage, foreign manufacturing locations are sought where imperfections in markets provide opportunities for lower unit production costs.

In such a situation, foreign investment is seen essentially as a defensive investment designed to preserve profit margins in both export and home markets. This theory is, however, no longer wholly befitting since it is now evident that transnational corporations (TNCs) introduce products simultaneously in several markets of the world, and in a differentiated form, not simply the standardized one.

Knickerbocker's (1973) follow-the-leader theory of defensive FDI, suggests that when one competitor undertakes FDI (in oligopolistic industries), other competitors follow very quickly with defensive FDI into that market. The competitors are motivated by a desire to deny any competitive advantage, such as the benefits of economies of scale, to the leaders.

Traditional trade theory (Helpman and Krugman, 1985; Krugman and Obstfeld, 1994) asserts that the direction and magnitudes of capital flows are determined by differences in factor proportions among countries that cannot be countered by international trade. Developing on Dunning's eclectic theory (19881), Eiteman, Stonehill and Moffett (1995) emphasize the merits of internalization. Under the internalization theory, the key ingredient for maintaining a firm-specific competitive advantage is the possession of propriety information and control of the human capital that can generate new information through expertise in research, management, marketing and technology.

Dunning's eclectic theory of FDI, on the other hand, suggests that the propensity for a firm to engage in foreign production depends on the combination of

ownership-specific advantages, internalization opportunities and locational advantages. Each of these determinants of FDI relates to an advantage of direct investment over alternative modes of serving the firm's customers abroad. It means, therefore, that a firm can only capture a foreign market through FDI if it has the capacity to exploit simultaneously all three advantages. If, for instance, it possesses only the ownership advantage without internalization and locational advantages, then it will pursue other strategies such as licensing agreements or exporting as a means of entering the foreign market.

The key distinctive feature of FDI *vis-à-vis* other capital flows is its transfer of control and its direct involvement in the transfer of resources. Consequently, the determinants of FDI can be affected by factors which relate to the TNCs' motives to extend control beyond their home country boundaries. Not surprisingly then, the dominant determinants in Africa relate to the locational environment. Therefore, Dunning's eclectic theory is more relevant to the SADC case than other theories. This chapter builds on previous research and focuses on the macro-locational determinants of FDI inflows, and the linkage between FDI and the other macro-economic variables in the economies of the Southern African Development Community.

The objective of studying FDI in the SADC in the era of globalized production is important and timely for two major reasons. First, studies show that FDI has become a necessity in the process of economic development (for example, Dunning, 1994). Second, since the 1980s, governments in African countries, like those of other developing countries, have realized the importance of FDI and trade in their political and economic transformation. In addition, AGOA presents a good opportunity for

institutional reform whereas FDI and trade provide an opportunity for structural upgrading. Dunning (1994), notes that in the early 1990s most governments in developing countries were acclaiming FDI as good news, after a period of being critical—if not downright hostile—to these investments.

Given the importance of FDI to Africa, a question that arises is this: How can Africa attract more FDI? Surprisingly, research on the determinants of FDI to Africa is scant (Asiedu, 2002). This study builds on the previous literature by examining how government policy and the economic, institutional and political characteristics affect FDI inflows to the SADC region. That is, this study highlights the importance of "non-natural resources" in directing FDI inflows. Good infrastructure, an educated labor force, macro-economic stability, a good investment framework, an efficient legal system, political stability and limited corruption also have a positive impact on FDI, suggesting that governments can play an important role in promoting FDI and growth in the region. Thus, the reduction of trade barriers may stimulate FDI. Benefits from AGOA are leading to increased levels of trade and investment liberalization, which could lead to economic growth in the SADC in general. The mechanism through which AGOA stimulates growth is presented below.

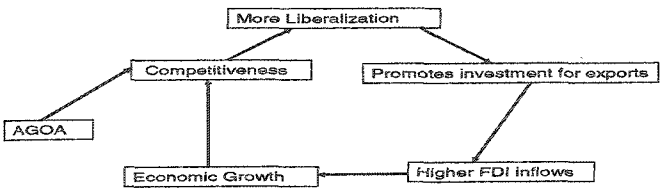


Figure 3-1 Mechanism through which AGOA stimulates growth

3.2 FDI to Africa: A Brief Literature Review

Although, in theory, it is possible to understand why multinational corporations engage in FDI, the empirical question of why foreign firms locate in developing countries is not easily answered. According to the "eclectic" theory of FDI, countries that have a "location advantage" will attract more FDI (Dunning, 1988). Location-specific advantage embodies any characteristic (economic, institutional and political) that makes a country attractive for FDI. These include, but are not limited to, large domestic markets, availability of natural resources, an educated labor force, good infrastructure, low labor cost, good institutions and political stability. The empirical literature on the determinants of FDI to developing countries has generally focused on identifying location-specific factors that are relevant for FDI to developing countries. The literature is vast. However, most of the studies include only a few African countries in their samples.

With regards to research on the determinants of FDI to Africa, the scholarly literature on FDI in the SADC is relatively thin because data limitations are massive outside of South Africa. This means, in particular, that little is known about the effects of increasing internationalization on competition and competitiveness, to say nothing of its implications on wages and salaries, a topic that has received considerable attention in countries such as Indonesia, Morocco, and Venezuela. Empirical studies on FDI inflows to Africa might be limited due to lack of data and the short period of time that some of the countries have been undergoing this major transformation. In a review of literature, Asiedu (2002) finds that not only are there variations in important

factors, but various studies studies provide differing results with respect to the same factors.

In Asiedu's literature review, only two variables are found to have an unambiguous positive effect on FDI: the quality of infrastructure (in Wheeler and Mody, 1992) and openness to international trade (in Edwards L, 2001; Hausman and Fernandez-Arias, 2000). In an empirical analysis of the determinants of FDI, Asiedu examines whether differences exist between factors that influence direct investment in Sub-Saharan Africa *vis-à-vis* other developing countries. Her analysis reveals four major findings. First, higher returns on capital attract FDI inflows to the developing countries but do not have a significant impact on FDI to Africa. Second, geographical location is an explanatory factor in low levels of FDI to Sub-Sahara Africa. Third, openness to trade has less impact on FDI in Africa than other developing countries, and that African countries have received low levels of FDI in part because they are less open to trade.

In a study of FDI in Africa, Mafusire (2001) claims it is difficult to determine the exact quantity and quality of the determinants of the FDI that should be present in a location to attract a given level of FDI inflows. Mafusire concludes that, with respect to African countries, the main factors preventing an increased inflow of FDI are that most countries are regarded as high risk and are characterized by lack of political and institutional stability and predictability. Additional factors cited as hindrances of prospective FDI include poor access to the world markets, high levels of corruption, a small and stagnant market and inadequate infrastructure. The Africa Growth and Opportunity Act was enacted to address most of these issues.

In another study on the effect of policy on FDI in Africa, Morisset (2000) suggests that it is important to look at those countries that have been attracting FDI successfully over the past few years when they could not rely on abundant natural resources and the size of the domestic market (the historic motivations). Bende-Nabende (2002) examines the long-run determinants of FDI in the SSA and concludes that market size (measured by GDP), GDP growth, and investment policy affects FDI flows to the SSA. Schoeman et al. (2000), analyze how government policy (mainly deficits and taxes) affects FDI. Bhattacharya et al. (1996), identify factors such as GDP, GDP growth and political instability as major determinants of FDI in Africa. Schneider and Frey (1985) have pointed out that the level of skills is paramount to the attraction of FDI. However, this paper focuses on one country—South Africa. In addition, none of the papers examine the impact of some important variables that feature predominantly in investor surveys (such as in Jenkins et al., 2002).

This chapter extends the limited empirical literature on the determinants of FDI to Africa by examining the extent to which the economic, political, and institutional characteristics of the SADC region, as well as the policy environment, affect FDI flows. An important contribution of this chapter is that it reconciles investor surveys on Southern Africa with empirical results.

3.3 Survey of Empirical Studies

Empirical studies on the determinants of FDI cover a broad range of methods and results. In terms of country specific effects, variables such as the size of the economy, the stability of the economy, exchange rate volatility, wages in the host country and skill level have been thoroughly investigated. For the purpose of this

section, the empirical review will focus mainly on market size, macroeconomic stability, level of development (infrastructure), country risk, exchange rate, openness of the economy and external debt.

(i) The Relationship Between Market Size and FDI

Local market size and growth variables have been widely supported in the literature as the determinants of foreign direct investment, with the exception of totally export-oriented, extraction FDI. In studies of determinants of FDI flows, the size and growth of the host nation's market have been the powerful motivations explaining investment flows to those countries. A large and growing market will attract foreign investment because of the possibility that a large market will make possible an efficient scale on-site production through the realization of economies of scale. A large local market also provides an opportunity for a foreign investor to meet entry costs and attain economies of scale that will be conducive to selling both in the internal markets and exports. Kravis and Lipsey (1992) and Mody and Srinivasan (1998) have argued that host country market size plays an important role in attracting FDI, especially when the host country market allows the exploitation of economies of scale for import-substituting investment.

Grosse and Trevino (1996), Schneider and Frey (1985), and Lucas (1992) found a positive relationship between market size and inward FDI. Most empirical studies used GDP as a proxy for the market size of a nation. A large market may influence the location decision for two reasons: First, sales volumes play an important role in foreign firm's decisions. Foreign investment becomes sensible if volume sales exceed a level of average cost-of-production within the market. Second, market size

can also be related to strategic motivations for direct investment. Foreign direct investment occurs primarily in highly concentrated industries (Hymer, 1976). In this study, market size is measured by GDP.

(ii) The Relationship between Openness to Trade and FDI

The trade (sum of exports and imports) to GDP ratio is generally used as the proxy for openness of the economy. Horizontal (marketing-seeking) FDI undertaken to get trade (tariff-hoping) may decrease with an increase in openness, revealed perhaps, by a decrease in tariffs; however, other FDI will be stimulated. Vertical (or production-cost-minimizing) FDI, which requires substantial flows of intermediate inputs and goods in and out of the host country, and benefits from a liberal and predictable trade environment, will increase with greater openness. In addition, other (non-tariff-hopping) horizontal FDI may be stimulated with widespread trade liberalization measures that lead to a better business climate and expectation of better long-term economic growth prospects and increasing market size.

Studies of Horst (1972) and Jeon (1992) found a negative relationship between imports and inward FDI in the host country because growing imports mean fewer tariff barriers and result in a temporary fall in FDI. Ajami and BarNiv (1984) and Grosse and Trevino (1996) argued that trade and FDI may be viewed as complementary. Markusen (1995) found that trade barriers cause substitution towards FDI, but they also depress both trade and investment. Thus, high barriers to trade tend to cause a substitution away from exports towards FDI, but simultaneously depress exports and FDI. The friendlier the environment to FDI, the greater the FDI inflows.

In this study, the trade to GDP ratio is generally used as the proxy for openness of the economy (OPN).

(iii) The Relationship between Country Risk and FDI

The impact of political freedom and civil liberties on economic performance as well as determination of political instability has generated considerable interest in the literature. As a result, the importance of political stability in creating a climate of confidence for investors cannot be underestimated. Political instability, whether perceived or real, constitutes a serious deterrent for FDI as it creates uncertainties and increases risks and hence costs. Firms tend to avoid any uncertainty or country risks. In relative terms, the higher the degree of risk in the host country, the lower the inward FDI in the host country. An unstable political environment makes investment risky and therefore erodes investor confidence (Bende-Nabende, 1999). The relationship between political instability and FDI is ambiguous. Schneider and Frey (1985) find an inverse relationship between the two variables. However, Kobrin (1979) and Tallman (1988) have failed to confirm the significance of country risk, and Grosse and Trevino (1996) have found only weak evidence on the negative effect of country risk on inward FDI in the host country. Liu, Song, Wei, and Romily's (1997) analysis fails to support the hypothesis that country risk influences inward FDI, since the coefficient on the variable was statistically insignificant. The flaw in these studies is that most of them used inflation as a measure of risk.

Table 3-1 Political Rights Index

Year	Angola	Botswana	DRCongo	Lesotho	Malawi	Mauritius	Mozam.	Namibia	South Africa	Tanzania	Zambia	Zim.
1980	7	2	6	5	7	2	7	4	5	6	5	4
1981	7	2	6	5	7	2	7	4	5	6	5	4
1982	7	2	6	5	7	2	6	4	5	6	5	4
1983	7	2	7	5	7	2	6	4	5	6	5	4
1984	7	2	7	5	7	2	6	4	5	6	5	4
1985	7	2	6	5	7	2	6	4	5	6	5	5
1986	7	2	6	6	7	2	6	4	5	6	6	6
1987	7	1	7	6	6	2	6	4	6	6	6	6
1988	7	1	6	6	6	2	6	2	5	6	6	6
1989	6	1	6	6	6	1	6	2	5	6	2	5
1990	6	1	6	6	6	1	6	2	5	6	2	5
1991	6	1	6	6	7	2	6	2	5	6	2	5
1992	7	2	7	3	5	1	6	2	5	6	3	5
1993	7	2	7	4	3	1	3	2	2	6	3	5
1994	6	2	7	4	3	1	3	2	1	5	3	5
1995	6	2	7	4	3	1	3	2	1	5	5	5
1996	6	2	7	4	3	1	3	2	1	5	5	5
1997	6	2	7	4	3	1	3	2	1	5	5	5
1998	6	2	7	4	3	1	3	2	1	4	5	6
1999	6	2	7	4	3	1	3	2	1	4	5	6
2000	6	2	6	4	3	1	3	2	1	4	5	6
2001	6	2	6	4	3	1	3	2	1	4	5	6

Source: Freedom House

Table 3-2 Civil Liberties Index

Year	Angola	Botswana	DRCongo	Lesotho	Malawi	Mauritius	Mozam.	Namibia	South Africa	Tanzania	Zambia	Zim.
1980	7	3	6	5	6	3	7	3	6	6	6	4
1981	7	3	7	5	6	2	6	3	6	6	6	5
1982	7	3	7	5	6	2	6	3	6	6	6	5
1983	7	3	7	5	6	2	7	3	6	6	5	5
1984	7	3	7	5	6	2	7	3	6	6	5	6
1985	7	3	7	5	6	2	7	3	6	6	5	6
1986	7	3	7	6	6	2	7	3	6	6	5	6
1987	7	3	7	6	7	2	7	3	6	6	5	5
1988	7	2	6	5	7	2	7	3	5	6	5	4
1989	7	2	6	5	7	2	6	3	4	5	5	4
1990	6	2	5	4	6	2	4	3	4	5	3	4
1991	6	2	5	4	6	2	4	2	4	5	3	4
1992	7	3	6	4	2	2	5	3	4	5	4	5
1993	7	3	6	4	2	2	5	3	3	6	4	5
1994	6	2	6	4	2	2	4	3	2	5	4	5
1995	6	2	6	4	2	2	4	3	2	5	4	5
1996	6	2	6	4	2	2	4	3	2	5	4	5
1997	6	2	6	4	3	2	4	3	2	4	4	5
1998	6	2	6	4	3	2	4	3	2	4	4	5
1999	6	2	6	4	4	2	4	3	2	4	4	5
2000	6	2	6	4	4	2	4	3	2	4	4	5
2001	6	2	6	4	4	2	4	3	2	3	4	5

Source: Freedom House

KEY TO RAW SCORES, POLITICAL RIGHTS (PR) AND CIVIL LIBERTIES RATINGS (CL)

Table 3-3 Political Rights

Total Raw Scores	PR Rating
36-40	1
30-35	2
24-29	3
18-23	4
12-17	5
6-11	6
0-5	7

Table 3-4 Civil Liberties

Total Raw Scores	CL Rating
53-60	1
44-52	2
35-43	3
26-34	4
17-25	5
8-16	6
0-7	7

Table 3-5 Country Status

Combined Average of the PR and CL Ratings	Country Status
1 to 2.5	Free
3 to 5	Partly Free
5.5 to 7	Not Free

In this study we will use two measures, i.e. political right index (PR) and civil liberties (CL), published by Freedom House, as the measure of risk. Each pair of political right and civil liberties ratings is averaged to determine an overall status of "Free", "Partly Free" or "Not Free". Those whose ratings average 1.0-2.5 are considered Free, 3.0-5.0 are considered Partly Free, and 5.5-7.0 Not Free (Freedom House, 2004). Increasing political rights and civil liberties promotes economic rights and thereby promote FDI. The rationale for using these two measures is that, in

Africa, there are many ethnic groups within each country. Polarized societies have more difficulties agreeing on the provision of public goods such as infrastructure, education, and growth enhancing policies (such as FDI), simply because polarization impedes agreements between ethnic groups which engage in competitive rent-seeking behavior. Oppression of one or more ethnic groups results in conflict. South Africa during apartheid is one example, as was ethnic cleansing in Rwanda in which hundreds of thousands of the minority Tutsi ethnic group, and many of the moderate majority group, Hutus, were butchered by Hutu militias. Ethnic division is a source of major conflict in Africa. These variables capture the perception of risk better than inflation.

(iv) The Relationship between Macroeconomic Stability and FDI

Researchers have identified a number of economic policies to be partially correlated with FDI, and the role of these policies has been discussed at length in the literature. Macro-economic policies affect FDI directly by increasing the risk of the host country. Macroeconomic stability is reflected in a low and stable inflation rate, sustainable deficits, low consumption to GDP ratios, outward oriented trade policies and sound financial development. In this section, we will review inflation and trade policies while others will be reviewed in the growth chapter.

Inflation reduces private investment by increasing risk, reducing average lending maturities, distorting the information content of relative prices, and indicating macroeconomic instability (Dornbusch and Reynoso, 1989). A high rate of inflation indicates high economic tension in a country, and the inability or unwillingness of the country to conduct a stable economic policy (Schneider and Frey, 1985). Studies

analyzing the effect of the inflation rate on foreign direct investment give mixed results. Stabough (1979), for example, concludes that the inflation rate is inversely related to foreign direct investment. Econometric studies conducted by Root and Ahmed (1979) and Schneider and Frey (1985) also find that the rate of inflation has a negative impact on FDI. However, Brewer (1991) finds that inflation rate is not a significant determinant of foreign direct investment. Empirical studies show that the variability of inflation has a stronger negative effect on private investment than does the level. In this study, it is postulated that a high inflation rate in the host developing country deters FDI inflows.

(v) The Relationship between Exchange Rate and FDI

Several studies report the effect of changes in exchange rate and the terms of trade on investment. For example, Cardoso (1993) suggests that terms of trade are an indicator of external circumstances. He notes that declining terms of trade reduce incomes and profits in the export sector, inducing a fall in the rate of investment. Serven and Solimano (1993) find that the value of the real exchange rate is usually more of a disincentive for investment than is the level. Faruqee (1992) disputes this finding for SSA, arguing that the level of the real exchange rate is significantly correlated with private investment. Oshikoya (1994) finds that the terms of trade are important for middle-income African countries, but not for low-income countries. The key attribute of MNC is not that it engages in foreign production, but that it finances at least part of the production in its home currency.

Froot and Stein (1991) have discussed the relative wealth effect of exchange rate. They argued that a rise in the exchange rate, in terms of the host country

currency over the source country currency, implies a depreciation of the host country. They suggest that the stronger currency allows the companies in the company's area of advantage to invest over weaker currencies, because of investor preference for securities denominated in stronger currency and hence, a cheaper cost of capital. The implication of their theory denotes that a strong home currency discourages, and weaker currency encourages, FDI in the host country.

Cushman (1985) supports the effect of exchange rate changes on relative labor cost. Cushman argues that real depreciation in the host country currency allows the source country investors to hire more labor for a given amount of the source country currency, and therefore exchange rate is associated with an increase in inward FDI in the host country.

(vi) The Relationship between External Debt and FDI

Large external debt burdens have a strong disincentive effect on private investment, especially short-term debt (Faruqee, 1992). External debt may discourage FDI inflows due to the anticipated tax associated with debt service and uncertainty about the policies needed to meet the future debt service obligations. Debt service payments reduce the domestic resources available for investment, and poor international creditworthiness reduces access to foreign savings[12]. Borenzstein (1990) suggests that the existence of a large credit overhang reduces future returns to investment because a high proportion of the forthcoming returns must be used to repay the existing debt. A highly indebted country is likely to increase taxes on domestic residents and limit repatriation of dividends and profits in order to pay off the debt;

[12] Borenzstein suggests that the indirect credit rationing of large external debt may be a more powerful disincentive to private investment than the implicit tax effect of a large debt overhang.

this may negatively affect corporate profits and domestic residents' demand for goods and services. A host country with massive external debt problems is more likely to have unstable exchange rates and prices. In this study, I used external debt as a percentage of GDP as a measure of debts (DEBT).

(vii) The Relationship between Infrastructure and FDI

Differences in infrastructure, such as transportation, influence FDI location decisions, not only amongst candidate countries but amongst regions within a country. FDI is most likely to flow to those regions with good accessibility. Infrastructure involves physical infrastructure such as electricity, telecommunications, roads, railways, ports and irrigation but also social infrastructure such as primary, secondary and vocational education and primary health. Besides the quality of highways, railways, seaports, and airports, the level of telecommunication services is attracting attention as the information and telecommunications industries have been transformed in recent decades. A high level of local technological capabilities is an important factor for attracting FDI in high-value added activities.

Costs are also affected by the adequacy of infrastructure facilities and the supply of utilities. Unreliable transport and telecommunication services and insufficient power or water supplies create operational bottlenecks, which could be very costly. The government should move rapidly to remove all bottlenecks to physical, social and financial infrastructure to spur growth in the economy (Pedroni and Canning, 1999). In addition, the existence of efficient financial facilities, which can cater to the diversified needs of investors, is also necessary. Asiedu (2002) finds that although infrastructure promotes FDI elsewhere it has no major impact on FDI

inflows to the Sub-Saharan Africa. Asiedu used the number of telephones per 1,000 populations to measure infrastructure development. Pedroni and Canning used telephones and number of paved road per capita. This present study uses paved roads as measure of infrastructure.

(viii) The Relationship between Human Capital and FDI

Education and training lead to acquisition of skills, facilitate the diffusion of technology, promote entrepreneurship and hence raise productivity and stimulate economic growth (Bende-Nabende, 2000). The hypothesis tests the impact of human skills on FDI. As human skills increase, the variable used for its measurement increases. In measuring human skills, focus is restricted to secondary school enrollment for simplicity, ignoring the contribution of primary and tertiary education. This study assumes that the knowledge and skill acquired in secondary education enable individuals to carry out an occupation that can form the foundation of a well-rounded life (Morriset, 2001, Naude and Krugell, 2003, Jenkins and Thomas, 2002). The variable human skill is proxied by the annual number of students enrolled for secondary education as percentage of total enrollment. Other studies use the combined index of life expectancy at birth and the infant mortality rate. This combined index proxies the general health conditions for the quality of human capital (Basu, A et al., 2001).

Otherwise human capital would be computed using an index that attaches weights to different levels of academic qualification and practical experience, and then aggregating the values. A higher secondary school enrollment means a higher accumulation of human skills necessary to absorb new technologies. The above

studies find secondary school enrollment to be a good measure of human capital. In this study I will use the secondary school enrollment as a proxy for human capital (HC).

Table 3-1 Table of Expected Signs of the Independent Variable

Dependent Variable	GDP	OPN	PR	CL	INFL	EXR	DEBT	INFR	HC
FDI	+	+	–	–	–	–	–	+	+

FDI and GDP are measured in millions of U.S. dollars. Openness to FDI (OPN) is measured as a percentage of trade to GDP. Infrastructure variable (INFR) is measured by total number of roads per square kilometer. Inflation (INFL) is given as annual percentage of GDP calculated using a GDP deflator. Exchange rate (EXR) is expressed in local currency one needs to buy the same amount of goods in the domestic economy as the dollar would buy in the U.S. Debt (DEBT) is expressed as long-term debt as a percentage of GDP. Human capital (HC), is measured by secondary school enrollment rate as a % of gross school enrollment.

3.4 Institutional Factors to FDI in Developing Countries

North (1990) has defined institutions to be "... rules of the game or. . .humanly devised constrained that shape human interactions." As such, they can be both formal constraints (sometimes referred to as formal institutions—laws passed by a legislative body or general written rule) and informal constraints (sometimes referred to as informal institutions—rules used by individuals based on customs, religion, culture etc). Informal constraints are those that have been adopted and embodied in the society's structure, and are therefore more resistant to rapid change. North further

argues that social institutions affect the economy's performance by its effect on the cost of exchange and production.

Although North's analysis is directed to a more general case, it can be applied to a particular group of countries, namely SADC countries that are the focus of this study. It is relevant to Africa because most parts of Africa still rely heavily on informal institutions. AGOA's requirement for good governance is expected to speed up the transformation of formal institutions. One thing to bear in mind is that institution transformation is not a one step process; rather, it is a more complicated process more especially in Africa, where dictators have governed many countries in the past. It involves economic transformation, social changes, political reforms, and more. History has shown that transformation is difficult to undertake, especially when there is no previous experience in theory or practice.

Institutions not only facilitate the paths of social-economic transformation but also help lower the level of uncertainty. Once the level of uncertainty is addressed, the investors' confidence rises, which could increase FDI inflows.

3.5 Analysis of the Policy Factors

Any kind of government action is determined by unwritten contracts that the government has with its voters (a principal agent problem). A government's action is also influenced by the form of political philosophy it is pursuing and the individual representative self-interest behavior. There are also international binding contracts or agreements that constrain a government's actions. In addition, the government's vision and commitment to the future of the country and the anticipated voter reaction when the government goes against the perceived voters' policy (or when government

does not do enough) determines the government's policies and actions it takes to meet the targets.

A government's policy is itself multifaceted and bounded. A government wants to keep the promises made to the voters regarding their improved welfare. From an economic point of view, there is strong evidence that supports free trade and free capital movements in and out of a country. Many countries in Africa are opening up their markets in order to attract more FDI. Among all economic policies that one government can conduct to ease the process of transformation and growth, one can identify liberalization of trade (as a measure of openness), the exchange rate regime, controlling inflation and political stability as the most important for directly affecting the FDI inflow in the developing countries.

For SSA countries to enjoy all the benefits of AGOA, their government policies will have to be focused on setting the rules for property rights, creating a friendly environment for MNCs, and inviting them to participate in the privatization of state owned assets and restructuring process. Governments cannot control the location factors to attract FDI, but they can improve their macroeconomic and political stability to increase their prospects of attracting more FDI. All else being equal, the more stable the economy is, the more FDI flows into the host country. The integration of institutional factors with the policies the government might make will be leading factors that will either attract or hamper FDI inflows.

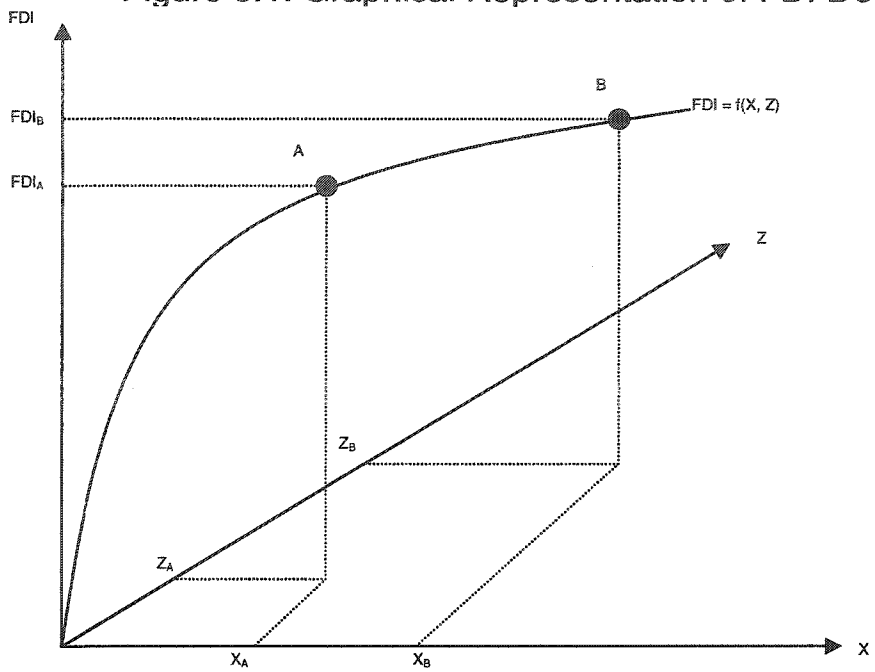
3.6 AGOA, Institutional Restructuring, Economic Policies and FDI Inflows

In the previous sections, it has been shown that institutional reform and economic policies in developing countries is far more complicated than in developed

countries. A model in which institutional reform and economic stabilization policies play a crucial role on FDI inflow is presented below. AGOA presents an opportunity for political, economic and institutional reform, whereas FDI and trade provide the opportunity for structural upgrading.

Let us denote the dependent variable with FDI and assume that it depends on two variables. FDI depends on institutional reform, denoted by X, and on the economic policies taken to stabilize the country, denoted by Z. The graph below (Figure 3.1) shows that a given FDI inflow in the host country's economies results from a combination of institutional reforms and economic policies that country has adopted and undertaken. The FDI inflow is represented on the vertical axes. The institutional reform and economic policies are represented on the two horizontal axes. The relationship between institutional reform progress and economic polices performance can be stated as follows, FDI = F(X, Z).

Figure 3.1: Graphical Representation of FDI Determinants



Suppose that the pre-AGOA institutional progress has been at the level (A) as denoted by X_A. Also at that level of institutional advancement, the economic policies were at Z_A level. The resulting FDI inflow in this case will be at FDI_A. As the country adopts the AGOA requirements the country's institutional reform progresses. This is shown by an increase in the institutional reform performance (from X_A to X_B), and in the economic policy (from Z_A to Z_B), therefore the FDI inflow increases from A to B. The graphical representation of FDI determinants in the developing economies shows that FDI inflow increases at a decreasing rate as X and Z factors increase.

The model presented does not intend to capture every single determinant of FDI in developing economies as suggested by other theories that have been developed up to this point. However, the case that institutions and economic policies heavily influence FDI has been evaluated empirically in this study. This study will use a political rights index and civil liberties index published by Freedom House as

measures of country risk and the quality of institutional reform. The variation on the inflation, debt and exchange rate will be used for economic policy variables.

3.7 The Methodology, Description of Data, Hypotheses and the Variables

In recent years, researchers in many disciplines, including economics, accounting, finance and marketing have increasingly relied on the panel data or pooled time series to model the behavior of individuals and firms. This popularity is in part a consequence of the increased availability of data of this type, coupled with the ability for panel data studies to answer questions not possible either from cross-sectional context or with a pure time-series. They have done so because panel data allow them to control for temporary, persistent, unobserved differences among individuals or firms that in many instances bias estimates obtained from cross-sections.

Bende-Nabende (1999) defined pooled time-series as a combination of time series (regular temporal observation on the unit of analysis) and a cross-section (observation on a unit of analysis at single time points). It is, in other words, an observation of the variables for a number of different cross-sections over time.

The purpose of this section is to exploit the panel features of the data (several observations on individual countries) to draw inferences on factors driving investment inflows within countries over time (sometimes referred to as short run estimates) and factors that cause investors to differentiate between countries (long run estimates). The section will summarize the relevant literature on panel data econometric methods. The advantages and disadvantages are discussed first and then, modeling issues regarding fixed effects and random effects. The section concludes with the full

representation of econometric model for the chosen study. The estimated parameters of this model are catalogued and discussed in the subsequent section.

(i) Advantages and Disadvantages of Panel Data

Combining cross-section and time-series data is useful for three reasons. The main benefit of using panel data lies in exploiting the advantages of repeated observation on the same units. Pooling time-series and cross-sectional data helps boosts sample size, making possible reliable analysis that would have otherwise been problematic and unreliable. Panel data usually give the researcher a large number of data points, increasing the degrees of freedom and reducing the co-linearity among explanatory variables—hence improving the efficiency of econometric estimates obtained through a larger sample size. Second and more important, longitudinal economic data allow a researcher to analyze a number of important economic questions that cannot be addressed using cross-section or time-series data sets. That is, panel data enables the researcher to formulate and test a more complex hypothesis. Finally, panel data reduce the effects of omitted variables because more data are available relative to pure cross-sectional or time-series data (Hsiao, 1986).

Working with panel data is not without problems however. The biggest disadvantage is that the statistical models become more complex and, hence, more difficult to estimate. Other disadvantages include heterogeneity bias and selection bias. The former bias results when the panel-data model chosen is inconsistent with the data generation process. For example, if the underlying data suggest that the individual cross-sectional units are indeed heterogeneous, but are modeled with a single intercept in a classic pooled regression model, a heterogeneity bias results.

Both magnitude and direction of the bias will be unknown in this case. Selection bias results when cross-sectional units are not randomly selected for the population. Thus, the sample may not be representative, weakening the statistical inferences made with the model (Hsiao, 1986).

(ii) Fixed vs. Random Effects

One issue that arises with the use of panel data is whether the individual effects are considered to be fixed or random. First, while random effect estimation addresses the endogeneity issue by instructing potential endogenous variables, it also assumes that the individual country effects are uncorrelated with exogenous variables. On the other hand, the fixed effects method deals successfully with the correlated effects problem, yet fails to account for potential heterogeneity of the regressors. Also, Balestra and Nerlove (1966) show that, due to the dynamic character of the model, the parameter estimates under a finite sample with bias disappearing as t approaches infinity. In summary, both random and fixed-effects estimation address only one of the two biases, and thus give inconsistent estimates.

In order to use pooled time-series data for the estimation of parameters under investigation without bias and inefficiency, the pooled data should be tested for stability/homogeneity. A simple, least-squares regression of a straightforward pooling of all the observation should be carried out so that an appropriate statistical model can be chosen.

The modus operandi for restriction test and model selection is discussed in Hsiao (1986). A first step is to test whether or not slopes and intercepts simultaneously are homogeneous among different countries at different times. If they

are simultaneously homogeneous, unconditional pooling will be suitable. If the hypothesis of overall homogeneity is rejected, the second step is to test whether or not the regression slopes are the same. If the hypothesis is accepted, the third test is whether or not the regression intercepts are the same on the condition of slope homogeneity.

In this study, given the short period of the data in Africa, a fixed effect (FE) model as opposed to random effect (RE) is used (suggested by Gujarati, 2003). The fixed-effect model is simply a linear regression model in which the intercept terms vary over the individual units i, that is:

$$y_{it} = \alpha_i + \beta X'_{it} + \varepsilon_{it}, \quad \varepsilon_{it} \sim IID(0,\sigma_\varepsilon^2) \ldots\ldots\ldots\ldots\ldots (3.1)$$

where it is usually assumed that all X_{it} are independent of all ε_{it}. Equation (3.1) can be written in the usual regression framework by including the dummy variable for each unit i in the model. That is:

$$y_{it} = \sum_{j=1}^{N} \alpha_j d_{ij} + x'_{it}\beta + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (3.2)$$

where $d_{ij} = 1$ if i=j and 0 elsewhere. There is a set of N dummy variables in the equation. The implied estimator for β is referred to as Least Square Dummy Variable (LSDV) estimator. According to Verbeek (2000), it may be numerically unattractive to have a regression model with so many regressors. He suggested that a simpler way to show exactly the same estimator β is by performing regressions in deviations from individual means. This implies that individual effects α_i is eliminated by transforming the data. To see this, let's note that,

$$\overline{y_i} = \alpha_i + \overline{X_i}\beta + \overline{\varepsilon_i}, \ldots\ldots\ldots\ldots (3.3)$$

Where $\bar{y}_i = \frac{1}{T}\sum_t y_{it}$ and similarly for other variables. Consequently,

$$y_{it} - \overline{y_{it}} = (X_{it} - \overline{X}_i)'\beta + (\varepsilon_{it} - \overline{\varepsilon}_i).....(3.4)$$

This is a regression model in deviations from the individual means and does not include the individual effects α_i. The transformation produces observations in deviations from the individual means and is called within transformation. The ordinary least squares (OLS) estimator for β obtained from this model is often called the within-estimator or fixed-effects estimator, and it is exactly identical to the LSDV estimator described above. It is given by:

$$\hat{\beta}_{FE} = (\sum_{i=1}^{N}\sum_{t=1}^{T}(x_{it} - \bar{x}_i)(x_{it} - \bar{x}_i)')^{-1}\sum_{i=1}^{N}\sum_{t=1}^{T}(x_{it} - \bar{x}_i)'(y_{it} - \bar{y}_i).....(3.5)$$

The discussion of FDI determinants in previous sections point to the following economic relationship:

$$FDI_{it} = f(GDP, OPN, CR, INFR, INFL, EXR, DBT).....(3.6)$$

Where $f_{GDP} > 0$; $f_{OPN} > 0$; $f_{CR} < 0$; $f_{INFR} > 0$; $f_{INFI} < 0$; $f_{EXR} < 0$; $f_{DBT} < 0$ .....(3.7)

These two expressions summarize the hypothesized relationship between the FDI and a vector of macroeconomic aggregates. Equation (3.6) asserts that FDI inflows to developing countries are functionally related to GDP, growth rate of GDP, openness, country risk, exchange rate, inflation rate and debt. Expression (3.7) represents the first derivatives of the relationship between FDI and macroeconomic variables.

Instead of assuming a simple linear relationship between dependent and independent variables, the equation is of the form:

$$FDI_{it} = C\, A_i^{\beta 1} GDP_{it-1}^{\beta 2} OPN_{it-1}^{\beta 3} CR_{it}^{\beta 4} INFR^{\beta 5} INF_{it}^{\beta 6} EXR_{it}\, DBT_{it}^{\beta 7} \ldots\ldots (3.8)$$

The log linear form of (3.8) is:

$$\ln FDI_{it} = \gamma + \alpha_i + \beta_1 \ln GDP_{it-1} + \beta_2 \ln OPN_{it-1} + \beta_3 \ln CR_{it} + \beta_4 \ln INFR_{it} + \beta_5 \ln INF_{it} + \beta_6 \ln EXR_{it} + \beta_7 \ln DBT_{it} + \varepsilon_{it} \ldots\ldots\ldots (3.9)$$

where γ = is the common mean for all countries, $\alpha_i = \ln A_i$ is the country specific effects and $\varepsilon_t = \ln e_t$ which is iid$(0, \sigma^2)$. There are several advantages in adopting a log linear function. A log linear expression allows for diminishing heteroskedasticity among countries and for interpreting estimated coefficients as elasticities.

(iii) Seemingly Unrelated Regression Technique

Seemingly unrelated regressions (SUR) can be defined as a set of equations that may be related, not because they interact, but because their error terms are related. SUR method, also known as the multivariate method, allows one to assess the strength of the relationship between two or more variables. For example, if X, Y, and Z, are variables of interest, and if we have shown that there is a relationship between these variables in a pooled cross-sectional time series analysis, then we want to examine the magnitude of the strength of the relationship. In this study we use fixed-effect SUR (FE-SUR) to examine the magnitude of the relationship between FDI and a vector of macroeconomic and institutional variables. The advantage of using FE-SUR is that the estimator reduces biases due to omitted variables, particularly when group dummies are incorporated in the regression (Matyas and Korrisi, 1996).

The fixed-effects estimates rely on the assumption of homogeneity of the different panel groups for a common slope to be imposed in pooled regression. However, in dynamic panels with a large dimension, ignoring heterogeneity produces serial correlated disturbances due to omitted variables and hence inconsistent parameters.[13] This technique is appropriate to use when dealing with panel data (pooled cross-section data) that exhibit two problems:

(i) There is a presence of heteroscedsticity in the data. That is, the error term conditional on the value of independent variables for different observations is not constant. In notation, it can be written as follow:

$Cov(\varepsilon_{it}, \varepsilon_{jt}) \neq o$, for i $\neq$ j. .....(3.10)

We have every reason to believe that heteroscedasticity is present because SADC countries are different in sizes and level of economic development. We are dealing with twelve economies that are different in size as measured by GDP. Thus, at a given point in time the variance of the two error terms for two different countries is not the same.

(ii) The error term is correlated over time (i.e. we have contemporaneous correlation). That is, we have what Wooldridge (2000) and Dielman (1989) calls a contemporaneous correlation, as follows:

$Cov(\varepsilon_{it}, \varepsilon_{i(t+k)}) \neq o$ . ..... (3.11)

Let us start by stating the model we are interested in estimating. For one section (country in our case), we will have:

$Y_i = X_i \beta_i + \varepsilon_i$

[13] For further details see Pesaran and Smith, 1995.

for i=1...N. This equation can be rewritten as:

$$Y = X\beta + \varepsilon$$

$$Y = \begin{bmatrix} Y_1 \\ Y_2 \\ \vdots \\ Y_N \end{bmatrix}, \; X = \begin{bmatrix} X_1 & 0 & \cdots & 0 \\ 0 & X_2 & \cdots & 0 \\ \vdots & \vdots & \ddots & \vdots \\ 0 & 0 & \cdots & X_N \end{bmatrix}, \; \beta = \begin{bmatrix} \beta_1 \\ \beta_2 \\ \vdots \\ \beta_N \end{bmatrix}, \text{ and } \varepsilon = \begin{bmatrix} \varepsilon_1 \\ \varepsilon_2 \\ \vdots \\ \varepsilon_N \end{bmatrix}.$$

$$\begin{bmatrix} Y_1 \\ Y_2 \\ \vdots \\ Y_N \end{bmatrix} = \begin{bmatrix} X_1 & 0 & \cdots & 0 \\ 0 & X_2 & \cdots & 0 \\ \vdots & \vdots & \ddots & \vdots \\ 0 & 0 & \cdots & X_N \end{bmatrix} \begin{bmatrix} \beta_1 \\ \beta_2 \\ \vdots \\ \beta_N \end{bmatrix} + \begin{bmatrix} \varepsilon_1 \\ \varepsilon_2 \\ \vdots \\ \varepsilon_N \end{bmatrix} \quad \text{..... (3.12)}$$

The system in (3.12) is often called Zellner's (1962) SUR model. The name comes from the fact that, since each equation in the system (3.12) has its own vector β, it appears that the equations are unrelated. Nevertheless, correlation across the errors in different equations provides the link between error terms that can be exploited in estimation. The variance-covariance matrix of the disturbance vector ε can be written as:

$$E(\varepsilon_i \varepsilon_i') = \sigma_i^2 I_T$$

$$\Omega = \sigma_i^2 I_T = \Sigma \otimes I$$ [14]

[14] ⊗ denotes the Kronecker product. This product is defined as follows:

$$\Sigma \otimes I = \begin{bmatrix} \sigma_1^2 I & \sigma_{12} I & \cdots & \sigma_{1N} I \\ \sigma_{21} I & \sigma_2^2 I & \cdots & \sigma_{2N} I \\ \vdots & \vdots & \ddots & \vdots \\ \sigma_{N1} I & \sigma_{N2} I & \cdots & \sigma_N^2 I \end{bmatrix}.$$

Where, I is the TxT identity matrix. An example of Kronecker's product is given in Dielman (1989), page 31.

$$\Sigma = \begin{bmatrix} \sigma_1^2 & \sigma_{12} & \cdots & \sigma_{1N} \\ \sigma_{21} & \sigma_2^2 & \cdots & \sigma_{2N} \\ \vdots & \vdots & \ddots & \vdots \\ \sigma_{N1} & \sigma_{N2} & \cdots & \sigma_N^2 \end{bmatrix},$$

I is a TxT identity matrix, σ_{ij} ($i \neq j$) is the covariance of the disturbance (error) terms from the i-th and j-th equation. If covariance of error terms were zero then the Ordinary Least Squares (OLS) would give best, linear, unbiased, efficient estimators (BLUE β-s) that could be applied to each of the equations. The generalized least squares estimates will be coming from the following estimator[15]:

$$\beta_{SUR} = (X'\Omega^{-1}X)^{-1}X'\Omega^{-1}Y.$$

(iv) Description of Data, Hypotheses and the Variables

The analysis covers twelve countries in the SADC over the period 1980-2001. All data were obtained from World Development Indicators on CD Rom, published by the World Bank in 2003, International Financial Statistics on CD Rom, published by the International Monetary Fund in 2002, and World Freedom published by Freedom House. The number of countries and the variables included in the regressions were determined by data availability. Below is the description of the independent variables that were used for our sample.

(v) Description of Hypotheses and Explanatory Variables

As shown in many studies, the location factors determining FDI inflows into developing countries are mainly market size, labor costs, level of development, country risk, exchange rate, and openness of the economy. The (This?) study proposes the following hypotheses:

[15] See theorem 12 (Aitken), in Ruud (2000) page 432. Note that for β there is for diagonal matrix of covariance of the error term (Ω_0).

H_1 Market Size: A large market size implies a greater demand for goods and services and therefore makes the host country more attractive to FDI. Thus, everything equal, the larger the market size in the host developing country, the greater the FDI inflows will be. As is standard in the FDI literature, this study will use Gross Domestic Product (GDP) as the measure of market size of the host developing country. The expected sign of market size on the magnitude of FDI inflows is positive.

H_2 Openness to FDI: Several studies have found that open countries attract more FDI. In the FDI literature, trade (sum of exports and imports) to GDP ratio is extensively used as the proxy for openness of the economy (e.g. Asiedu, 2002; Bende-Nabende, 1999; Borenzstein, et al., 1995). This study has adopted this measure. It is expected that a developing country's openness positively affects FDI inflows.

H_3 Country risk: Country risk has a direct impact on FDI. An improvement in political rights creates a welcoming environment for international businesses by lowering uncertainty. Reforms and policies can become more predictable from a business point of view. The hypothesis to be tested is that, the more political and civil liberties in the host country, the greater the FDI to the host country. This study will employ two measures of country risk: political right index and civil liberties index[16]. Each country and territory is awarded from 0 to 4 raw points for each of 10 questions grouped into three subcategories in a political rights checklist, and for each of 15 questions grouped into four subcategories in a civil liberties checklist. The total raw points in each checklist correspond to two final numerical ratings of 1 to 7. These two ratings are then averaged to determine a status category of "Free", "Partly Free", or "Not Free."

[16]For detailed description of rating go to: http://www.freedomhouse.org

H_4 Infrastructure Development: Good infrastructure increases the productivity of investments and therefore stimulates FDI flows (Wheeler & Mody, 1992; Morisset, 2000; Asiedu, 2002). This study will adopt the Pedroni and Canning (1999) measure of infrastructure. Their hypothesis is that high-quality infrastructure increases the efficiency of investment and therefore stimulates FDI inflows.

H_5 Macroeconomic Instability: A high rate of inflation indicates high economic tension in a country, and the inability or unwillingness of the country to conduct a stable macroeconomic policy (Schneider and Frey, 1985). In this study, it is postulated that high inflation rate in the host developing country deters FDI inflows.

Another measure of macroeconomic uncertainty is exchange rate volatility. The key attribute of MNC is not that it engages in foreign production, but that it finances at least part of the production in its home currency. A real depreciation in the host country currency allows the source country investors to hire more labor for a given amount of the source country currency. It is therefore associated with an increase in inward FDI in the host country. In Africa, exchange rates are unstable, so we expect exchange rate instability to have a negative impact in FDI. Exchange rate is defined as a ratio of local currency units to U.S. dollar.

H_6 Debt: A host country with massive external debt problems is more likely to have unstable exchange rate and prices, and therefore attract less FDI inflows.

3.8 Basic Findings and Explanation

This analysis starts by estimating a FE-SUR model of pooled cross-section data. The empirical analysis employs unbalanced panel-data of the twelve SADC countries over the period of 1980-2001. Unfortunately, the availability of data is

limited and time series for most countries starts in 1980, which prevents the consideration for longer time span. Woodridge (2000) noted that the unbalanced panel causes no problem if missing data is not correlated with idiosyncratic errors. The labor cost variable was left out due unavailability of data. Namibia and Seychelles were also excluded in the sample due to lack of data.

FDI and GDP are measured in millions of U.S. dollars. Openness to FDI (OPN) is measured as a percentage of trade to GDP. The infrastructure variable (INFR) is measured by length of total road networks in kilometers. Inflation (INFL) is given as annual percentage of GDP calculated using GDP deflator. Exchange rate (EXR) is expressed in amount local currency one needs to buy the same amount of goods in the domestic economy as the dollar would buy in the U.S. Debt (DEBT) is expressed as long-term debt as a ratio of GDP. Human capital (HC) is measured by secondary school enrollment rate as a percentage of total enrollment.

In line with our hypotheses and the regression results, I can now present some basic findings concerning the determinants of FDI inflows into the SADC region. The estimation results are presented in Table 3-2A to 3-2D. Table 3-2A is presented without measures of country risk or institutional quality. The reason for leaving out these variables is because inflation and political rights and/or civil liberties are correlated. To avoid multicolinearity, the variables are included one at a time.

Table 3-7A FE-SUR Estimation Without Measures of Institutional Quality or Country Risk

Dependent Variable: LFDI
Method: Seemingly Unrelated Regression
Sample: 1990 2001
Included observations: 12
Number of cross-sections used: 12
Total panel (unbalanced) observations: 74

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LGDP(-1)	2.357284	0.782743	7.994047	0.0000
LOPN	1.027909	0.228479	4.498928	0.0000
LINFR	0.452326	0.14008	3.230472	0.0018
LINFL	-0.220314	0.078999	-2.788800	0.0072
LDEBT	-0.603533	0.280162	-2.154231	0.0355
LEXR	-0.104724	0.027821	-3.764235	0.0004
R-squared	0.845028	Mean dependent var.		8.088488
Adjusted R-squared	0.797982	S.D. dependent var.		0.643159
S.E. of regression	0.289077	Sum squared resid.		4.679661
Durbin-Watson stat	2.155933			

All variables in Table 3-7A have the correct expected signs and are significant. All variables are significant at the one-percent level except inflation and debt, which are significant at the five-percent level. The market size (GDP) is positive and a highly statistically significant determinant affecting magnitude of FDI inflows to SADC. Jenkins and Thomas (2002) find that market-seeking FDI is important in the SADC. Growth of the domestic market may be a precursor to higher levels of FDI. Regional integration may help create a larger marker in the region, but mechanisms such as liberalization of exchange controls and regional infrastructure development are needed to spread the gains from FDI. The regression results, therefore, support the the hypothesis that the larger the market or economy, the larger the magnitude of FDI inflows will be. Since the model is a log-log (also called double log) we can interpret the coefficient as elasticities, and marginal effect (dY/dX) is calculated by $\beta\ Y/X$[17]. The coefficients represent elasticities. For example, the results indicate that a

[17] For a complete table of marginal effect and elasticities of different functional forms see Ramanathan (2002) Table 6.1.

one-percent increase in GDP leads to a 2.35 percent increase in FDI for SADC. For example, if FDI was $100 million in 2003 and GDP increase by 3 percent in 2004, the FDI inflow will increase by (2.3x3 percent or 6.9 percent). In absolute terms, FDI will increase from $100 million to $1,690,000 million. The highly significant positive sign of GDP shows the effect of FDI on the host regional economy is an encouraging factor for both the host and the source economies. The result is consistent with the literature. Jenkins and Thomas (2002) find that market-seeking FDI is important for SADC and that growth of the domestic market may be a precursor to higher levels of FDI. Regional integration may help create a larger market in the region, but mechanisms such as liberalization of exchange controls and regional infrastructure development are needed to spread the gains of FDI.

Openness (OPN) is positive and a statistically significant determinant affecting the magnitude of FDI inflows to the SADC. The results also indicate that a one-percent increase in openness leads to a 1.03 percent increase in FDI for the SADC. The results show that the more open the economy, the more FDI will flow to the region. These results are consistent with previous studies.

I also find a positive relationship between infrastructure availability and FDI. The measure of infrastructure is statistically significant at one percent. The results are consistent with Pedroni and Caning's (1999) findings. Asiedu (2002) also finds a positive relationship between infrastructure and FDI in SSA although she used a different variable to measure infrastructure. This means that countries with a well-

developed infrastructure attract more FDI than countries with an underdeveloped infrastructure except in countries endowed with natural resources.

Inflation (INFL) has the correct expected sign and is statistically significant. Appropriate monetary policy promotes a stable financial environment necessary for higher FDI by maintaining a low inflation rate. High variable rates of inflation are expected to lower the monetary authorities' credibility and reduce the returns on private investment and savings. Thus, high inflation rates are expected to decrease private investment and domestic savings. The results support this study's hypothesis with a negative sign of inflation showing the adverse effect it can have on the inflow of foreign direct investment. The results indicate that a one-percent increase in inflation will reduce FDI inflows by 0.2 percent.

Debt (DEBT) has the correct sign and is statistically significant at the 5-percent level. The results support our hypothesis that large debt may discourage FDI inflows due to the anticipated tax associated with debt service and uncertainty about the policies needed to meet future debt service obligations. The results confirm Borensztein's (1990) findings that the existence of a large credit overhang reduces the future returns to investment because a high proportion of the forthcoming returns must be used to repay the existing debt.

Exchange rate (EXR) has the correct sign and is statistically significant. The results indicate that the negative changes in exchange rate deter foreign direct invest to the SADC.

Table 3-7B FE-SUR Estimation with PR as a Measure of Country Risk

Dependent Variable: FDI
Method: Seemingly Unrelated Regression
Sample: 1990 2001
Number of Cross-sections Used: 12
Total Panel (unbalanced) Observations: 74

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LGDP(-1)	3.693692	0.803006	8.335798	0.0000
OPN	0.926590	0.263860	3.511677	0.0009
LINFR	0.542007	0.13715	3.951208	0.0002
INFL	-0.195598	0.088447	-2.211455	0.0312
LDEBT	-0.733301	0.295015	-2.485637	0.0160
LEXR	-0.125318	0.029153	-4.298652	0.0001
LPR	-2.085426	0.647543	-3.220523	0.0021
R-squared	0.843179	Mean dependent var		8.088488
Adjusted R-squared	0.805128	S.D. dependent var		0.643159
S.E. of regression	0.283918	Sum squared resid		4.433522
Durbin-Watson stat	2.141691			

The results in Table 3-7B include political rights index as a measure of country risk (or institutional quality). The PR and CL indexes are highly correlated. To avoid multicolinearity, I include them one at time starting with PR. The PR has the correct sign and is statistically significant at the one-percent level. The inclusion of political rights variables does not reduce the robustness of the results. The results suggest that country risk (measured by political rights index), as a set of explanatory variables, directly affect FDI in the SADC. It is clear that source countries include political instability in their objective function before investing in Africa. A good example of this is the negative effect of political instability in Zimbabwe. Due to political turmoil in Zimbabwe, UNCTAD (2003) reported that FDI decreased from $444 million in 1998 to $26 million in 2002. This is a 94 percent decrease in FDI. FDI as percentage of gross fixed capital formation decreased from 7.2 percent in 1999 to 0.5 percent in 2001. South Africa, on the other hand, raised its level of FDI from $561 million in

1998 to $6,289 million in 2001. This is an 89.6 percent increase. FDI as percentage of gross fixed capital formation increased from 7.4 percent to 40.5 percent in the same period[18]. This supports our results that FDI inflows are directly affected by political instability.

Now I include civil liberties index (CL) as a measure of institutional quality. The results indicate that CL has the right sign but it is not statistically significant.

Table 3-7C FE-SUR Estimation with CL as a Measure of Country Risk

Dependent Variable: LFDI
Method: Seemingly Unrelated Regression
Sample: 1990 2001
Included Observations: 12
Number of Cross-sections used: 12
Total Panel (unbalanced) Observations: 74

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LGDP(-1)	2.411090	0.634297	3.801198	0.0004
LOPN	1.003536	0.233142	4.304397	0.0001
LINFR	0.530134	0.144155	4.718063	0.0000
LINFL	-0.218126	0.078330	-2.784709	0.0073
LDEBT	-0.625288	0.296829	-2.106559	0.0397
LEXR	-0.105374	0.027830	-3.786389	0.0004
LCL	0.130550	0.283827	0.459962	0.6474
R-squared	0.835028	Mean dependent var		8.088488
Adjusted R-squared	0.784310	S.D. dependent var		0.643159
S.E. of regression	0.291692	Sum squared resid		4.679641
Durbin-Watson stat	2.116665			

In short, African governments should know that greater economic stability is a priority for encouraging FDI. The strengthening of institutional capacity is essential because African countries face a particular challenge in addressing the perception of endemic instability amongst potential investors.

To test for omission of variables, I include both measures (PR and CL) in the regression. Table 3-7C reports regression results with both measures included. All

[18] http://www.unctad.org/Templates/Page.asp?intItemID=2980&lang=1 accessed 7-31-2004

other variables are still significant, and the CL variable is still not significant; this suggests that there in no misspecification if we drop CL. And as a result, CL is dropped from the regression results.

Table 3-7D FE-SUR Estimation of Both PR and CL as a Measure of Country Risk

Dependent Variable: LFDI
Method: Seemingly Unrelated Regression
Included Observations: 12
Number of Cross-sections Used: 12
Total Panel (unbalanced) Observations: 74

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LGDP(-1)	2.422257	0.626120	3.868678	0.0003
LOPN	0.888614	0.269813	3.293438	0.0018
LOPN	0.011409	0.001002	11.39027	0.0000
LINFR	0.426330	0.047871	4.627008	0.0000
LINFL	-0.000163	2.72E-05	-5.982075	0.0000
LEXR	0.084547	0.024006	3.521874	0.0009
LPR	-2.641479	0.406976	-6.490500	0.0000
LCL	-0.401151	0.300943	-1.332980	0.1880
R-squared	0.847536	Mean dependent var		8.088488
Adjusted R-squared	0.793892	S.D. dependent var		0.643159
S.E. of regression	0.291989	Sum squared resid		4.603910
Durbin-Watson stat	2.221774			

Then, I introduce the human capital variable in the regression to capture the effect of human capital on FDI. The results indicate that HC is positively related to FDI and is significant. The DEBT variable that was significant in previous specifications is no longer significant. This does not imply that debt does not affect FDI inflows. One explanation for the fact that debt does not affect FDI inflows is that the debt variable is sufficiently correlated with the human capital variable, and that it therefore loses its independent association with FDI inflows in the specification 3-7E.

Then, I perform another regression excluding debt, and the results indicate that HC still has the correct sign and it is still statistically significant. All other

explanatory variables in the model have the predicted signs and are still statistically significant with them. Taking debt out of the equation improves the results.

Table 3-7E FE-SUR Regression Results with HC as Measure of Human Capital

Dependent Variable: FDI
Method: Seemingly Unrelated Regression
Sample: 1990 2001
Included Observations: 12
Number of Cross-sections Used: 11
Total panel (unbalanced) Observations: 67

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LGDP(-1)	3.206567	0.631306	5.079256	0.0000
LOPN	1.643885	0.310052	5.301974	0.0000
LINFR	0.643663	0.122319	5.385623	0.0000
LINFL	-0.001437	0.000245	-5.876162	0.0000
LDEBT	-0.248816	0.472704	-0.526366	0.6011
LPR	-3.738799	0.571021	-6.547564	0.0000
LHC	7.133779	2.037539	3.501175	0.0010
R-squared	0.825616	Mean dependent var		7.996328
Adjusted R-squared	0.760222	S.D. dependent var		0.610434
S.E. of regression	0.298912	Sum squared resid		4.288730
Durbin-Watson stat	2.008930			

Table 3-7F FE-SUR Regression Results Excluding DEBT

Dependent Variable: LFDI
Method: Seemingly Unrelated Regression
Sample: 1990 2001
Included Observations: 12
Number of Cross-sections used: 11
Total Panel (unbalanced) Observations: 67

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LGDP(-1)	3.225995	0.584514	5.519105	0.0000
LOPN	1.710408	0.288035	5.938187	0.0000
LINFR	0.645087	0.119433	5.418156	0.0000
LINFL	-0.001413	0.000227	-6.209929	0.0000
LPR	-3.628328	0.554788	-6.540024	0.0000
LHC	0.050100	0.013687	3.660475	0.0006
R-squared	0.823774	Mean dependent var		7.996328
Adjusted R-squared	0.767381	S.D. dependent var		0.610434
S.E. of regression	0.294416	Sum squared resid		4.334043
Durbin-Watson stat	2.024318			

Finally, the results suggest that human capital has a positive impact on FDI. The results suggest that for the SADC to attract more FDI, and also to benefit from the growth enhancing effect if FDI, SADC countries need to educate their populations.

3.10 Conclusion

African countries are faced with the great challenges of promoting peace, economic prosperity and political stability. The African leaders, stakeholders and policy makers, etc. should do this by themselves. It should play its full part in the global economy (UNCTAD, 1999). AGOA brings new hope for Sub-Saharan African countries to fully integrate their economies with a larger market such as the U.S. On the other hand, African countries should create opportunities for investment and trade and assure foreign investors a high return in their investment from the continent. African countries should change their image transforming their institutions, in turn improving their economic and political stability to increase FDI inflows to Africa (Naude and Krugall, 2003). They should show the world that they are no longer torn apart by civil unrest and wars but that they are growing and stabilizing. It is also time for foreign investors not to treat Africa differently from other developing countries. AGOA has encouraged good governance and a better macroeconomic environment among SSA countries (UNCTAD, 2004).

Countries such Mozambique, Mauritius, Namibia and South Africa are transforming their institutions and restructuring their economies in response to AGOA. These countries have created investment promotion agencies and export processing zones in order to penetrate the U.S. market. The Zambian government is working with a top U.S. firm on strategies to penetrate the U.S. market (AGOA, 2004).

This chapter has investigated empirically the determinants of FDI inflows to the SADC region over a period of 1990-2001. Africa is the region with the poorest economic growth record over the past three decades. A number of studies have recently emphasized that Africa needs more investment to drive economic growth (e.g. Asiedu 2002,2003; Naude and Krugal , 2003; Bemde-Nabende, 1999; Morisset, 2000). In Africa, attracting more FDI is especially useful in stimulating economic growth given the overall low levels of domestic investment, savings and declining contribution of development assistance (Morisset, 2000).

While African policymakers have been intensifying their attempts to attract FDI, research into the determinants of FDI in Africa has been focused on natural resources as the motive for investment. This study has attempted to broaden and deepen the enquiry by focusing solely on the SADC region and by including the institutional quality explanation of FDI along with macroeconomic policy to show that FDI in Africa is not solely determined the uncontrollable factor of natural resources.

The results have demonstrated that there is a no sole determinant of FDI across the SADC region. In general, FDI inflows into the individual regions are influenced by different factors that may be associated with the host region's levels of economic development, and hence, its factor endowments. Evidently, a host country or region can benefit from the presence of FDI (Bende-Nabende, 1999). But in order to generate greater benefits, an extra effort has to be made by the host government to attract FDI into the region, particularly given that the competition for FDI is getting stronger.

To summarize, the main findings for the determinants of FDI inflows into SADC are: countries with a large market size, a more liberalized trade regime represented by a higher degree of openness, low inflation and highly skilled labor will promote FDI inflows; however, high inflation and low institutional quality have the opposite effect. These results have several important policy implications. First, they suggest that FDI to the SADC is not mainly determined by uncontrollable factors, and that their governments can increase FDI flows by streamlining their investment policies, implementing FDI friendly policies, and also creating a stable macroeconomic and political environment. The second important result is that bad institutions, reflected by fewer political rights, as is common in Africa, have a negative impact on FDI.

What African policy makers should learn from this is that most investors prefer an investment location that brings a high return on investment. They should turn their economies towards an export-processing zone that has a relatively hassle-free administrative environment for business and relatively good infrastructure. AGOA's aim is to improve Africa's competitiveness through its trade and investment strategy.

CHAPTER IV

ECONOMIC GROWTH IN SADC: IS THERE A ROLE FOR SOUTH AFRICA?

4.1 Background

The country of South Africa (SA) is a major economic power in the Southern African and in Sub-Saharan Africa at large. It is among the largest emerging markets in world trade. Similar to the United States, South Africa can have a significant influence on the economic development of its neighboring countries and regions. SA is the most advanced and productive economy in Africa, accounting for three quarters of the GDP of the SADC region and 45 percent of Africa's total output (South Africa Reserve Bank, 2004).

Thus, South Africa is expected to play a major role under the new U.S. trade and investment policy toward Africa. South Africa receives high marks for its market economy, economic reforms, elimination of trade barriers to U.S. trade, its multi party democracy, the government's commitment to the rule of law, the work to strengthen its judicial and regulatory systems, the commitment to improving the distribution of resources, the establishment of a number of poverty reduction programs, the Black Economic Empowerment Program; business support programs, infrastructure projects to improve access to basic services, housing, education and health care provision of strong worker right protection including the right to free associate and bargain collectively.

SA is the one country that has the potential to make good use of the provisions in the AGOA, given the nature of her economy. There is no question that the AGOA provision for duty-free imports of African goods into the U.S has been a success. Total South African exports to the U.S. grew by 15 percent in 2003. In particular, exports of apparel products (excluding knitted garments) increased by 71 percent to $141m (USITC Report, 2004).

It is necessary to bear in mind that one of the reasons that the European Union (EU) did not extend Lome benefits to South Africa in 1994 is that SA's economy is bigger than some EU countries' economies, and in key sectors, such as agriculture and metal industries. A brief analysis of Sub-Saharan Africa's exports in 2002 to U.S. suggests that many countries will not benefit substantially from AGOA, unless dramatic steps are taken to diversify economies and deepen the productive base. Figure 4-1 shows that four countries in SSA account for 82 percent of the region's total exports to the U.S. Nigeria accounts for 32 percent of the total, South Africa (23.3 percent), Angola (17.7 percent), and Gabon (8.9 percent). All these countries' exports to US, except for SA, are almost exclusively oil and petrochemicals (USITC, 2004). South Africa has a significant and diversified manufacturing base that is able to take advantage of the wider provisions of general System of Preference (GSP) and the AGOA. South Africa's economy is diversified, with manufacturing representing the largest sector of the economy at 20 percent of the GDP in 2001 (figure 4-3). Of the rest of the countries, only Equatorial Guinea, Côte d'Ivoire and Lesotho can lay claim to at least three percent of the region's exports to U.S. The rest of the region accounts for 11 percent of Sub-Saharan Africa's exports to U.S. Further more, Angola did not

qualify for AGOA benefits until 2004, further diluting the volume of exports that benefit from the Act.

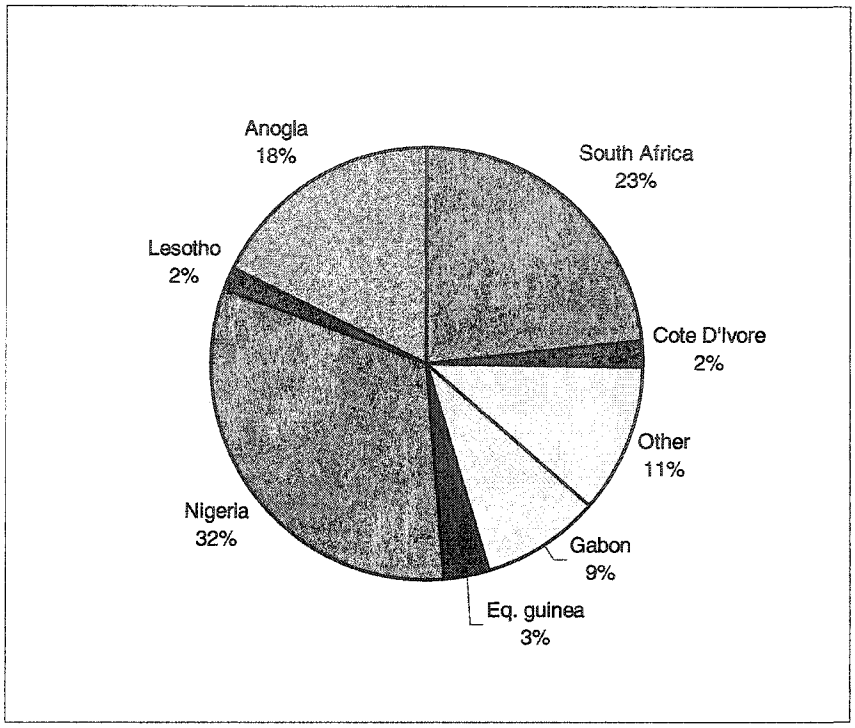
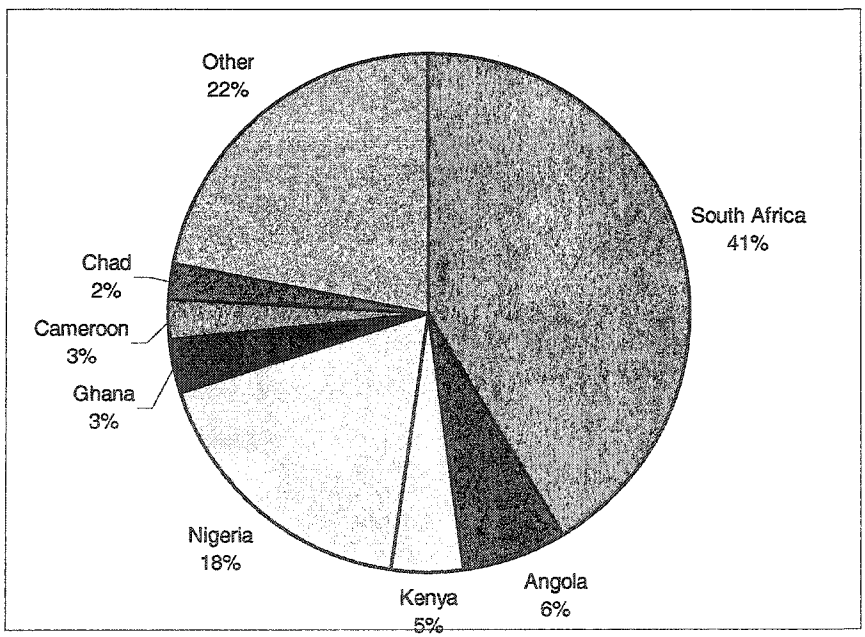


Figure 4-1 Sub Saharan Africa exports to U.S. in 2002



Source: Compiled from Official Statistics of AGOA data web.
Figure 4-2 Sub Saharan Africa imports from U.S. in 2002

Figure 4-2 above presents U.S. exports to SSA by major trading partners. In 2002, South Africa remained the largest market for U.S. product in SSA, accounting for 41 percent of U.S. merchandise exports to the region. These findings support the widely held view that SA will benefit more from the AGOA than any other country in the SADC. Other leading markets in SSA were Nigeria (18 percent), Angola (6 percent), Kenya (5 percent), Ghana (3 percent), Cameroon (2 percent) and Chad (2 percent).

South Africa was identified by the US Department of Commerce (2003) as one of the world's top ten Big Emerging Markets (BEMs). With this designation, the Department of Commerce has recognized the enormous potential that exists in South Africa for U.S. business. It is expected that by the year 2010 the BEM market share will be larger than of the EU and Japan combined. Clearly, the BEM markets are the commercial investments of the future.

The rest of the chapter is organized as follows: Section II presents the economic structure of South African Economy; Section III discusses the role of SA as a growth pole to the region; Section IV discusses SA's role as a springboard to FDI in Africa; Section V presents SA's role as a trading partner of SADC; Section VI looks at the role of regional integration among member countries.

4.2 Structure of the South African Economy

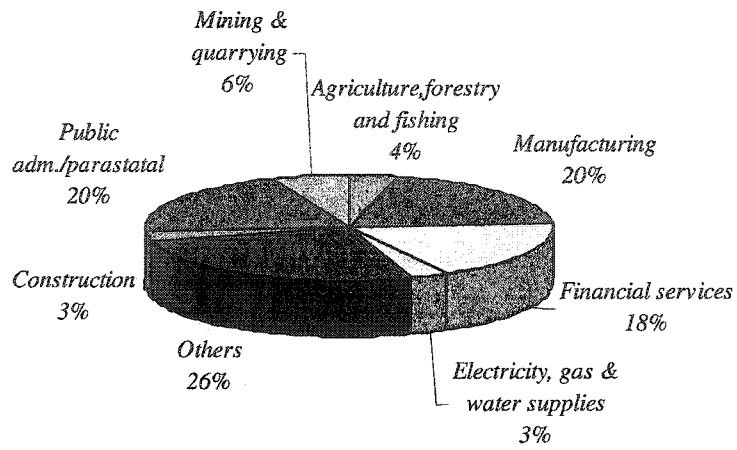
South Africa's economy and society are internationally orientated and based on free market principles. The country has abundant natural resources, a well-developed infrastructure and a highly sophisticated financial sector, which make it a preferred "gateway" for investment into Sub-Saharan Africa, a market of over 200

million people (South African Reserve Bank, 2003). Its mining, manufacturing, and retail industries compare favorably with their counterparts in Europe, the United States and Asia.

A stable democratic political system was introduced in 1994. English is the most widely used language in national and provincial government, as well as in commerce. Given its manufacturing characteristics, South Africa has become a country of outstanding potential for industrialized companies looking to develop long-term business partnerships to tap into neighboring economies. With its sound economy and stable political environment, opportunities exist across the board and include privatization and re-structuring of the ports, railway, power and water sectors, consultancy, telecoms, automotive IT, healthcare, creative industries, the environment and tourism.

South Africa has transformed itself from an economy dominated by primary sectors (agriculture and mining) to one where services and manufacturing contribute a substantial share to GDP (figure 4-3). Part of this transformation is due to South Africa's continued efforts to expand value-add activities by moving from pure extraction to downstream beneficiation. Manufacturing, primarily products of steel, aluminum, and other processed minerals, accounted for one-fifth of GDP in 2001 (South African Reserve Bank, 2002)

Figure 4-3 Origin of GDP (2001) in RSA



Source: South African Reserve Bank, Quarterly Bulletin (2002)

South Africa has approximately 80 percent of the world's reserves of manganese ore, 68 percent of chromium, 56 percent of platinum group metals, and 35 percent of gold (Tekle, 1999). Although agriculture, forestry, and fishing provided most rural employment, these sectors represented less than five percent of GDP in 2001.

South Africa represents only three percent of the continent's surface area, yet it accounts for approximately 40 percent of all industrial output, 25 percent of GDP, over half of generated electricity and 45 percent of mineral production in Africa (Werkmans, 2002). About 75 percent of South Africa's economic activity occurs in the four main metropolitan areas (which together represent about 3 percent of the total land area) namely the Witwatersrand area surrounding Johannesburg, the Durban/Pinetown area in KwaZulu Natal, the Cape Peninsula, and the Port Elizabeth/Uitenhage area in the Eastern Cape. The Witwatersrand is the financial and

industrial hub of the country and accounts for about 40 percent of the country's GDP (DTI, 2002).

South Africa's economic system however has a marked duality. A sophisticated industrial economy has developed alongside an underdeveloped "informal" economy. The industrial economy has an established infrastructure and economic base with great potential for further growth and development, whereas the "informal" economy presents both untapped potential and a developmental challenge for South Africa. The country is also a gateway for investment into Sub-Saharan Africa and since 1994, South Africa's trade with and investment in other African states has increased significantly (see Appendix A, Table 6 & 7; Table 4-4).

Government policy has generally focused on fiscal prudence, tight monetary policy, and liberalization of the economy (DTI, 2002). Tight monetary policy and the independence of the South African Reserve Bank contributed to relatively low inflation rates. Although the rand (South African Currency) lost approximately 40 percent of its value in 2001, by May 2002, had appreciated more than 50 percent against the dollar and continues to appreciate (South African Reserve Bank, 2003). Economic reasons given for the rand's initial depreciation were: South Africa's relatively low foreign exchange reserves, delays in the privatization process, poor investors sentiment toward emerging markets, and political instability in neighboring Zimbabwe. Several large companies, such as South African Breweries and Anglo American, moved their primary listings to London in search of additional capital.

Data on economic indicators for South Africa are represented in the table below to provide background information about the structure of the economy.

Table 4-1 South African Economic Indicators

Series	1998	1999	2000	2001	2002
GDP (current US$)	1.34E+11	1.31E+11	1.28E+11	1.14E+11	1.04E+11
GDP growth (annual %)	0.75	2.03	3.5	2.83	2.98
Exports of goods and services (% of GDP)	25.74	25.71	28.6	30.65	33.95
Imports of goods and services (% of GDP)	24.58	23.09	25.84	27.06	30.55
Foreign direct investment, net inflows (BoP, current US$)	5.50E+08	1.50E+09	9.69E+08	7.27E+09	7.39E+08
Inflation, GDP deflator (annual %)	6.95	6.2	7.16	7.64	8.55
Overall budget balance, including grants (% of GDP)	-2.66	-1.46	-2.17	-0.97	..
Population growth (annual %)	2.35	2.41	2.48	1.83	1.18
Population, total (in millions)	41	42	44	44.8	45.3
Trade in goods (% of GDP)	41.6	40.75	46.64	50.37	56.59

Source: *World Development Indicators* database and CD-ROM, 2003.

Table 4-2 Comparative Economic Indicators, 2002

	South Africa	Zimbabwe	Botswana	Namibia
GDP (US$ bn)	156	4.6	5.6	2.9
GDP growth (%)	3	-13	4.2	2.3
GDP per head (US$)	2,322	351	3,139	1,481
Consumer price inflation (av; %)	9.2	134.5	8.1	11.3
Current-account balance(US$ m)	290	-509	570	346
Merchandise exports fob (US$ bn)	31.1	1.3	2.4	1.2
Merchandise imports fob (US$ bn)	26.7	1.8	1.7	1.2
Total external debt (US$ bn)	24.4	3.51	0.4	0.6

Source: South Africa Reserve Bank, 2003 and CIA World Fact Book, 2004

4.3 South Africa: an Emerging Growth Pole for Southern Africa?

Known as the gateway to Africa, South Africa is home to six percent of Africa's population and produces 25 percent of the continent's GDP (SA Reserve Bank, 2002). It also boasts over 45 percent of the continent's purchasing power. SA's economy, given its geographical position and its position as the biggest market (in terms of GDP) in Sub-Saharan Africa, could have a significant impact on the economies of the countries in the region, particularly the Southern African Customs Union (SACU) and the SADC. The quantitative assessment of SA's economy's impact on the rest of the SADC has been neglected in the economic growth and regional economics literature (Onteng, M., 2002). According to Onteng, the reason for this negligence may be due to the fact that economic growth in SSA has been a puzzle to both students and researchers of that region. Against this background, it is important for academic, economic integration, and policy reasons to test the hypothesis that SA can act as an engine of growth for the rest of SADC to be assessed quantitatively.

The UNCTAD (1997) has recognized that South Africa, especially after its emergence from apartheid, could become a "growth pole" for Southern Africa, by contributing positively to the development of its neighbors. Following this notion, there are two possible channels through which SA can contribute positively to the rest of SADC. First, this impact could be transmitted through financial linkages in the form of foreign direct investment in the region. The second channel is through trade linkages with the rest of the region. For example, a rise in economic growth in SA can contribute positively to the growth of the region through increased import demand by

South Africa from the SADC and therefore increase the contribution of net exports to growth in those countries.

The evidence on production networks in the SADC region suggest that while South Africa is beginning to integrate into global production networks, the rest of the SADC is having considerably less success. Poor infrastructure, a lack of industrial capacity and a lack of experience in supply chain management suggest that these countries will find it difficult to break into the global networks in the short/medium term. However, the SADC countries have an opportunity to integrate into South African production networks, which can form the basis for learning and establishing industrial capacity (SADC Review 2004). South African firms are increasingly expanding the networks into the region to tap into the lower labor costs and natural resources. These firms are coming under increasing competitive pressure as the country liberalizes its trade regime; a regional production network may well constitute a viable survival strategy. The AGOA has also created additional pressure on Southern Africa to speed trade and investment liberalization.

This study attempts to fill the research gap by providing an assessment of SA's impact on the rest of the region, as well as the impact of individual SADC economies on the growth of group members. The purpose of this chapter is to answer the following question: What is the impact of South Africa's economy on the development of the rest of the SADC region? Additionally, will it follow the "flying geese" model of East and South-East Asia. Some answers can be found by comparing the situation in Southern Africa with the conditions that accompanied the

Transnational Corporations -assisted interactive restructuring process in Asia (UNCTAD, 1995).

4.4.1 Role of Transnational Corporations (TNC) in Restructuring

Before looking at SA's economic conditions vis-à-vis Japan, it is important to look at the role TNCs play in the restructuring process. Transnational corporations can directly contribute to the restructuring process through the provision of tangible and intangible assets. This study is focused on the TNCs' positive contributions only, not possible negative ones, such as the displacement of local small enterprise, market domination and negative socio-cultural impact. Literature on TNCs offers a number of useful conclusions regarding the role of TNCs in the restructuring process[19]: TNCs can upgrade the home country's economy by acquiring assets abroad that are lacking at home, or by lowering the cost of upgrading by sharing it with foreign TNCs.

- TNCs can assist in building, upgrading and/or turning around an industry in a host country by bringing in assets that are lacking. In particular, TNCs can help turn inward-looking industries into export-oriented, internationally competitive ones, thus helping realize or enhance their competitiveness.
- By shifting assets between home and host countries, and by using their assets in multiple foreign locations, TNCs can link the processes of industrial restructuring in different countries. In the process, they enhance the host countries' economic performance and smooth the adjustment process.
- Markusen (1991) found that the potential role for TNCs is greater in knowledge-intensive industries like electronics and smaller industries with

[19] For detailed explanation see UNCTAD (1995, p 256-264 & 1997, p 65-71)

standardized production technologies such as, textile and apparel industries. In this regard, South Africa's TNCs can benefit by investing both in the rural domestic economy and abroad.

- The experience of Asian economies shows that a developing country that successfully restructures will give rise to its own TNCs and outwards transfer of technology which often initially undertake FDI in the developing countries of its region. According to UNCTAD (1995), this indicates a successful process in which countries skillfully take advantage of both inward and outward FDI to restructure. This is the case with South Africa. South Africa is a leading beneficiary of the AGOA because it has restructured its manufacturing industry (its car industry, for example) and is in the process of restructuring its transportation infrastructure to allow easy access through its ports.

SA is vigorously increasing its trade and investment in Africa. An important aspect of South African FDI is that it is pro-trade in nature. It is increasing the benefits including income of the host SADC countries above what they would have been under conditions of trade based on comparative advantage without FDI. South Africa's trade and investment can serve as a supplier of capital and technology. South Africa can play this role because its high-tech manufacturing firms, particularly those in machinery industries, may successfully adopt more sophisticated technology, allowing them to upgrade industrial production at home and to shed the old technology via foreign direct investment in the rest of the SADC. Ozawa and Kojima (1985) argued that countries gain even more from an expanded trade when superior entrepreneurial

endowments are transferred from the home countries' comparatively disadvantaged industries to improve the efficiency of comparatively advantaged industries in the host countries. This idea is referred to as the "flying-geese" paradigm. According to this paradigm, a group of economies advances together because of mutual interactions between countries through demonstration effect, learning and emulation, with transmission mechanism being flows of people, trade in goods and services, flows of FDI, technology, and other TNC-related assets. A characteristic feature of the "flying-geese" pattern in Asia has been the increasing role of the TNCs, initially through non-equity arrangements and joint ventures, and through FDI (UNCTAD, 1995)

UNCTAD (1995 &1997) identified six conditions for successful implementation of a "flying geese" model: different levels of development, ability to restructure, sufficient demand and markets, market verification of restructured industries through internationally competitive exports, enabling framework for the transmission of TNC assets, and a favorable investment environment. UNCTAD concluded that only the first condition is met by Southern Africa region. This study provides a quantitative assessment of South Africa's role in the growth of SADC countries to show that the conditions now are better than five years ago, in part due to the Africa Growth and Opportunity Act. The AGOA has accelerated the progress of creating an enabling framework for FDI, as well as in implementing liberalization policies.

Table 4-3 shows intra-regional disparities in GDP per capita in the SADC. Although the GDP per capita in several countries of the region are on par with that of South Africa, South Africa's level of development is higher than that of most of the

countries. This was also true in Japan vis-à-vis other Asian economies when the "flying geese" paradigm took off.

Table 4-3 Intra-regional disparities in GDP per capita levels in SADC and East and South-East Asia (2001)
(dollars and percentage)

	GDP per capita in ($1995) 2001	GDP per capita as share of South African GDP per capita in 2001	East and South-East Asia	GDP per capita in 2001	GDP per capita as share of Japan,s GDP per capita in 2001
South Africa	4068.026	100.0	Japan	44457.7	100
Mauritius	4351.533	107.0	Hong Kong, China	27118.5	90.4
Botswana	4130.004	101.5	Singapore	24505.5	49.8
Namibia	2382.921	58.6	Korea, Rep.	13502.3	17.4
Swaziland	1529.414	37.6	Malaysia	4707.8	10.5
Lesotho	562.9382	13.8	Philippines	2853.2	4.3
Zimbabwe	559.3836	13.8	Thailand	1164.9	3.8
Angola	525.0813	12.9	Indonesia	1034.4	3.2
Zambia	405.1422	10.0	China	878.4	0.0
Mozambique	213.1445	5.2			
Tanzania	196.9271	4.8			
Malawi	162.7969	4.0			
Congo, Dem. Rep.	85.12506	2.1			

Source: World Development Indicator CDROM 2003

Variations in GDP per capita in Southern Africa are matched by the labor costs, suggesting a comparative advantage in labor-intensive production processes for countries in the region that already have a sufficiently developed industrial base. These cost advantages are enhanced by considerable disparities between labor laws, which from the employers' perspectives seem more restrictive for South Africa than its neighboring countries (UNCTAD,1997). However, South Africa's rich endowment of human capital is conducive to new industries, which could gradually replace those that are based primarily on an abundant supply of cheap labor.

South African firms (white-owned) are now welcomed with open arms in Africa with little political resistance from host countries. Africa and SADC in particular are making progress in creating an enabling framework for the transmission

of TNC assets and creating a favorable environment for investment. On the demand side, present extra-regional and intra-regional demand is not to enough to sustain a regional restructuring. In Asia, the American demand for goods produced in intra-Asian networks drove the expansion of manufacturing production. In Sub-Saharan Africa, extra regional demand focuses on primary commodities, except in South Africa. The AGOA, FDI, and regionalization are viewed as vehicles through which these countries can expand their manufacturing production. In light of the AGOA, the main export opportunities South Africa offers neighboring countries exist in low processed food and in manufactured goods such as textile and cars.

4.4 South Africa's role as a springboard to FDI in SADC

South Africa is home to three of the world's largest transnational corporations: Sappi Limited (with $4.6 billion in foreign assets in 2000), Barlow Limited ($1.8 billion in 2002 and SABMiller ($700 million in 2000).SABMiller, the world's fourth largest brewer (by volume), operates in 11 African countries and has extensive holdings in India and Central and Eastern Europe (UNECA, 2002). With respect to FDI, the expectation has been that South Africa's multinational corporations (MNCs) could help economic growth in its neighboring countries through the provision of FDI capital, technology transfer, and contributions to human resource development and to export revenues to these economies. So far there is very little information on the actual role of South African MNCs in the development of the region. According the UNCTAD (1997), in terms of capital contribution, South Africa's FDI in Southern Africa had already increased significantly before 1994.

Almost a decade after apartheid rule ended, South African companies are no longer treated like pariahs. South Africa dominated outward FDI to Africa in 2003. They accounted for 84 percent of Africa's total outward stock of $39 billion (UNCTAD, 2004). According to the Report, the continent's outward FDI has been rising since the late 1980s, mainly because of the expansion of South African firms within and, especially, outside Africa (South Africa accounted for about 60 percent of Africa's FDI outflows as well as FDI outward stock in 2003. Outflows from the region were almost $2 billion during the first half of the 1990s. According to Table, 4-4, 4-6 and 4-7, South Africa is clearly the continent's most important source of FDI in all the SADC countries, except in Angola where the multinational oil companies dominate. Since 1994, South African FDI in other African countries has averaged $1 billion a year (BisunessMap, 2004).

South Africa is by far the most important African outward investor. It ranked ninth among developing economies in 2003 in terms of outward stock, though the value of its stock that year was lower than in 2000. Outward flows amounted to $720 million in 2003, about three percent of gross fixed capital formation (UNCTAD, 2004). Table 4-4 shows that, while 90 percent of its FDI stock is in developed countries (75percent) in Western Europe alone, an increasing number of large investments have been going to other African countries recently. And in 2002, South Africa's FDI stock in Africa accounted for 7 percent of the country's total outward FDI. In absolute terms, the amounts invested in African countries may be small, but they account for a significant share of FDI for some African economies (e.g. Mozambique).

According to UNCTAD (2004), several factors have driven South Africa's outward FDI in the rest of Africa:

- The liberalization of South Africa's regulatory regime for outward FDI has facilitated the expansion abroad of firms from that country.
- The liberalization of the country's trade and exchange controls has raised competition in local markets and encouraged firms to look abroad. At the same time, privatization and liberalization in other African countries have allowed South African companies to acquire firms in the region.
- South African firms often have technological advantages over local competitors in Africa and greater familiarity with African conditions than TNCs from other regions.

In mobile communications, South African companies are in demand across Africa. Africa's biggest mobile phone operator, South Africa-based Vodacom, launched its network in Mozambique in December (2003) and said it aimed for a market share of 45 percent within three years (BusinessMap, 2004). Vodacom also operates in Tanzania, the Democratic Republic of Congo, and Lesotho with combined investments of $337-million. Vodacom's number of enrolled customers in Africa reached 773, 000 in 2002.Its annual Revenue in 2003 was $2.5 billion (table 4-7).

Table 4-4. South African Outward FDI Stock, by Geographical Destination, 1990-2002 (Millions of rand)

Region/economy	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
World	38 463	44 171	54 329	61 020	67 698	84 991	114 013	113 170	157 385	203 036	244 653	231 416	202 826
Unspecified	6	3	3	3	5	2	8	9	..	3	65	..	30
Developed countries	36 533	42 328	51 446	57 862	63 978	80 858	109 022	106 081	146 446	191 790	230 652	211 752	182 652
Western Europe [a]	35 740	41 582	50 882	56 680	59 149	75 621	103 085	99 170	138 842	176 621	208 937	193 323	152 348
Unspecified Western Europe	35 740	41 582	50 882	56 680	59 149	75 621	103 085	99 170	138 842	176 621	24 626	1 968	1 576
European Union	..	..	..	..	..	..	..	..	..	..	135 594	190 364	150 419
Austria	..	..	..	..	..	..	..	..	..	..	..	17 598	27 039
Belgium												15 716	18 141
France	..	..	..	..	..	..	..	..	..	..	..	577	588
Germany	..	..	..	..	..	..	..	..	..	..	..	7 735	5 866
Ireland	..	..	..	..	..	..	..	..	..	..	..	4 359	341
Luxembourg	..	..	..	..	..	..	..	..	..	..	58 308	61 103	46 809
Netherlands	8 667	6 178	..	..	..	..	..	..	..	..	..	8 667	6 178
United Kingdom	..	..	..	..	..	..	..	..	..	..	77 286	74 609	45 457
Other Western Europe	..	..	..	..	..	..	..	..	..	..	48 717	991	353
Switzerland	..	..	..	..	..	..	..	..	..	..	48 717	991	353
North America	754	708	554	1 129	4 733	5 162	5 338	5 507	6 466	10 937	16 474	14 242	22 927
Canada	..	..	..	..	..	..	..	..	..	..	..	141	64
United States	..	..	..	..	..	..	..	..	..	..	11 215	14 101	22 863
Unspecified America [b]	754	708	554	1 129	4 733	5 162	5 338	5 507	6 466	10 937	5 259	..	..
Other developed countries	39	38	10	53	96	75	599	1 404	1 138	4 232	5 241	4 187	7 377
Australia	..	..	..	..	..	..	..	..	..	..	..	3 853	6 997
Japan	..	..	..	..	..	..	..	..	..	..	..	331	377
Unspecified Pacific [c]	39	38	10	53	96	75	599	1 404	1 138	4 232	5 241	3	3
Developing countries	1 924	1 840	2 880	3 155	3 715	4 131	4 983	7 080	10 939	11 243	13 936	19 664	20 144
Africa	1 853	1 754	2 638	2 832	3 217	3 833	4 482	6 147	9 386	9 971	12 265	14 031	14 234
Botswana	..	..	..	..	..	..	..	..	..	..	..	408	290
Lesotho	..	..	..	..	..	..	..	..	..	..	..	177	168
Mauritius	..	..	..	..	..	..	..	..	..	..	..	6 628	3 729
Mozambique	..	..	..	..	..	..	..	..	..	..	..	4 117	6 896
Namibia	..	..	..	..	..	..	..	..	..	..	..	806	839
Swaziland	..	..	..	..	..	..	..	..	..	..	..	156	272
Zambia	..	..	..	..	..	..	..	..	..	..	..	89	146
Zimbabwe	..	..	..	..	..	..	..	..	..	..	..	587	603
Unspecified Africa	1 853	1 754	2 638	2 832	3 217	3 833	4 482	6 147	9 386	9 971	12 265	1 063	1 291
Latin America and the Caribbean	..	..	..	..	..	..	..	..	..	..	..	2 266	1 843
Bermuda	..	..	..	..	..	..	..	..	..	..	..	30	30
Unspecified Latin America and the Caribbean	..	..	..	..	..	..	..	..	..	..	..	2 236	1 813
Asia	71	86	242	323	498	298	501	933	1 553	1 272	1 671	3 367	4 067
Hong Kong, China	..	..	..	..	..	..	..	..	..	..	..	2 795	3 578
Singapore	..	..	..	..	..	..	..	..	..	..	..	182	191
Unspecified Asia [d]	71	86	242	323	498	298	501	933	1 553	1 272	1 671	390	298

Source: South African Reserve Bank, *Quarterly Bulletin*, various issues.

[a] Includes Central and Eastern Europe.
[b] Includes Latin American and Caribbean economies.
[c] Includes Australia, New Zealand and Pacific economies.
[d] Prior to 2001, data include Japan.

Source: Adopted from UNCTAD, 2004 Table A.I.10.

Table 4-5 Some largest investment in Africa by South African Companies, 200-2003

Year	Target (acquired) company	Host country	Source (acquiring) company	Transaction value ($ mil.)	Industry
2002	Grand Inga Falls hydroelectric project	Democratic Republic of Congo	Eskom Holdings	1 200	Utilities
2001	Pande & Temane-gasfields	Mozambique	Sasol Oil	581	Natural resources
2001	Skorpion zinc project	Namibia	AngloGold	454	Natural resources
1998	MTN Nigeria	Nigeria	MTN	285	Non-cyclical services
2003	Ashanti	Ghana	AngloGold	274	Natural resources
2002	Vodacom Mozambique	Mozambique	Vodacom	269	Non-cyclical services
2001	Mozal II	Mozambique	Industrial Development Corporation	160	Basic industries
2000	Vodacom Tanzania	United Republic of Tanzania	Vodacom	142	Non-cyclical services
2002	Kamoto copper mine	Democratic Republic of Congo	Kumba Resources	120	Basic industries
2001	Vodacom Congo	Democratic Republic of Congo	Vodacom	94	Non-cyclical services
2000	Ashanti Goldfields Geita project	United Republic of Tanzania	AngloGold	88	Natural resources
2002	Caminhos de Ferro de Mocambique	Mozambique	Ressane Garcia Railway Company	78	Cyclical services
2003	Zimbabwe Platinum Mines	Zimbabwe	Impala Platinum	85	Natural resources
2003	Hartley Platinum Mines	Zimbabwe	Impala Platinum	80	Natural resources
2003	Business and tourism complex	Angola	Sun International SA	60	Cyclical services
2003	Kolwezi Tailings project	Democratic Republic of Congo	Industrial Development Corporation	33	Basic industries
2003	Commercial Bank of Namibia	Namibia	Nedbank	33	Financial services
2003	Banco Standard Totta de Mozambique	Mozambique	Stanbic Africa	22	Financial services
2003	Investec Bank (Botswana)	Botswana	Stanbic Africa	21	Financial services
2003	Zimbabwe Platinum Mines	Zimbabwe	Impala Platinum	19	Natural resources
2003	Escravos gas to liquid plant	Nigeria	Sasol		Natural resources

Source: UNCTAD, based on information from the BusinessMap Foundation.

Source: adopted from UNCTAD, 2004 table A.I.11.

Table 4-6 The top 30 non-financial Transnational Companies (TNCs) from developing economies, ranked by foreign assets, 2002 (Millions of dollars, number of employees)

Ranking by Foreign assets	Ranking by TNI [b]	Corporation	Home economy	Industry [c]	Assets Foreign	Assets Total	Sales Foreign [a]	Sales Total	Employment Foreign	Employment Total	TNI [b] (Per cent)
1	10	Hutchison Whampoa Limited	Hong Kong, China	Diversified	48 014	63 284	8 088	14 247	124 942	154 813	71.1
2	14	Singtel Ltd.	Singapore	Telecommunications	15 775 [d]	19 073	3 247	5 801	9 877	21 716	61.4
3	44	Petronas - Petroliam Nasional Berhad	Malaysia	Petroleum expl./ref./distr.	13 200	46 851	8 600	21 433	4 979	25 940	26.0
4	11	Cemex S.A.	Mexico	Construction Materials	12 193 [d]	16 044	4 366	7 036	17 568	26 752	67.9
5	33	Samsung Electronics Co., Ltd.	Republic of Korea	Electrical & electronic equipment	11 308	51 964	28 208	47 655	28 300 [f]	82 400	38.5
6	26	LG Electronics Inc.[f]	Republic of Korea	Electrical & electronic equipment	5 845	16 214	11 387	23 553	30 929	55 655	46.3
7	15	Jardine Matheson Holdings Ltd	Hong Kong, China	Diversified	5 729 [d]	8 255	4 449 [d]	7 398	68 000 [f]	114 000	66.7
8	2	Neptune Orient Lines Ltd.[f]	Singapore	Transport and storage	4 580 [d]	4 771	4 521	4 642	11 187	12 218	94.8
9	17	Citic Pacific Ltd.	Hong Kong, China	Construction	4 170	7 328	1 567	2 061	7 388	11 643	58.4
10	9	Sappi Limited	South Africa	Paper	3 733 [d]	4 641	2 941	3 729	9 807 [f]	17 572	71.7
11	6	Shangri-La Asia Limited	Hong Kong, China	Hotels and motels	3 663 [d]	4 593	463	601	13 000 [g]	16 300	78.9
12	34	Sasol Limited	South Africa	Industrial chemicals	3 623	8 960	3 687	7 114	7 107	31 150	38.4
13	3	Guangdong Investment Limited	Hong Kong, China	Diversified	3 691	3 924	815	876	5 994	6 580	92.0
14	5	Flextronics International Ltd.[k]	Singapore	Electrical & electronic equipment	3 488 [d]	4 887	5 903	7 812	76 167	78 000	81.5
15	25	Capitaland Limited	Singapore	Real estate	3 165	9 403	1 114	1 823	5 111 [f]	10 333 [f]	48.1
16	13	City Developments Limited[m]	Singapore	Hotels	2 954 [d]	6 490	806	1 278	11 401	13 940	62.5
17	50	Petroleo Brasileiro S.A. - Petrobras	Brazil	Petroleum expl./ref./distr.	2 863	32 818	1 605	22 612	2 200 [f]	46 723	6.1
18	22	MTN Group Limited	South Africa	Telecommunications	2 582	3 556	729	1 981	1 970	6 192	52.1
19	21	Anglogold Limited	South Africa	Gold ores	2 301	3 964	831	1 761	30 821 [g]	53 897	54.4
20	12	First Pacific Company Limited	Hong Kong, China	Electrical & electronic equipment	2 276 [d]	2 515	1 892	1 892	25 [f]	46 422	66.1
21	35	Companhia Vale do Rio Doce	Brazil	Mining & quarrying	2 265 [f]	7 955	2 928	4 268	3 493 [f]	13 973	35.9
22	31	Metalurgica Gerdau S.A.[f]	Brazil	Metal and metal products	2 089	4 093	1 348	3 136	5 977	18 995	41.7
23	27	Perez Companc	Argentina	Petroleum expl./ref./distr.	2 052	4 090	567	1 484	1 633 [g]	3 255	46.2
24	39	América Móvil	Mexico	Telecommunications	2 002	10 966	1 664	5 953	6 629	14 572	30.6
25	42	Singapore Airlines Limited	Singapore	Transport and storage	1 969 [h]	10 866	2 472	5 260	2 613	14 416	27.7
26	49	CLP Holdings	Hong Kong, China	Electricity, gas and water	1 905 [f]	7 793	120	3 350	37 [f]	4 303	9.7
27	45	Samsung Corporation	Republic of Korea	Electrical & electronic equipment	1 897 [g]	6 370	5 316 [i]	29 533	1 223 [g]	4 305	25.9
28	29	Kulim (Malaysia) Berhad	Malaysia	Food & beverages	1 729	3 689	166	516	10 809	22 112	42.6
29	40	Keppel Corporation Limited	Singapore	Diversified	1 657	6 669	804	3 687	8 722	19 947	29.5
30	32	Naspers Limited	South Africa	Media	1 655 [d]	2 498	412	1 148	1 742 [f]	10 711 [f]	39.5

Source: Adopted from UNCTAD 2004, Box table I.3.1.

Rival Mobile Technology Network (MTN) provides mobile phone services in Nigeria, Rwanda, Uganda, Cameroon and Swaziland. Table 4-7 shows that MTN is the second largest mobile phone operator with 8.9 million subscribers. MTN has enrolled 200,000 customers in Nigeria since being awarded a license in August 2001 and now has 2.2 million customers in Africa. MTN's revenue from Uganda, Rwanda and Cameroon rose from R1.194 billion in 2001 to R4.4 billion in 2002 (BusinessMap, 2004). This is helping to blaze a trail for other entrepreneurs, as many businesses are reluctant to invest in an African country before it has a proper cell phone network—especially since fixed-line operations on the continent are often poor.

Table 4-7 Africa's largest mobile operators, ranked by the number of subscribers in the region, 2003

Firm	Vodacom[a]	MTN Group	Orascom Telecom	Orange	Celtel International	Millicom International	Total
Headquarters	South Africa	South Africa	Egypt	France	Netherlands	Luxembourg	
Ownership	Vodafone (15%), Telcom SA[b] (50%), VenFin (South Africa; 15%)	Private owners (55%)[c], publicly traded shares (45%)	Privately owned	France Telecom (99%)	Institutional investors[d]	Kinnevik (Sweden, 25%); rest is publicly traded	
Subscribers (million)	10.2	8.9	5.6	3.6	2.5	0.7	33.5
Revenue ($ million)	2 482	2 434	1 119	..	446	85	6 566
Profits ($ million)	278	258	123	..	74	36	769
Profitability (%)	11.2	10.6	11	.	16.6	42	11.7
Number of countries in Africa	5	6	7	5	13	5	36
Host countries	Democratic Republic of the Congo, Lesotho, Mozambique, United Republic of Tanzania	Cameroon, Nigeria, Rwanda, Swaziland, Uganda	Algeria, Chad, Congo, Democratic Republic of the Congo, Tunisia, Zimbabwe	Botswana, Cameroon, Côte d'Ivoire, Egypt, Madagascar	Burkina Faso, Chad, Congo, Democratic Republic of the Congo, Gabon, Kenya (2004), Malawi, Niger, Sierra Leone, Sudan, United Republic of Tanzania, Uganda, Zambia	Ghana, Mauritius, Senegal, Sierra Leone, United Republic of Tanzania	

Source: UNCTAD, partly based on ITU 2004, p. 5.

a Financial data refer to fiscal years ending in March.
b Thintana Communications, a consortium of SBC Communications (United States) and Telekom Malaysia, owns 30% of Telcom SA. The Government of South Africa owns 39.3%. The rest is subscribed by portfolio investors.
c Johnnic, an investment holding company (South Africa, 36%), ICE Finance, an investment company (Netherlands, 18%), others (1%).
d AIG Infrastructure Fund, African Merchant Bank, Blakeney Management, Bessemer Venture Partners, Capital International, CDC Capital Partners, Citigroup, Communication Ventures partners, Corporacion Financiera Alba, DEG FMO, Fondital, International Finance Corporation, Old Mutual, Palio, Standard Bank of London, Zephyr Management, LP Fund.

Source: Adopted from UNCTAD 2004 Box table II.4.1.

South Africa faces much more competition from other foreign investors in the telecommunications market, with investors from the UK, Australia, Japan, New Zealand and international development agencies like the Commonwealth

Development Corporation and the International Finance Corporation also competing for these lucrative investment prospects. The telecommunications and finance sectors are also sectors in which South African companies have some degree of black representation, giving this newer sector a different racial profile in their African investments (businessMap, 2004). South Africa is the most active investor in the region in terms of the number of deals concluded, hence its high visibility in the host countries. Table 4-9 shows that, South Africa accounts for 37 percent of the number of new investments, followed by the UK and the U.S.

Analysts say there is money to be made in Africa, and the world's poorest continent needs all the investment it can get. According to Businessmap (2003), Africa needs capital crucially for privatizations to renew operations. The latest big South African move up north was AngloGold's takeover of Ghana's Ashanti Goldfields in 2002. At around $274 million, it is second largest South African investment on the continent to date. Founded in 1897 in what was then known as the Gold Coast, Ashanti is a national treasure in Ghana (UNCTAD, 2004). The thought of a white-owned South African company acquiring it would have been ludicrous just a few years ago. In recent times, FDI by South Africa's MNCs has been in the areas of food processing, communication, retailing, and other services.

Table 4-8. FDI Activity in the SADC According to Source and Target Country (Number of Deals, 1996-2001) [Excluding SA]

Source / Target	SA	USA	UK	AUSTR	GER	PORTU	CANADA	FRAN	OTHER	TOTAL
Angola	3	3		1				1	3	10
Botswana	14	2	1				1		5	21
DRCongo	4		1	1			1		2	9
Lesotho	3	3								4
Malawi	4		1						4	9
Mauritius	3									3
Mozambique	41	7	9	5		24	1	2	12	101
Namibia	18	3	2	2					2	27
Swaziland	7		3							10
Tanzania	14		4				2		4	24
Zambia	31	4	17	1	1		1	1	20	76
Zimbabwe	28	5	7	6	3		6	1	9	65
Total	**170**	**27**	**45**	**16**	**4**	**24**	**12**	**5**	**61**	**466**

Source: Business Map Database

BusinessMap (2004) estimates that South African companies invested an average of $435 million a year into the SADC from 1994 to 2003. The low was $23-million in 1994— when white-minority rule ended—and the high of $1.7-billion was hit in 2001. It also estimates that, from 1994 to 2003, Mozambique got the lion's share of South African investments into SADC with 51 percent. South Africa is now Mozambique's largest investment partner, with South Africans responsible for a reported 300 out of 1,607 projects approved between 1990 and 2001. This information is contained in a 2002 report on the economic links between South Africa and Mozambique, compiled by Carlos Nuno Castel-Branco (2002) for the British government's Department for International Development. This means that Mozambique is the Promised Land of opportunity for South African enterprise. Castel-Branco says South African investors control three out of four sugar estates, three out of four breweries, all soft-drink bottling plants, large cereal milling plants and most of the tourism facilities.

The World Bank notes in its 2003 country brief that "real GDP growth since 1995 averaged 8.5 percent and was 9.9 percent in 2002, with a projected growth rate of 7 percent in 2003." This phenomenal growth is due to an aggressive privatization and foreign investment drive by the Mozambican government, co-coordinated through the Ministry of Planning and Finance. The success story of the day, and a major catalyst supporting this growth, is undoubtedly the South African projects in Mozambique. Two big projects have attracted $3.6-billion in investment. The MOZAL Project (which attracted $2.4 billion) contains all the elements of a good investment project, including foreign direct investment, capital expenditure,

infrastructure development, job creation and social investment. Mozambique's Pande and Temane gas fields, owned by fuel group Sasol, have attracted $1.2-billion from the giant South African oil company (Barnard, 2004). This provides compelling evidence that South Africa is acting as a growth pole in the region through FDI. This also supports economists' widely held view that FDI is growth-enhancing. This means that South African investments in the SADC area create new industrial capacity and jobs.

Retailer Shoprite has opened more than 692 stores in 15 African countries, most recently in Angola, which is emerging from almost three decades of savage civil war. In its last financial year the group said its capital expended elsewhere in Africa amounted to R134-million. Shoprite's operations outside SA contributed R2, 6 billion or ten percent of the group's revenue in 2002. In June 2004, it opened a new store in Angola worth $8 million. South African Breweries purchased Cervejas de Mozambique when it was privatized in 1995 and is investigating the Nigerian market (Barnard, 2004). SABMiller invested $46 million in Algeria and Morocco in 2002. All in all, the company operates in 11 countries in Africa. BusinessMap reported that in 2001, Impala Platinum invested in the Ngezi project in Zimbabwe with Zimbabwe Platinum, while most other companies withdrew (Business Day, Oct. 2004).

Table 4-9 South Africa's Multinational Corporations in Africa

	Name of companies	Host Countries
Petrol Service Stations	Engen	Tanzania, Botswana
Finance: Banks	First national bank	Botswana, Zambia
	Standard bank	All 16 SSA countries
	Nedbank	Lesotho, Malawi, Mozambique, Namibia, Swaziland, and Zinbabwe
	Investec	12 SSA countries
Finance: Insurance and Investment	Metropolitan Life (new Africa Investment Limited)	Botswana
	Kersaf Investments	Mauritius
	Makin international Investment	Mozambique
	Investec	Angola, Botswana
	African Life	Botswana
	Standard Corporate Merchant Bank	Botswana
	Nedcor	Mauritius
Fast Food outlets	Steers	Zimbabwe, Zambia
Hotels	Protea	Botswana, Tanzania, Malawi, Mozambique
	Holiday Inn (Anglo and De Beers)	
	Southern Sun	Tanzania, Zambia, Mozambique
	Sun International	Zambia,
	Karos	Mozambique
	Protea	Botswana, Tanzania, Malawi, Mozambique
Car Hire Services	Avis	Namibia
Leisure	Conservation Corporation Africa	Tanzania
	TourVest	Zimbabwe- Victoria falls
	Games Africa Investment	Zimbabwe
Supermarkets	Shoprite Checkers	15 Sub Sahara African countries
	Pick 'n Pay	Zimbabwe
Clothing stores	Pep Botswana	Botswana
	Truworths	Botswana, Zimbabwe
	Edgars	Botswana
	Woolworth	Zimbabwe, Namibia
Mobile Phones	Mobile Technology Network (MTN)	Cameron, Nigeria, Uganda, Rwanda, Swaziland
	Vodacom	DRC, Lesotho, Tanzania
Wholesalers	Metro Cash & Carry	Botswana
	CAN	Zimbabwe
	Pepkor/Metro	Zimbabwe
Motor Vehicles	McCarthy Retail	Botswana, Namibia
Entertainment	Numetro cinema	Nigeria
Furniture	Protea Furnishers	Mozambique

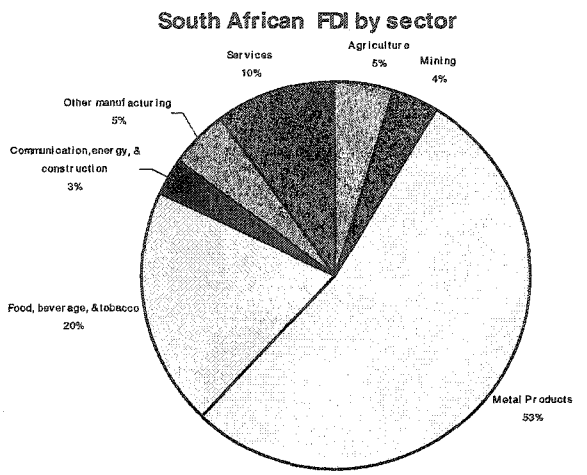
Source: BusinesMap database, South African department of trade and industry, UNECA

Electricity Supply of South Africa (ESKOM), a giant South African energy company, has established itself as a world class Electricity Company, supplying over 95 percent of South Africa's electricity needs and over 50 percent of the electricity needs of the African Continent (ESKOM, 2003)[20]. Eskom has won contracts to produce electricity in Lesotho, Libya, Malawi, Mali, Zambia and Zimbabwe. Other successful South African MNCs rolling out across the African continent include M-Net, Africa's largest pay television service, delivering 24-hour programming to dozens of countries across the continent. SA fast food franchises such as Steers, Nandos, Chicken Licken, and pizza chain Deboniars are household names in many African countries. It is worth noticing that about 60 percent of South African investment in the SADC area is greenfield investments or expansion of existing capacity. In October 2004, SASOL has been awarded R800 million annual contract to supply Namibia with petroleum products for a period of three years (BusinessMap database, 2004).

South African banks North African investments have soared although, according to BusinessMap (2004), they still accounted for only around 25 percent of all foreign investment in the rest of the 14-nation Southern African Development Community between 1994 and 2003. South African banks are led by Standard Bank, which has operations in 16 other African countries. The South African government is encouraging local companies to invest in Africa's future, allowing them to take R2 billion rand out of the country per approved new investment on the continent. Outside Africa, exchange rules limit them to R1-billion per approved new investment. Similarly, Nedbank, another South African banking giant, has subsidiaries or

[20] For more information visit: http://www.eskom.co.za

associated companies in more than six SADC countries. It also owns 40 percent of HSBC Equator Bank, which is based in London but has offices in Angola, Côte d'Ivoire, Ghana, Kenya, Mozambique, South Africa, Uganda, and Zambia (DTI, 2004).



Source: Werkmans, 2001

Figure 4-4 SA FDI by sector in 1999

An analysis of the sectoral composition of South Africa's FDI in the region reveals that it is primarily exploiting the natural resource base, with only limited investment in manufacturing figure 4-4.The largest recipient sector by far is metal products. There is, in fact, one investment that accounts for almost half of total South African investment in SADC and that is an aluminum smelter plant in Mozambique. Low-cost supply of electricity and good infrastructure developed through the Maputo development corridor is the major factors attracting this investment. The investment pattern also reflects the fundamentals of location theory at work. With little to differentiate the various SADC countries in terms of labor costs and industrial capacity, South African investors are likely to choose those locations that minimize

transaction costs (such as Botswana, Zimbabwe, Mozambique) while providing the other necessary ingredients such as social stability and minimal exchange rate risk. South African companies are filling the resource gap because they have an advantage of understanding the risks involved in investing in African countries. Thus, in sum, South Africa's potential to be a regional economic growth pole cannot be underestimated.

4.5 South Africa's Role as a Trading Partner with Africa

Given South Africa's size and its proximity and close linkages with the developed world, its growth could have a significant impact in the growth of other neighboring countries. South Africa has one of the largest GDP per capita on the Africa continent. Given that SA's purchasing power in of the entire continent is over 45 percent, this means that a small increase in South Africa's imports from its neighboring countries can have a significant impact on the SADC economies. According to the South African Trade and Industry Department, part of the global trade strategy of South Africa is to deliberately focus in growing our trade with the developing world, particularly a clear focus on promoting trade on the African continent and in the SADC region (Smith, 2002).

Historically, increases in trade have correlated with the movement of GDP growth rate in South Africa. The most growth-enhancing sector is South Africa's exports in vehicles and parts. During the apartheid regime, South Africa's trade with its neighbors remained very modest because of the political and economic isolation. However, the post-apartheid regime has witnessed a significant increase in trade relations between South Africa and other countries in the region, with its wine and

food now a common sight on supermarket shelves in African countries (Onteg, M., 2002). However, trade relationship with other African countries is largely one-sided given the overwhelming size of South Africa's economy. In contrast to exports to Europe, which are mainly primary and intermediate goods, exports to other African countries are mostly manufactured products. South Africa's key trading partners are SADC, the EU and North America (Appendix A, Table 12-14). The next section briefly reviews South Africa's trading patterns with these three important regions.

4.5.1 South Africa's Relationships with Key African Trading Regions

South Africa became a member of SADC in 1994. One of the SADC's key policy objectives is to strengthen trade and investment linkages between member countries. In 2000 the SADC Protocol on Trade was implemented, which includes the establishment of a SADC Free Trade Area by 2008 (SADC Review, 2003). South Africa's trade with SADC countries doubled between 1998 (R16-billion) and 2002 (R32-billion). In 2002 imports from the region increased substantially to R4.2-billion (DTI, 2003).

Table 4-10 below shows two-way trade between SA and its three top trading partners: the EU, the US and Africa. Despite political instability, Zimbabwe was the largest export destination for South African goods in 2003, accounting for some R6.5-billion. Imports from Zimbabwe amounted to some R2.6-billion in the same year. R1. 7 billion worth of exports to Zimbabwe were in manufactured goods. The Joint Commission for Economic Scientific, Technical and Cultural Co-operation between South African and Zimbabwe was revived in 2002 with the aim of strengthening bilateral relations. Mozambique is a key destination for South Africa's exports to

Africa, on its own accounting for some R5.6-billion in 2003 (some 18 percent of South Africa's exports to Africa). Mozambique's under-development means the trade balance is heavily in South Africa's favor. Manufacturing exports from SA accounted for 32 percent or R1.8 billion. Only R28-million worth of imports was transacted in 2003.

Table 4-10. SA trade with SADC, Europe and North America in 2003(R billion)*

Country	Exports	Imports
Zimbabwe	R6.5	R2.6
Mozambique	R5.6	R28 million
Zambia	R5.6	R3.4
Angola	R3.0	R3.0
Tanzania	R1.8	R136 million
Mauritius	R1.7	R214 million
Malawi	R1.7	381 million
DRC	R1.2	R28 million
Other Africa		
Nigeria	R2.5	R2.7
Kenya	R2.2	R2.1
Ghana	R1.1	R52 million
Europe		
UK	R46.4	R20.0
Germany	R22.47	R19.39
France	R2.4	R12.3
Italy	R6.7	R17.4
Netherlands	R6.00	R3.2
North America		
U.S.	R13.29	R12.6
Canada	R4.00	R1.07
Source: South African department of trade and industry and author's own calculations		

* see appendix A table 12-14 for additional trade tables

Trade between South Africa and Zambia has increased substantially since 1993. Both countries are taking advantage of existing bilateral agreements to foster better relations—evident in an annual increase of trade and investment flow between the two countries (DTI, 2004). Zambia is another substantial importer of South African goods, accounting for some R5.6-billion in 2003. Zambia imports into South

Africa amounted to R3.4-billion in the same year. Exports to Angola amounted to over R3-billion in 2003, a figure equaled by imports in the same year(table 4-10).

The trade balance with Tanzania is strongly in South Africa's favor. Exports to the East African country totaled R1.8-billion in 2003 and imports R136-million in the same year. Tanzania and South Africa have signed a memorandum of understanding on trade and industry programs and a general agreement on economic, scientific, technical and cultural co-operation (DTI, 2004). Exports to Mauritius amounted to R2-billion in 2003, and imports equaled R124-million in the same year. Mauritius is one of South Africa's largest trading partners in SADC, and bilateral relations are developed in that context. The finance, retail, construction and telecommunication sectors are providing strong opportunities for investment in Malawi (DTI, 2004). It is one of South Africa's main trading partners in SADC and, like Mauritius; bilateral relations are guided by broader SADC agreements. In 2003, exports to Malawi totaled nearly R1.7-billion. Imports in the same year were R381-million. Despite an unsettled time in the DRC, exports to the country in 2003 were worth some 1.2-billion and imports R28-million.

4.5.1.1 Other Africa

Bilateral and multilateral relations with Nigeria are strategically important to South Africa—particularly in forums such as NEPAD and the African Union (AU). South African companies have been successful in several sectors in Nigeria, including the hospitality, financial services, communications and energy sectors. Nigeria accounts for some R2.5-billion worth of local exports. R2.7-billion was imported into South Africa from Nigeria in 2003. As with Angola, the trade balance with Kenya is

relatively equitable. Exports to Kenya amounted to R2.2-billion in 2003, and imports were R2.1-billion in the same year. Exports to Ghana totaled R1.1-billion in 2002, but imports only equaled R52-million in the same year (table 4-10).

4.5.2 South Africa's Relationship with Key European Trading Partners.

The EU remains South Africa's most important economic trading partner, accounting for over 40 percent of its imports and exports, as well as 70 percent of foreign direct investment. South Africa's trade surplus with the EU block rose from R6-billion in 1999 to R30-billion at the end of 2001(DTI, 2004). Against a backdrop of a slowing global economy in 2001, resulting in a 0.3 percent drop in EU imports from the rest of the world, South African exports to the EU grew by an additional 11 percent. In May 2002 South Africa had overtaken Algeria, Saudi Arabia, Malaysia and Singapore in overall trade with the EU (Business Day, 2002).

The United Kingdom (UK) is one of South Africa's most significant trading partners in the EU. It is the largest foreign investor in South Africa, with assets worth an estimated R132-billion. It is the third largest supplier to South Africa with a two-way trade in goods and services valued at around R66-billion, and are also the country's third largest trading partner. Many products already enjoy duty free status both ways (under SA-EU FTA) and existing tariffs will be gradually phased out over 12 years. The majority of UK imports into Southern Africa are manufactured or transported via South Africa (DTI, 2004 & table 4-10).

Relations between South Africa and Germany have strengthened considerably in the areas of political, economic, scientific, cultural and environmental co-operation since the introduction of the South African-German bilateral commission in 1996.

Germany is one of South Africa's most important trading partners, with trade worth more than R42 billion in 2003. The country is South Africa's most important supplier of imports such as capital goods and technology, and ranks second as a purchaser of South African exports after the UK (DTI, 2004 & table 4-10). It is also a major direct investor in South Africa with an investment volume of around R18 billion, the main sectors being the automotive industry, the chemical industry, and mechanical and electrical engineering. More than 450 German companies provide around 60 000 jobs in South Africa (UNCTAD 2002).

France and South Africa have strong relations in the areas of trade and industry, arts and culture and science and technology. France supports Nepad and the AU, particularly in the context of the G-8. It has hosted several summits, and meetings supportive of African development and emerging economies in Africa. South Africa signed an agreement on technical assistance with France in 2003. While the structure of the French-South African exchanges has remained stable since the early 1990s, the performance of French business in South Africa has shown clear progress over the past decade (DTI, 2004). French exports to South Africa reached R8-billion in 2000, compared to R5.5-billion in 1991. South Africa is now the leading outlet for French companies in sub-Saharan Africa. At the same time, South African exports to France have increased from some R44-million in 1991 to around R57-million in 2000 (DTI, 2004).

Italy ranks amongst the top ten of South Africa's trading partners, recording R6.7-billion worth of exports and R8-billion worth of imports in 2003. Gold represents some 50-60 percent of South African exports to Italy, due to Italy's jewelry

industry. South African exports to Italy, gold included, stand at some R17-billion. Other goods exported include iron, copper, steel, leather, fish and meat. South African imports a range of goods from Italy including electro-mechanical goods, vehicles, furniture, jewelry and ceramics. Bilateral agreements include agreements on the promotion and protection of investments, taxation and transport. (DTI, 2004)

A number of co-operative arrangements and development assistance programs exist between South Africa and the Benelux countries–Belgium, Netherlands and Luxembourg. South Africa is the Netherlands' most important trading partner on the African continent and the Netherlands ranks in the top ten of the list of South Africa's most important trading partners (DTI, 2004). The South African-Netherlands Chamber of Commerce (SANEC) was established in 1992, and is one of the leading bi-national chambers in the country. Table 4-10 shows that bilateral trade with the Netherlands was a little over R9-billion mark in 2003.

4.5.2 South Africa's Relationships with Key North American Trading Partners.

The United States is South Africa's biggest single trading partner. Total trade between the two countries has been increasing steadily in recent years, with South Africa holding an increasing trade surplus since 1999. This amounted to just under $1.5-billion in 2001, growing slightly in 2002. US exports to South Africa far exceed US exports to any other country in Sub-Saharan Africa, emphasizing the importance of access to the South African market. Two-way trade between the two countries was $7.6 in 2003 (see Appendix A, Table 12 A-B)

Trade with the U.S. has been significantly boosted by the Africa Growth and Opportunity Act, which allows duty-free access of exports–about 1, 800-product

lines—into the US. In July 2004, U.S. President George W. Bush signed the AGOA acceleration Act of 2004. The Act extends the deadline for the termination of AGOA benefits from 2008 to 2015. Exports falling under AGOA amounted to $1.3-billion in 2002, compared to $923-million in 2001 (AGOA, 2003. At the signing of the AGOA Acceleration Act, Bush said: "There's a growing consensus in both Africa and the United States that open trade and international investment are the surest and fastest ways for Africa to make progress . . . . For too many years, the world's efforts to promote Africa's development were focused on aid. Development aid is important. . . . But as Uganda's President Museveni has said, 'By itself, aid cannot transform societies. Only trade can foster the sustained economic growth necessary for such transformation" (AGOA Annual Report, 2004).

4.6 The Role of Trade and Economic Integration

Global experience suggests that economic reform alone will not attract many foreign investors to SADC. Reform generally has to be accompanied by an active marketing or investment promotion program designed to "sell" the opportunity on a regional scale. Promotion programs must be designed to appeal to the types of investors that are desired and who are likely to be interested in SADC (Gonteb, 2002).

Foreign investors are often lumped into a single category. Policies are said to create a favorable foreign investment climate or an unfavorable one for foreign investors, without distinction as to type. Yet, there are several kinds of foreign investors. Some types are relatively easy to attract, others are especially fickle. Investment climate is much more important to some investors than to others. And the kinds of marketing strategies that work for one type may not be effective at all for

another. Since different kinds of investors respond differently to investment incentives, the SADC governments need to decide what kinds of investors are desired and likely to be attracted to the individual country or region. Promotion programs must then be designed to be consistent with both the goals of the country (or region) and the realistic prospects for success. In Namibia, for example, the government has signaled a move in this direction by appointing Mr. Neville Gertze as High Commissioner to Malaysia (Gonteb, 2002). His invaluable experience as Commercial Counselor in the U.S. and South Africa is expected to encourage Malaysian textile firms to relocate to Namibia in order to export to the U.S. using the benefits provided under the African Growth and Opportunity Act.

It is very difficult for small countries with small market size such as Lesotho, Namibia, and Swaziland etc. to compete with larger markets such as South Africa. Several of the countries that have attracted large amounts of foreign direct investment offer very large domestic markets (China and Brazil, for instance) or are close to other large markets to which investors can export (Mexico to the U.S.,). There is little that a country can do to make its market seem larger (except regional economic integration-SADC), or to create rich neighboring countries. Countries such as Singapore and Malaysia, which have attracted substantial amounts of FDI, undertook early economic reforms and attracted the first round of foreign investors that were looking for cheap production sites to supply their home markets.

The majority of foreign investors in Southern Africa, sell locally, while only 16 percent of the foreign owned firms export from the region. Their main reason for being in the SADC is to sell to the SADC, not to export and not because the SADC is

an inexpensive place to produce. However, a preferential trade agreement such as the AGOA is changing this, but mainly for textiles and clothing (which are likely to leave the SADC once preferential access is withdrawn). The AGOA together with FDI from South Africa is changing the investment landscape of the SADC region.

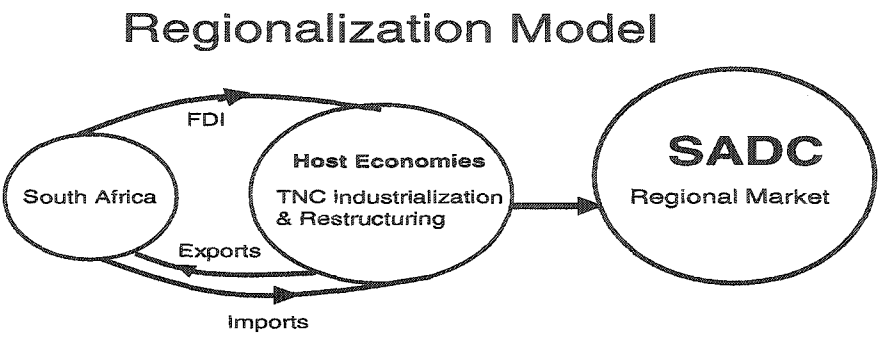


Figure 4-5: SADC Regionalism Model

This model shows the importance of expanding the regional market to include the SADC as the larger market to attract additional foreign investment, and the need to make cross-border movements easier. At present, small economies fail to attract new investment to sell into the SADC because of the undeveloped nature of the market. To overcome this disadvantage, SADC countries must make the region appear as unified. As the flying geese model of economic development suggests, increasing trade and bolstering investment relationships with countries such as South Africa SADC countries can strengthen industrial structures and thus, develop by adopting used technologies passed on by the leading goose. Unless this occurs, the benefits of FDI in terms of income and jobs will flow overwhelmingly to SA, which boasts a large and relatively sophisticated market compared to other SADC countries.

As shown in Figure 4-5 above, South Africa, as a leading goose, should lead economic integration through investment and trade. Then host SADC countries will derive benefits through demonstration effects, learning by doing, and emulation. According to the model above increased imports and FDI from SA will encourage the host countries to restructure their economies and increase their production. Increased production will lead to more exports, not only to SA, but to the rest of the region as well. A virtuous cycle of development occurs. This virtuous cycle leads to economic integration and a creation of a bigger market. SADC countries are in the process of reforming their institutions, thanks to AGOA (AGOA, 2004). They should build on the momentum gained thus far in foreign direct investment attraction by selecting an effective mix of promotion tools. Research has shown that image building (advertising and general investment missions, in particular) very rarely lead to investment. Rather, they serve to convey changes in policies and general impressions of a country to potential investors (Gonteb, 2002).

The AGOA is also stimulating intra-Africa investments, as Africans work together to access AGOA trade preferences through regional production. For example, Mauritian investors have invested in apparel production facilities in Senegal and Madagascar, while South African apparel producers have invested in Lesotho and Swaziland. The following are some examples of recent AGOA related investments:

Namibia	▪ A subsidiary of a Malaysian textile producer has invested over $200 million since April 2001, created 5,000 new jobs, and exported over $22 million in apparel products to the United States since initiating operations in June 2002. ▪ Two more apparel companies are in the process of beginning production. These firms will add another $115 million in investment and over 6,000 additional jobs. ▪ Once fully operational, these three companies will have brought over $300 million in investment, 11,000 jobs, and new exports of approximately $120 million per year to the United States.
Ghana	A U.S. company is investing in a tuna-processing plant.
Lesotho	▪ A Taiwanese investor is building a $100 million denim rolling mill to supply local manufacturers. That plant will employ 5,000 new workers when operational in 2004. The same investor has plans to invest an additional $50 million in a new yarn spinning plant. ▪ Other Taiwanese investors will contribute an additional $10 million to build a separate weaving and dying factory. These facilities will be able to supply most of the denim and knit fabric needed by Lesotho's garment industry.
Mali	▪ In Mali a $12.5 million cotton-thread factory opened in February of 2004. The modern facility is one of the few sub-Saharan Africa plants outside South Africa capable of producing quality thread for use in manufacturing apparel for export under AGOA. ▪ Mauritians who plan to use the thread for apparel production in Mauritius were among the investors. The factory, the first of its kind in Mali, created 200 new jobs.
Madagascar	▪ Four international investors and the IFC will establish a $10 million apparel manufacturer in 2003, specializing in knit casual wear, sleep wear, active wear and intimate apparel
Cameroon	▪ The Chad-Cameroon Pipeline, the largest U.S- commercial investment in sub-Saharan Africa, totaling approximately $350 million, began operation in 2003.

Source: AGOA database

Trade within the regional block is expanding and there is evidence that it has captured an increasing share of exports of members' trade. According to World Bank (1998), regional blocks in Sub-Sahara Africa have been less vigorous in expanding trade with the rest of the world. Despite the problems and weaknesses of regional

trading blocks, two-way trade within trading block such as SADC is growing (Table 4-10 above). Regional integration is an important factor that improves a nation's ability to benefit from creation of a larger market. This is explicitly stated in the AGOA because countries that are highly integrated are able to act as a large market and take advantage of efficiency and increased trade with the U.S. economy. The World Bank said:

"Most African markets are not big enough to attract private investment. The main cause of this lack of interest is attributed to the low income per capita combined with the low growth rates, which will probably not experience a substantial increase of purchasing power in the near future. On to of the small size of its market, the region's integration is in its infant stages. Experience, mainly in Asia and Latin America, has proved how important integration is in extending the possibilities of attracting investment. Transport infrastructure could have a substantial impact on regional trade, economic growth an poverty reduction" (World bank, July 1998, No. 114, p.2).

South Africa can play an important role in promoting regionalization in the SADC and Africa in general. South Africa's trade balance with its top twenty trading partners has been in its favor. Of South Africa's top twenty trading partners, half of them are from Africa and eight are from the SADC (Table 4-11). The issue of trade integration in Africa as envisaged by the new US policy towards Africa will bring with it both benefits and as well strong competition. For example, in east Africa, Kenya is facing new competitive pressures from countries like South Africa. Kenya's concern is that is that it will loose the Eastern market in the short run due to recent trade and investment deal with Tanzania, Uganda and others (Tekle, 1999).

Some smaller countries see South Africa as a bully that would polarize and divert trade into South Africa. Many economists have held the idea that South Africa

would polarize and marginalize other African countries it if it engaged in free trade agreements with smaller countries (Tekle, 1999). But so far there is no indication that SA is polarizing the region. However, there are long-run benefits to all SADC countries due to efficiency that will lower production prices.

Trade liberalization and economic integration can still benefit the smaller African countries that are able to import components and inputs from South Africa to produce goods that are imported by the U.S. under the GSP and AGOA. This will only be possible if the other economies are highly integrated with the South African economy. Infrastructure improvements are also critical if the region hopes to benefit more from the AGOA. The improvement of economic infrastructure is a major component of the AGOA as it is a necessary condition for African economic integration. Safe air and efficient sea transportation have been emphasized to create the fertile ground for the expansion of U.S. trade with the region. At the same time, rail transportation and better paved roads will promote regional trade and reduce the costs of doing business internationally. Mozambique provides a good case study for regional integration.

TABLE 4-11COUNTRY NAME & REGION	TRADE BALALANCE WITH TOP 20 TRADINGPARTNERS IN THOUSANDS OF HOME CURRENCY (R'000)				RANK	
	2003	2002	2001	2000	2003	2002
NETHERLANDS - (EUROPEAN UNION)	4,842,477	7,607,891	5,601,006	3,479,879	1	1
MOZAMBIQUE - (SADC)	*3,744,178*	*6,015,733*	*5,470,159*	*4,634,078*	*2*	*2*
JAPAN - (NORTH-EAST ASIA)	3,549,657	5,661,772	4,775,273	2,028,139	3	3
UNITED STATES - (NAFTA)	2,989,479	3,959,076	4,753,939	3,475,359	4	8
BELGIUM - (EUROPEAN UNION)	2,592,734	5,355,473	3,546,568	3,531,596	5	4
ZIMBABWE - (SADC)	*2,576,296*	*5,149,681*	*3,968,026*	*3,559,582*	*6*	*5*
ZAMBIA - (SADC)	*2,353,681*	*4,763,269*	*4,500,749*	*4,260,227*	*7*	*6*
ANGOLA - (SADC)	*2,070,510*	*3,301,859*	*2,609,027*	*1,308,035*	*8*	*9*
SPAIN - (EUROPEAN UNION)	1,781,395	2,883,011	2,244,536	1,429,141	9	10
ISRAEL - (MIDDLE EAST)	1,619,597	3,997,047	3,224,889	2,046,304	10	7
KENYA - (N-EAST AFRICA)	*1,441,053*	*2,208,211*	*1,717,297*	*1,461,120*	*11*	*13*
UNITED ARAB EMIRATES - (MIDDLE EAST)	1,373,950	1,053,149	472,026	789,948	12	19
MAURITIUS - (SADC)	*1,353,687*	*2,592,184*	*1,910,909*	*1,960,025*	*13*	*11*
TANZANIA - (SADC)	*1,235,806*	*1,921,338*	*1,488,591*	*1,302,155*	*14*	*14*
SWITZERLAND - (EFTA & OTHER)	1,079,750	801,856	96,329	-789,285	15	23
MALAWI - (SADC)	*968,139*	*1,896,744*	*1,574,629*	*1,383,248*	*16*	*15*
ZAIRE - (SADC)	*829,880*	*1,613,400*	*919,605*	*879,476*	*17*	*16*
HONG KONG, China - (CHINAS)	822,721	1,108,785	666,600	436,054	18	17
UNITED KINGDOM - (EUROPEAN UNION)	796,587	2,451,051	5,653,266	2,843,100	19	12
GHANA - (WEST AFRICA)	*685,769*	*907,871*	*650,498*	*562,304*	*20*	*22*
Source: South African Department of Trade and Industry, 2004						

4.6.1 Regional Integration--the Case of Mozambique

Southern African regional co-operation is the centerpiece of the region's foreign economic policy. The key element of this policy is to strengthen trade, investment and industrial linkages between South Africa and its neighboring states. The MOZAL smelter is a practical illustration of this foreign policy. Its public private partnership will become a catalyst to economic development in the region.

The US $2.4-billion smelter springs out of Southern African regional co-operation, and is one of the most modern facilities of its kind in the world. The MOZAL project is the construction and commissioning of a 250, 000 ton per annum

primary aluminum smelter in Mozambique, one of the most modern facilities of its kind in the world. Budgeted at over US$ 2.4 billion, it is the largest single foreign direct investment project in Mozambique (UNCTAD, 2004). The Mozal project mirrors the successful completion of the Hillside smelter in Richards Bay South Africa. Together with Hillside and the neighboring Bayside smelter, Mozal has raised the Southern African aluminum production to around five percent of total world supply and generate earnings of US$ 2.4 billion a year, contributing to the 2 percent of GDP from the mining activities. The production of aluminum relies heavily on electricity. MOTRACO—a consortium of publicly owned electricity companies of Mozambique, South Africa and Swaziland (EDM, ESKOM and SEB)—was formed to meet this primary requirement and first electrical power ever in Mozambique was directed there to make the smelter run (DTI, 2004).

The economy has been given tremendous momentum by the government's aggressive privatization program to capture the benefits of AGOA. The program's primary objective is to practically privatize all state businesses. This led to the creation of about 85 enterprises from 20 major enterprises, being privatized (Castel-Branco, 2002). The major strengths for further integration of the Mozambican and South African economies are the historical economic links that already exist, the current level of trade and investment between them, as well as the change that is occurring towards replacement of labor migration with FDI.

4.7 Conclusion

The issue of trade and investment agreements between South Africa and other African countries has been a relationship between countries at different levels of economic development. South Africa mainly exports manufactured goods to other African countries, while it imports natural resources and other raw materials. This is due to its relatively developed industries that are capable of producing consumer and capital goods demanded by Sub-Saharan African countries. As a result, SA competes with the industrialized countries that supply similar products to Africa. South Africa trades mainly with the developed countries in Europe, East Asia and North America. Among the SADC countries, trade with Zimbabwe is very significant while other members account for small proportions of total trade.

South Africa's trade with Africa is on the rise and can be improved by taking a "leading goose" role. All other remaining countries should take courage and follow the lead goose. Countries like Mozambique are reaping the benefits of SA investment and trade because of their close relationships with South Africa. Regional integration is an important factor that improves a nation's ability to benefit from creation of bigger market

South Africa is emerging as a significant investor in the SADC region. South African investment represented more than 70 percent of the net inward flow of FDI in Swaziland between 1995 and 2001 and 35 percent in Mozambique between 1990 and 2001. Continuing improvements in regulatory frameworks should facilitate South African FDI inflows into African countries. The extension of the AGOA to 2015,

through the AGOA Acceleration Act of 2004, is expected to facilitate the expansion of international production in Africa

CHAPTER V

FRAMEWORK FOR ANALYZING GROWTH

5.1 Introduction

A common belief among economists is that Asia has benefited enormously from Japan's neighborly (even big-brotherly) attention in the 1970s and 1980s. Japan was able to play this role because of its high-tech manufacturing firms, particularly those in the machinery industries, which had managed in earlier years to adopt more sophisticated technology, allowing Japan to upgrade industrial production at home and to shed the old technology via foreign direct investment in developing Asia. Globally, the U.S. is regarded as an engine of growth of the world economy in the sense that U.S. and world economy output are closely related (Arora and Vamvakidis, 2001). Not only do movements in the U.S economy appear to significantly influence growth in other countries, but also its trade agreements with the developing world bring along benefits, as seen in Latin America.

Similarly, in line with the flying geese model, South Africa (SA) is viewed as an engine of growth in Sub-Saharan Africa (SSA) and the SADC in particular. Because South Africa's economy is the most diverse in the region, a possible channel through which the impact could be transmitted is through foreign direct investment

and trade linkages, with a rise in SA's FDI contributing to a rise in manufacturinghproduction, and thereby increasing GDP per capita in the host SADC countries. First, this chapter provides empirical evidence of determinants of economic growth in the SADC. Then there appears an overview of the impact of foreign income, South Africa's foreign direct investment, and trade on the economic growth of the SADC region. Finally, the impact of regional economic groupings on the growth of the group members is examined.

5.2 Review of the "Flying Geese" (FG) Catch-up Theory

The FG model of economic development, as mentioned in Chapter Four, was originally introduced by Kanane Akamatsu, a well-known Japanese economist, in the 1930s and has been expanded by his followers, such as Kojima (1960, 2000); Kojima and Ozawa (1985); Ozawa (1993, 2000); and Yamazawa (1990). Akamatsu was among the very first to recognize the economic significance of what he identified as the "alignment from advanced nations to backward nations according to their stages of growth" (Akamatsu, 1962). Essentially, his theory is built on the notion of product life cycles (Vernon, 1966) and suggests that the life cycle of a particular industry can be followed by the trends in the value, or volume, of imports, production and exports. In a given industry, the level of imports is said to first rise and then decline, and this is followed by the same pattern in domestic production and then exports (Ozawa 1993; Chen 1997; Gangopadhyay 1998). Akamatsu did not, however, produce a formalized model to explain his ideas (Ozawa 1993). Ozawa concluded that what Akamatsu had

in mind was an "evolutionary model of sequential catch-up through teacher-learner relations among the nations along the stages of industrial upgrading." When plotted against time, the level of imports, production and exports form patterns of inverted v-shaped curves across a graph giving the image of flying geese.

This model has received much attention in explaining the economic development of the East and South East Asian economies (Ozawa,1993, 1996, 2000; Kojima 2000; Singh 1998; Chow & Kellman 1993; Krugman 1998a & 1998b; Hatch & Yamamura 1996; Fields 1993; Dunning 1993 & 1995; Chen 1997; Linder 1986). In general, these studies agree that: first, there has been rapid economic development in the Asian economies; second, that behind Japan's industrialization, the economies of Hong Kong, Taiwan, South Korea and Singapore have appeared as a first-tier of "newly industrializing economies" (NIEs) with Malaysia, Indonesia and Thailand appearing as a second-tier, or "near", or "new" NIEs (NNIEs). And third, that this growth has been brought about by export-orientated industrialization. It is this appearance of "staged" development that has given rise to the acceptance of a contagion spread, or the Flying Geese (FG) Theory.

When applied to international trade, the model depicts a shift of economic growth from more advanced economies to less advanced economies as industries develop. The FG model attempts to introduce dynamism into the traditional model of the otherwise static, trade theory. It suggests that trade and investment flows can integrate the economies and create a virtuous cycle of development based on evolving

comparative advantage. For example, an economy in a region marked by such integration will import raw materials from less developed neighbors and capital to expand more rapidly than its supply of labor. This economy is induced to move gradually out of labor-intensive manufacturing and into more capital-intensive production. As this process continues, and capital goods continue to be imported, the economy will move further up the value-added chain. The most important purpose of this chapter is to answer the following question: What is the impact of the South African economy on the development of the rest of the SADC region? And closely, will it follow the "Flying Geese" model of East and South-East Asia?

5.3 Theoretical Considerations of Models of Growth

The obvious shortcoming of neoclassical models of growth is that long-run, per-capita growth is determined by the exogenous rate of technology. Work on the endogenous growth theory has introduced alternative models that explain long-run growth, and provide a theory of technological progress. In this theory, growth is generated by factors other than exogenous technical change. The growth rate of less developed countries is perceived to be highly dependent on the extent to which these countries can adopt and implement new technologies (Hermers and Lensink, 1999). By assuming aggregate production that exhibits non-decreasing returns to scale, endogenous growth models have provided mechanisms through which social and economic policy can affect economic growth through their effects on human and physical capital accumulation. Recent cross-section empirical work on economic

growth has been inspired by the neoclassical model, and extended to include government policies, human capital, and some measure of technology diffusion.

Since macroeconomic policies affect growth performance through their higher impact on the rate of inflation, the budget deficit-GDP ratio and gross final consumption by the government, these variables are used in the growth equation to capture the effects of such policies. The main theoretical rationales for explanatory variables used in this study are summarized in the rest of this section. Macro-economic policies affect economic growth directly through their effect on accumulation of capital, or indirectly through their impact on efficiency, which the factors of production are used. Macroeconomic stability is reflected in a low and stable rate of inflation, sustainable budget deficits, low consumption to GDP ratios, outward oriented trade policies, and sound financial development.

An appropriate monetary policy promotes a stable financial environment necessary for economic growth by maintaining a low level of inflation. High and volatile rates of inflation are expected to lower the monetary authorities' credibility and reduce the returns on private savings and investment. Thus, high rates of inflation are expected to decrease private investment and domestic savings. The effect of inflation rate (INFL) on growth is widely recognized to be harmful when inflation rates are high; at low, single digit inflation levels, the likelihood of such a trade-off between growth and inflation is minimal. In the cash-in-advance model, anticipated inflation raises the cost of acquiring capital and thus lowers capital accumulation;

therefore, growth is adversely affected. Finally, inflation variability tends to be associated with higher rates of inflation and economic instability (Barro, 1991 and 1995).

Growth performance is also affected by the ratio of accumulated budget deficit (DEBT) to GDP and the ratio of gross domestic investment and expenditures to GDP (GOVCON), which are used to capture the effect of fiscal policy. Other things being equal, within the constrained availability of domestic savings and foreign grants and loans, a larger budget deficit will mean that a lower share of total financial resources would be available for the private sector. Moreover, if the fiscal deficit widens (increasing the debt) to an unsustainable level, private investors' perception of country risk would become increasingly negative, and consequently private investment would be adversely affected. In the context of financial programs, therefore, the size of the deficit has generally been considered a policy variable that is useful for making judgments about the sustainability of the deficit and the share of the financial resources needed to finance activities of the private sector. Gross domestic investment is the sum of gross government and private investments. Higher government expenditures leave the economy with fewer saving which is necessary fewer saving than are needed for government investment for government investment. Higher GOVCON is expected to have a negative impact on per-capita growth. That is GOVCON captures the concern of the supply-side theories that higher government expenditures create an expectation of future tax liabilities and hence, distort incentives

and causes lower growth.

The development of a domestic financial system at least partly determines the extent to which domestic firms may be able to realize their investment plans in cases where external finance from banks or stock markets is needed. Moreover, the development of the financial system also influences the allocative efficiency of financial resources over investment projects. Thus, the financial system may contribute to economic growth through two main channels (next to providing and maintaining a generally accepted means of exchange). First, it mobilizes savings; this increases the volume of resources available to finance investment. Second, it screens and monitors investment projects (thereby lowering information acquisition costs); this contributes to the increasing efficiency of the project carried out (Hermers and Lensink, 1999). Also, the effect of the financial sector's size and financial policies on the rate of economic growth has been examined in the literature[23]. Finally, the development of financial systems may also determine to what extent foreign firms will be able to borrow, in order to extend their innovative activities in the host countries, which could further increase the scope of technological spillovers to domestic firms thereby increasing the rate of economic growth.

Education and training lead to acquisition of skills, facilitate the diffusion of technology, promote entrepreneurship and hence raise productivity and stimulate economic growth (Bende-Nabende, 2000). The hypothesis tested here assesses the impact of human skills on economic growth. As human skills increase, the variable

[23] See Hermers and Lensink (1999) for a good survey on the role of the domestic financial system and its relationship to economic growth.

used for its measurement increases. In measuring human skills, focus is restricted to secondary school enrollment for simplicity, ignoring the contribution of primary and tertiary education. The study assumes that the knowledge and skills acquired in secondary education enables individuals to carry out an occupation that can form the foundation of a well-rounded life. The variable human skill is proxied by the annual number of students enrolled for secondary education as percentage of total enrollment. This variable can also be measured using the combined index of life expectancy at birth and the infant mortality rate. This combined index proxies the general health conditions for the quality of human capital (Basu, A et al., 2001).

Otherwise, human capital would be computed using an index that attaches weights to the different levels of academic qualification and practical experience, and the aggregating the values. A higher secondary school enrollment means a higher accumulation of human skills. Thus, if higher quality human skills mean higher economic growth, the higher secondary enrollment should lead to higher economic growth (Blomstrom et al., 1994, 2003). In this study, I will use the secondary school enrollment as a proxy for human capital (HC).

Another key variable is FDI. It is well known from the existing literature that FDI is a major engine of growth in developing countries (Borensztein et al., 1995; Blomstrom, et al. 1986, 2000; Jenkins and Thomas, 2002). Empirical research has shown that MNC belongs to those firms that are technologically very advanced and invest heavily in research and development. Their FDI may have an external spillover

effect on the process of technological diffusion in the host countries (Findlay, 1979). Others argue that the process of technological spillovers may be more efficient in the presence of well-functioning markets. Under these circumstances, the environment in which FDI ensures that competition and reduces market distortion, enhancing the exchange of knowledge among firms (Bhagwati, 1978 and 1985; Ozawa, 1992; Balassubramanyam, et al 1996).

The Economic Report on Africa (2004) reported that AGOA has increased competitiveness of the SADC economies. At the primary level, FDI augments domestic investment and brings about an improvement in export competitiveness. As exports and investment increase, they will have a multiplier effect on GDP. Increased exports and investment may also have two other effects on the economy. First, increased exports generate foreign exchange—a scarce, but necessary, input in most developing countries, for the purchase of capital and intermediate imports. Second, if the additional investment embodies or is associated with neutral/labor intensive techniques, employment will rise. Also, as shown in the figure below, there are possible reverse effects on investment and exports through accelerator the process.

Graphical representation of possible interactions between exports, FDI and output

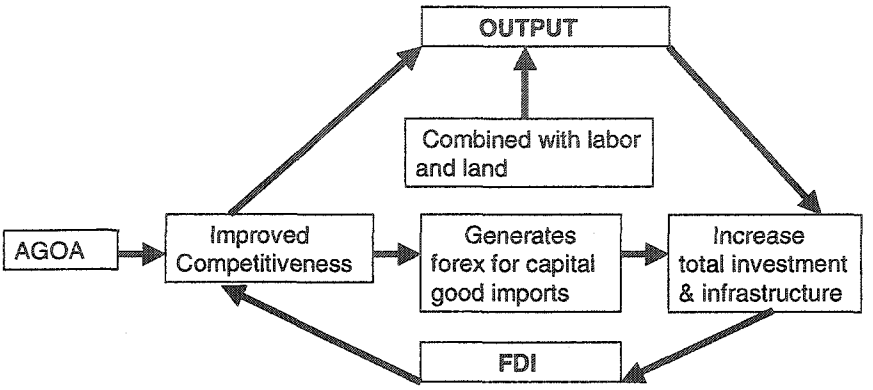


Figure 5-1 Possible Interactions between Export, FDI and Output

Whereas contemporary macroeconomic thinking considers exports and FDI as exogenous variables, the above illustration clearly shows that the relationship between exports, FDI and GDP can be considered in a more unified manner that takes into account feedback effects. For instance, some researchers argue that FDI augments and stimulates the productivity of domestic investment, especially with reference to developing countries (Borensztein, Gregorio and Lee, 1998). Inflows of foreign capital are assumed to boost investment levels. On the other hand, spillover effects in the labor market occur through learning-by-doing impact on the domestic investments' productivity (Driffield, 2001). The domestic policy environment, however, determines the rate at which the production processes are transformed through foreign

capital inflows. Basu, Charkraborty and Reagle (2003) found that there is a long-run, steady-state relationship between FDI and economic growth for the cross-section of countries after allowing for country specific effects.

The impact of political freedom on economic performance, as well as the joint determination of political instability and economic growth, has generated considerable interest in the literature. Some observers believe that increasing political rights promotes economic rights and, therefore, stimulates growth (Alesina et al. (1995). Empirically, Alesina et al., shows that political instability reduces growth, and Fosu (1992) finds political instability to be a significant determinant of per-capita income.

Finally, the proposition that more outward-oriented economies tend to grow faster has been tested extensively in the literature, and the majority of evidence tends to support this proposition. The effect of export-oriented trade policies on growth, notably the liberalization of foreign trade and exchange systems, is captured indirectly by export volume growth (EXP) or sum of export and import as a ratio of GDP (OPN). These policies are conducive to faster growth because they promote competition, encourage learning-by-doing, improve access to trade opportunities, raise efficiency of resource allocation, and enhance positive externalities resulting from access to improved technology (Grossman and Helpman, 1991; Lucas, 1998; Romer, 1986 and 1993). More recent evidence suggests that AGOA has encouraged export-driven investment policies.

5.4 Methodology and Econometric Issues

The objective of this study is to investigate the long-run economic growth of the SADC and South Africa's impact on the growth of the region. The methodology employed in this study is similar to that of Arora and Vamvakidis (2001) in their study of the impact of U.S. economic growth on the rest of the world, and the work of Borensztein, Lee and de Gregorio (1995) in their study of 69 developing countries. The growth equation was estimated using fixed-effects Seemingly Unrelated Regression (SUR) regression as in Borenzstein et al. The fixed-effects estimator allows the constant term to differ across cross-section units. In addition, with fixed-effects panel approach, it is possible to control for other explanatory variables in the growth regression and to test for robustness of the estimated South African and U.S growth impact to changes in model specification.

Arora and Vamvakidis (2001) found a significantly positive impact of U.S. growth on growth in the rest of the world, especially developing countries, during the past few decades. Their evidence suggests that the impact of U.S. growth on other countries could be explained by the significance of the U.S. as a global trading partner. This idea is more relevant for Sub-Saharan African countries that are enjoying the benefits of extended GSP and AGOA. Other related studies tend to focus mainly on the impact of foreign output fluctuations on the domestic business cycle. These include Ahmed and Loungani (2001), who employed a vector error-correction model to estimate the impact of foreign output shocks on domestic output for several groups

of emerging market economies in Asia and Latin America, based on annual data for the period 1973-1996. They found the impact of a foreign output shock on domestic output to be roughly one-for-one, after controlling for other external and domestic shocks. Cuadros et al. (2002) found that an increase in foreign income leads to a greater level of domestic goods sales abroad, thereby having a positive influence on the growth of the local economy. Also, Agenor, McDermott and Prsad (1999) estimated cross correlations using seasonally adjusted and de-trended quarterly data to determine the stylized facts of business cycles in developing countries and found that output fluctuations in industrial countries were transmitted at or near, lag zero to most developing countries.

It is often argued that growth regressions are very sensitive to the variables included in the regression, and that outliers may drive the results (Onteng, 2002). To address these concerns, I follow Arora and Vamvakidis (2001) by adding the independent variables in stages, starting with a simple regression that includes only SAGPC to more general specifications.

5.4.1 Methodology

The growth equation used for the analysis takes the form of:

$$GDPC_{it} = \alpha_i + \beta X_i + \varepsilon_i \text{ for country } i= 1,\ldots,n \qquad (5.1)$$

Where per-capita GDP is the dependent variable; α_i is the matrix of constant terms for each country i; β is the matrix of parameters to be estimated and μ is the error term. X_i is the matrix of independent variables. To interpret the coefficient as

elasticities, the model was estimated using logs. The following variables were used in the model.

- LDCREDIT is the log of domestic credit to the private sector (% of GDP) as a measure of financial development;
- Macroeconomic policies (inflation, government spending and budget deficit-GDP ratio). Inflation (LINFL) is represented by log of consumer price index and government spending by log of general government final consumption expenditures (LGOVCON) and I use log of debt ratio to GDP as a proxy for accumulated deficit (LDEBTR);
- LHC is an indicator of human capital development (I use log of secondary school enrollment as % gross);
- LOPN is openness. As standard in the literature, I use log of the sum of imports and exports ratio to GDP as proxy;
- LFDI is log of foreign direct investment (as % of GDP)
- LPR is log of political rights as a measure of country risk;

In addition to the above measures, I extended the model by adding the following variables:

- An interactive term LFDI*LINFR. The reason for including the interactive term is to show that the development of infrastructure is one of the preconditions for FDI to have a positive effect on economic growth. The infrastructure (INFR) enhances the efficient allocation of resources and, in

this sense, improves the absorptive capacity of the region with respect to FDI inflows. As did Pedroni and Canning (1999), I used two measures of infrastructure measured on an annual basis: kilometers of paved road and number of telephones. I deflate both variables by population to obtain the per-capita values and then take logs. This means that we have variables representing log of paved roads per capita and log of telephones per capita. If the service provided by the infrastructure stocks is considered a rival good, then these simple measures can be thought as the average consumption of infrastructure service per capita.

- The log of real per-capita GDP of South Africa (SAGDPC);
- The log of real per-capita GDP of other major trading partners of the SADC especially the U.S. and UK (denoted by USGDPC and UKGDPC respectively). The UK is included because most African countries still have close ties with their former colonies. This helps to distinguish the impact of economic growth of South Africa and the U.S from that of the growth of other major non-African countries.

Apart from impact of foreign income, I investigate the dynamics of economic interactions between the economies of the regional groupings by also looking at the impact of the growth of other economies on the growth of others in the SADC region.

Table 5-1 Description Statistics

	LFDI (-1)	LDCREDIT	LINFL	LGOVCON	LOPN(-1)	LHC	LPR	LDEBTR
Mean	0.099159	1.264221	1.207518	1.202646	1.905241	1.411965	0.472683	-0.265275
Sum	6.544515	83.43857	79.69618	79.37463	125.7459	93.18971	31.19706	-17.50813
Median	0.159570	1.221587	1.117734	1.202490	1.864590	1.487518	0.477121	-0.267768
Maximum	1.469970	2.142849	2.274280	1.502692	2.235975	1.984520	0.845098	0.491538
Minimum	-1.489430	0.490465	0.170368	0.845901	1.584124	0.720382	0.000000	-1.104350
Sum Sq. Dev.	17.23921	115.5233	107.1579	97.10552	242.1331	142.8451	20.65910	18.10183
Std. Dev.	0.505208	0.392988	0.409941	0.159129	0.198332	0.416292	0.301605	0.455013
Probability	0.317570	0.455266	0.657967	0.574224	0.058590	0.039512	0.021265	0.183120
Observations	66	66	66	66	66	66	66	66
Cross sections	10	10	10	10	10	10	10	10

	LTELP	LPVRD	LSAFDI (-1)	LSAGDPC	LUSGDPC	LUKGDPC
Mean	-5.607886	1.391118	10.24121	3.592917	4.431277	4.269024
Sum	-370.1205	91.81379	675.9200	237.1325	292.4643	281.7556
Median	-5.823235	1.271842	10.25000	3.595231	4.418481	4.256798
Maximum	-3.702768	1.986772	10.43000	3.614113	4.492381	4.324389
Minimum	-7.007005	0.623249	10.08000	3.578426	4.403540	4.247770
Sum Sq. Dev.	2142.119	137.2742	6922.883	852.0048	1296.025	1202.858
Std. Dev.	1.011668	0.383314	0.099453	0.010761	0.023145	0.023586
Probability	0.087758	0.662207	0.372415	0.209276	0.005619	0.004862
Observations	66	66	66	66	66	66
Cross sections	10	10	10	10	10	10

Table 5-2 The Determinants of Economic Growth and Their Expected Directions of Influence

	Independent Variables								
Dependent Variable	LDCREDIT	LGOVCON	LHC	LPR	LOPN	LDEBTR	LINFL	LFDI	FDI*INFR
LGDPC	+	-	+	-	+	-	-	+	+

5.5 Empirical Results

The growth equation was estimated using three different methods, namely, fixed-effects pooled least squares (FE-PLS), and fixed-effects generalized least squares (FE-GLS) and fixed-effects Seemingly Unrelated Regressions (FE-SUR) for a sample of twelve SADC countries. I only reported the estimation results for the FE-SUR because it yields better results than the other two. Since most of the SADC countries are at different level of economic development, I have every reason to believe that heteroskedasticity is present. FE-SUR estimation technique is appropriate because it corrects for heteroskedasticity. The choice of the countries depended on the availability of data for the set of variables for each country for the period between 1980 and 2001. Seychelles is excluded from the sample because of lack of data and, as a result, thirteen countries are included in the sample instead of fourteen. The sample chosen is broadly representative of the varied experiences of the Sub-Saharan African countries with regard to growth and implementation reform.

Twelve different regression equations are reported in Table 5-2 A&B. The first equation reports econometric results of determinants of economic growth in the

SADC. The difference between the regression results from Equation 1 and the rest of the equations is that I added the interactive term between FDI and infrastructure, the impact of foreign income and South Africa's trade and investment impact. The results show the role of adding various political and policy-related variables to the set of "conventional" regressors as the potential determinants of the long-run rate of economic growth.

In Table 5-3 below, it can be seen that some important determinants of growth in the SADC are foreign direct investment (LFDI), financial sector development (LDCREDIT), secondary school education—a proxy for human capital (LHC), and openness (LOPN). It must be noted that using external balance, LEXTERB trade as a proxy, yielded equally statistically significant results. All determinants of economic growth are statistically significant, and this is consistent with other studies on African economies (Helmer and Lesnik, 1999; Bende-Nabende, 2002) as well as the economic growth literature in general.

To make an in-depth investigation of the role of financial sector development, particularly the equity market, on economic growth in the SADC, I followed earlier studies (Helmer and Lesnik; 1999 and Onteng, 2002) and included two variables, the stock market turnover ratio and the stock market value in the regression. Unfortunately, but unsurprisingly, these variables were not statistically significant. The reason for this is that, apart from South Africa, stock markets in sub-Saharan Africa are ill-developed and, in some cases, they are at their infant stages of

development. This means that data on the equity markets are non-existent for most countries and where they exist, they are so leaky and scanty that they are of virtually no use for any serious econometric work.

Apart from inflation (INFL) and real general government consumption expenditures (GOVCON) (which have the expected sign and are significant at five percent), all the other factors used in the regression, namely, foreign direct investment, financial sector development (DCREDIT), total debt services as percentage of gross domestic product (DEBTR), secondary school education (HC), openness (OPN) and political rights (PR) are statistically significant at one percent. All variables have the correct expected signs. The growth equation was estimated using a log-log model. The advantage of estimating the model as log-log is that coefficients can be interpreted as elasticities. The variables used to measure FDI, financial development, openness, and human capital all have a positive significant impact on regional income, whereas inflation, government spending, political instability and debt variables all have a negative and significant impact on regional growth.

Since we can interpret the coefficients as elasticities, the coefficients can be interpreted as follows. A one-percent increase in LFDI, LDCREDIT, OPN and LHC raises the annual per-capita GDP of the SADC region by 0.12 percent, 0.042 percent, 0.087 percent, and 0.21 percent respectively. Human capital is highly significant, which is consistent with the growth literature[24]. LINFL, LGOVCON, LPR and LDEBTR all have the opposite effect. For example, a one-percent increase in the

[24] Borenzstein et al 1995; Levine, R and Rnelt, D, 1992, and Bende-Nabende, 1999 are such papers.

inflation rate reduces GDPC by 0.017 percent. Similarly, other variables can be interpreted as such. The results provide support for the existing growth literature that higher government spending, higher inflation rate, less political freedom and a high debt ratio all have negative impacts on the growth rate. However, foreign direct investment, domestic financial markets, and human capital enhance the process of technological diffusion, thereby increasing the rate of economic growth.

Since we are dealing with African countries, it is very important to address the issue of political instability. The impact of instability on economic performance has generated considerable interest in the literature on economic growth (Schneider and Frey, 1985; Tallman, 1998). As a result, the importance of political stability in creating a climate of confidence for investors cannot be underestimated. Political instability, whether perceived or real, constitutes a serious deterrent for FDI, as it creates uncertainties and increases risks and hence costs. Countries engulfed by political instability are diverting resources that could be used in improving education and other growth-enhancing resources, but are used to curb domestic turmoil.

To explore the impact of political instability in detail, let's look at the coefficient of the PR variable in Table 5-3. The negative sign in front of PR support this study's hypothesis that less political freedom reduces economic rights and therefore reduces growth. Said differently, increasing political rights promotes economic rights and stimulates growth. The PR coefficient is 0.184 and can be interpreted as elasticity. For example, Zimbabwe was rated as "partly not free" (a

score of 5) in 2000 to "not free" (a score of 6) in 2001. This means that Zimbabwe's political instability went up by 20 percent. The regression results suggest that the 20 percent increase in political instability reduces GDPC by (20x0.184=3.7) percent. Political turmoil in Zimbabwe is a vivid proof of how important stability is to economic growth. As a result of political instability, Zimbabwe is not a member of AGOA.

Between 1997 and 2003, Zimbabwe's trade with three major trade partners (the UK, the U.S. and Japan) has been on the decline. Appendix Tables 12-14 show that Zimbabwe's exports have declined, from $140 million in 1997 to $62 million in 2003, whereas imports declined from $93 million to $42 during the same period. Two-way trade with the UK has declined from $369 million to a mere $96 million between 1997 and 2003. Japan's imports declined from $189 million to $68 million in 1997, while exports were reduced from $125 to $17 million between 1997 and 2003. In a short period of time, the Zimbabwean economy has moved from positive economic growth to negative growth rates in 2003 (about -11%)[25]. This is in line with the literature on economic growth. The decline in FDI and trade are the sources of negative economic growth. This is a very important finding for the region and Africa in general. Political stability is imperative. The transmission of cultural values among countries through the vehicle of foreign direct investment should be avoided. African countries should adopt a sense of tolerance among themselves to stabilize the environment.

[25] See Table 1-1, Appendix A, Table 12-14 for a complete list of trade relations with US, UK, and Japan.

Table 5-3A Determinants of Economic Growth in the SADC, Estimated Using FE-SUR. Dependent Variable is LGDPC.

	1	2	3	4	5	6
LFDI (-1)	0.012* (2.987)	0.028*(6.215)	0.111*(4.237)	0.014* (5.543)		0.009* (3.263)
LDCREDIT	0.042* (3.555)	0.108*(5.165)	0.079*(5.057)	0.063* (5.778)	0.006* (3.686)	0.032* (3.219)
LINFL	-0.017**(-2.350)	-0.045*(-4.984)	-0.049 *(-7.490)	-0.004*(-2.059)	-0.004* (-5.480)	-0.021*(-4.137)
LGOVCON	-0.052** (-2.215)	-0.046**(-2.271)	-0.049**(-2.644)	-0.034 (-1.593)	-0.018* (2.92)	-0.067*(-3.403)
OPN(-1)	0.087* (2.696)	0.047 (1.124)	0.079*(3.741)	-0.416* (-5..992)	-0.038*** (0.696)	
LHC	0.210* (6.988)	0.047*(8.322)	0.166*(10..283)	0.005 (0.128)	-0.016* (-5.362)	0.067** (2.379)
LPR	-0.184* (-5.007)	0.236*(-3.187)	-0.028***(-1..932)	-0.163* (-4..988)	-0.019* (-6.877)	-0.152*(-5.185)
LDEBTR	-0.248* (-4.936)	-0.081(-1.224)	0..331(1.485)	-0.001* (-6.066)	-0.001* (-8.664)	-0.001*(-8.236)
LFDI*LTELP		0.002**(1.798)				
LFDI*LPVROAD			0.006*(2.479)			
SAGDPC				0.685*(6.042)		
SAFDI[1]					0.140*(5.732)	
RSAEXP						0.171* (9.264)
RSAIMP						
USGDPC						
UKGDPC						
No. of obs.	84	80	65	84	94	94

Notes: *, **, *** indicates significant at the 1 %, 5 % and 10 % level. Numbers in parenthesis are t-statistics.

[1] South Africa is excluded from the sample in table 5-2A & B except in equation 1.

Table 5-3B Determinants of Economic Growth in the SADC, Estimated Using FE-SUR. Dependent Variable is LGDPC.

	7	8	9	10	11	12
LFDI (-1)	0.011* (3.204)	0.0118* (4.297)	0.009* (4.151)		0.0216*	-0.016644
LDCREDIT	0.0254**(2.605)	0.059* (5.778)	0.053* (4.331)	0.053*(4.206)	0.072*	0.082679*
LINFL	-0.024* (-3.786)	-0.004* (-2.113)	-0.010* (-2.826)	-0.042*(-6.124)	-0.039*	-0.040083*
LGOVCON	-0.049* (-2.223)	-0.075* (-4.028)	-0.081* (-4.546)	-0.003(-0.198)	0.034**	0.033157***
OPN(-1)		-0.110*(-2.217)	-0.098**(-2.079)	0.054**(2.308)	0.133*	0.149848*
LHC	0.152* (4.461)	-0.011 (-0.400)	0.004 (0.173)	0.068*(2.989)	0.067*	0.039886***
LPR	-0.165* (-4.989)	-0.177* (-4.984)	-0.179*-(4.984)	-0.025 (-1.613)	-0.045*	-0.035408**
LDEBTR	-0.001* (-8.003)	-0.001* (-9.532	-0.001* (-9.761)	0.012(0.429)	0.092	0.098430*
LFDI(-1)*LTELP				-0.021**(-2.065)	-0.002	-0.006225
LFDI(-1)*LPVROAD				0.019**(2.254)	-0.035**	-0.025763**
SAFDI(-1)				0.285*(9.467)	0.021*	0.170984*
RSAEXP						
RSAIMP						
SAGDPC	0.077* (5.223)					0.679*
USGDPC		0.984* (5.419)				-1.164*
UKGDPC			1.028* (5.503)			1.664*
No. of obs.	94	94	94	84	94	94

Notes: *, **, *** indicates significant at the 1 %, 5 % and 10 % level. Numbers in parenthesis are t-statist

The implication of these results is that the countries of the region must lessen the conflict within and outside their national boundaries in order to attract more FDI and also to maximize benefits from AGOA. Collective action of member groups could help increase political rights of their members. An SADC committee can work as an economic and social pressure group to monitor each country's progress. So far, the SADC has failed to diffuse political tension in Zimbabwe.

As explained earlier, part the purpose of this chapter is to empirically investigate the hypothesis that FDI and infrastructure are complementary with respect to enhancing the process of technological diffusion, thereby increasing the rate of economic growth. I included this interactive term because the literature on economic growth and the Economic Report on Africa (2004) cite "lack of infrastructure" as one impediments of growth in Africa. Equations 2 and 3 represent the interactive terms between FDI and infrastructure. Therefore, the empirical analysis for this part focuses on the variables: FDI and LFDI*LTELP and LFDI*LPVROADS. The outcome of the table above shows that both interactive terms are positive and significantly related to the dependent variable LGDPC. The results support this study's hypothesis that countries that improve their level of infrastructure and FDI grow more.

To calculate the threshold level of infrastructure, I follow Hermers and Lensink's (1999) method. If we differentiate Equations 2 and 3 with respect to FDI we get:

$$\Delta(LGPC)/\Delta FDI = 0.028074 + 0.00205 * LTELP$$

$\Delta(LGPC)/\Delta FDI = 0.0108 + 0.00679 *LPVROADS$

The threshold level of infrastructure above which FDI has a positive effect on economic growth can be calculated by setting the first derivative of the above equation equal to zero. The threshold level is equal to: (0.028074/0.00205)= 14.01 and (0.0108/0.00679)=1.5. These show that improving roads are important for smooth distribution of domestic goods and telephones for communication with international investors.

Equation 4 reports the regression results of the impact of South Africa's GDP per capita on economic growth of SADC. As expected, SA's growth can positively impact the growth of the region. The coefficient of the estimated impact of South Africa's gross domestic product per capita (SAGGDPC) on the domestic growth of the SADC is 0.69 percent and significant at one-percent level. The results support this study's hypothesis that SA can act as a growth pole in the region. This could be attributed to the fact that SA's economy boasts about 45 percent of the continent's purchasing power. Most other variables in the regression remain robust and relatively stable to the inclusion of foreign income with the exception of LHC. That is, they are still statistically significant and the results also have the expected sign.

Equations 5-7 report the results of South Africa's role as an investment and trade partner. I estimated Equation 7 without the LFDI. The reason for this is that some of part of the FDI going to the rest of SADC comes from South Africa and therefore, LFDI is highly correlated with FDI from South Africa (RSAFDI). I also

took South Africa out of the sample for same reasons as in LFDI. Similarly, trade impact equations were estimated without an openness (OPN) variable because South African exports (SAEXP) and South African imports (SAIMP) are highly correlated with OPN. Interestingly, both real exports and imports from South Africa apparently have a positive significant impact on the economic growth of the SADC region. South Africa's exports may impact the economies of the other SADC countries through technology transfer, as most of South Africa's exports to the countries in the region are manufactured goods. An export of goods such as machinery improves the production process, thereby leading to higher growth. South African imports may have any impact on the growth of the economies through increased the income of the SADC countries. The other variables in the regression remain robust and relatively stable to the inclusion of SAEXP and SAIMP. That is, they are still statistically significant, except for LHC. The results support this study's hypothesis that South Africa can positively contribute to the development of the SADC through FDI and trade. The results reported in Equations 5-7 are contrary to the UNCTAD's (1997) conclusion that the "goose" is still at the nest building stage.

The results show that the South Africa is starting to show signs of a "leading goose" starting to take off. This is so because SA is leading the SADC in number of FDI activities. South African firms are enthusiastic for African investment because, first, the liberalization of South Africa's regulatory regime for outward FDI has facilitated the expansion abroad of firms from that country. Second, the liberalization

of the country's trade and exchange controls has raised competition in local markets and encouraged firms to look abroad. At the same time, privatization and liberalization in other African countries has allowed South African companies to acquire firms in the region. Finally, South African firms often have technological advantages over local competitors in Africa and a greater familiarity with African conditions than TNCs from other regions.

African governments realized the importance of FDI and trade and are now transforming their economies and political landscapes to retain trade and investment. South Africa's investment activities in Africa are mainly in green-fields FDI and non-equity arrangements. The mutual interaction between South African MNCs and the host African countries is very important for the learning process. South Africa's MNCs are creating jobs in the host countries, which can contribute to the upgrading of domestic employment. Higher employment and an efficient labor force improve the country's productive capacity, and hence economic growth. Low growth rates and high unemployment dampens the prospects of faster wage increases in the host countries, an important incentive for interactive regional restructuring assisted by TNCs. For African countries to increase investment inflows, they need to accelerate economic reforms. Africa needs sound fiscal and monetary policies, governments that encourage—not burden—markets, and strong rule of law with a process to enforce contracts (Konare and McPherson, 2004).

In Equation 8, I investigate the impact of U.S. per-capita GDP on the growth of

the SADC. The results are reported in Equation 8. As expected, USGDPC is positive and highly significant. The results support a common view among economists, that the United States is an engine of growth for the world economy (Arora et al). This also supports this study's view that increasing the link between Africa and the U.S., through trade and investment, is beneficial for the region and individual countries. This encouraging news could be a catalyst for SADC policy makers to accelerate the creation of welcoming trade and investment policies to reap the benefits of increasing foreign income.

In Equation 9, I investigate the impact of UK per-capita GDP on the growth of the SADC. The results are similar to that of the impact of US GDP per capita. The implication of these results is that creating a friendly environment will not only attract U.S. investment but investment from other countries as well. The regression results show that the impact of U.S.'s per capita GDP is stronger than the impact of UK's per capita. The result implies that a one-percent increase in GDPC in both countries raises the GDPC of the SADC by 0.771 percent and 0.699 percent respectively. Through AGOA, the U.S. has become SSA's most important partner.

Equations 10-12 report results where all variables are included in the system, to check the robustness of the results to the inclusion or exclusion of more variables and to avoid misspecification. Equation 12 represents the full-blown equation. I also estimated the full-blown equation using lagged values of SAGDP, USGDPC and UKGDPC. The results were similar to the ones reported in equation twelve except the

changing sign between USGDPC and UKGDPC. The impact of South Africa's GDPC and SAFDI remained positive and robust to the inclusion or exclusion of other foreign income. The impact of SAEXP and SAIMP were no longer significant in the full-blown regressions.

Finally, I investigate the impact of GDP per capita from the rest of the member countries on the growth of SADC member countries. The rationale for including the growth of other member countries is to investigate the role of regionalism. The econometric results are reported in Tables 5-4A and B. Interestingly, other countries also have a positive impact on the growth of the region. As expected, the countries that have the greatest impact on the growth of the region are members of the SACU (namely, Botswana, Lesotho, and Swaziland) because of their close proximity and strong relationship with South Africa. The other explanation could be that these countries took advantage of creating closer ties with the rest of the SADC when SA was isolated from the international world. Zimbabwe and Mauritius also have a positive impact in the growth of the region. The rest of the countries either have a negative impact or no significant impact.

Table 5-4A Regional Integration in SADC, Estimated Using FE-SUR. Dependent Variable is LGDPC.

	1	2	3	4	5	6
LFDI (-1)	0.0247*(6.1877)	0.0191*(5.4456)	0.0200*(5.3057)	0.0094 (1.5666)	0.0094(1.5667)	0.0113**(2.0888)
LDCREDIT	0.1171* (4.9230)	0.0666*(3.7051)	0.1239*(6.0396)	0.1171*(5.6139)	0.1171*(5.6139)	0.0438**(1.7265)
LINFL	-0.0524*(-7.0706)	-0.0442*(-6.5216)	-0.0225*(-2.8712)	-0.0411*(-4.5627)	-0.0411*(-4.5626)	-0.0144 (-1.6478)
LGOVCON	-0.0333 (-1.4761)	0.0057 (0.3156)	-0.0467**(-2.0817)	-0.0077 (-0.3232)	-0.0077(-0.3231)	0.0111 (0.3793)
LOPN(-1)	0.0832**(2.5886)	0.0788*(2.8238)	-0.0260 (-0.9086)	0.0685***(1.8104)	0.0685***(1.8103)	0.0890**(1.8847)
LHC	0.2279*(9.5679)	0.0450 (1.5570)	0.1303*(5.0204)	0.0675**(2.1955)	0.0675*(2.1955)	0.5562*(14.487)
LPR	-0.0609**(-2.3201)	-0.0603*(-3.0671)	-0.0529**(-2.4872)	-0.0559**(-2.1582)	-0.0559**(-2.1582)	-0.0819*(-3.5761)
LDEBTR	0.0005 (0.0192)	-0.0119 (-0.6000)	-0.0066 (-0.3608)	-0.0571*(-1.5300)	-0.0571(-1.5299)	0.0998*(4.2207)
AGOGDPC	0.0086*(0.2245)					
BWAGDPC		0.4521*(11.2014)				
DRCGDPC			-0.150257*(-5.4167)			
LSOGDPC				0.7696*(8.293)		
MWIGDPC					0.1312 (1.2170)	
MUSGDPC						0.3087*5.898)
Number of obervations	84	77	82	75	74	74

Notes: *, **, *** indicates significant at the 1 %, 5 % and 10 % level. Numbers in parenthesis are t-statistics.

Table 5-4B Regional Integration in the SADC, Estimated Using FE-SUR. Dependent Variable is LGDPC.

	1	2	3	4	5	6
LFDI(-1)	0.0016 (0.2998)	0.0266*(5.9193)	0.0230*(5.958331)	0.0143*(4.1825)	0.0105*(1.919364)	0.0215*(4.4245)
LDCREDIT	0.0795*(3.5899)	0.1142*(4.7963)	0.0408*(2.462855)	0.0634*(3.3037)	0.1350*(5.223105)	0.1401*(5.3774)
LINFL	-0.0278**(-2.1238)	-0.0575*(-7.6702)	-0.0577*(-8.995649)	-0.0492*(-7.8144)	-0.0601*(-6.216154)	-0.0490*(-6.6909)
LGOVCON	0.0011 (0.0435)	-0.0296 (-1.3717)	0.0319*(1.907116)	0.0143*(0.7876)	-0.0762*(-3.011742)	-0.0566*(-2.1311)
LOPN(-1)	0.1042**2.7921)	0.1022 *(3.1868)	0.0781*(2.847644)	0.0818*(2.9206)	0.1417*(3.783259)	0.1480*(3.4164)
LHC	0.0718**(2.413)	0.2435*(9.3486)	0.1380*(5.889012)	0.1563*(8.0776)	0.1379*(5.3688)	0.2112*(8.3662)
LPR	-0.0577**(-2.3214)	-0.0673*(-2.6505)	-0.0710*(-3.949732)	-0.0612*(-3.4156)	-0.0589*(-2.2043)	-0.0894*(-3.5375)
LDEBTR	0.0313 (1.2183)	-0.0100 (-0.3838)	-0.1405*(-4.684793)	-0.0553**(-1.9795)	0.0056*(0.1958)	-0.0311*(-1.1070)
MOZGDPC	0.4013*(6.7048)					
NAMGDPC		-0.1582 (-1.5278)				
SWZGDPC			0.8994*(9.287806)			
TZAGDPC				0.5045*(3.9767)		
ZAMGDPC					-0.4174*(-3.6377)	
ZWEGDPC						0.4284*(3.3733)
Number of observations	80	75	84	84	84	84

Notes: *, **, *** indicates significant at the 1 %, 5 % and 10 % level. Numbers in parenthesis are t-statistics.

The results suggest that regional economic cooperation may facilitate higher growth in the region. As the results of the determinants of economic growth show, regional integration is important for both FDI and growth. There are two reasons for speeding up regional integration. First, regionalism allows countries to coordinate their policies. For example, members of the regional bloc may require all participating member countries to curb corruption, implement sound and stable macroeconomic policies, reduce debt, and adopt an investor friendly policies framework (such as removing restrictions on profit repatriation). Countries not complying with the requirement may face costly sanctions or barred from membership. This idea is in consistent with Olson's (1971) "group theory". According to the "group theory", pressure groups are the most representative and beneficial forces affecting economic policy. The basis of this thinking is that the market mechanism does not of itself bring about fair results to different groups in the economy, and the conviction that this unfair is due to bargaining power of different groups. This theory is very relevant to the SADC because different countries have different bargaining power. AGOA's requirement for good governance and a yearly review is to speed up the process of regional integration. The threat of losing access to benefits that accrue from AGOA also serves as an incentive for SADC countries to implement good policies. All SADC countries qualify for AGOA except for Zimbabwe, which confirms that SADC is the most stable region in SSA.

Another advantage of regionalism is that it expands the size of the market, and therefore makes the region more attractive to FDI (recall that the market size is the most important determinant of FDI in SADC). Thus, due to the small size of some of the countries, it is beneficial for these small countries to be included in the regional bloc in order to capture the market size that will be large enough to attract FDI and, in theory, lead to economic growth.

The SADC is moving in that direction. In March 2004, the SADC Executive Secretary announced a strategic plan that sets out measures and time frames for the economic integration of the region. Some of the outlined measures include: the creation of a free-trade area by 2008; establishment of an SADC customs union and implementation of a common external tariff by 2010; elimination of exchange controls on intra-SADC transactions by 2006; establishment of a SADC central bank and preparation for a single SADC currency by 2016; the creation of a SADC regional development fund and self-financing mechanism by 2005; and a common-market pact by 2012. The plan also states that policies, regulations and legislation on petroleum, gas and electricity in all SADC countries are to be harmonized between 2004 and 2006 (SADC Review, 2004).

5.6 Conclusion

This chapter investigates the determinants of economic growth across SADC countries between 1980 and 2001. I applied FE-SUR to investigate the determinants of economic growth, the impact of foreign income, trade and investment on the growth of the SADC. Focusing the SADC sample only, I presented results that include some policy and political variables in accordance with the endogenous growth theory. The empirical results support the hypothesis that economies with high foreign direct investment, a faster pace of financial development, and a high stock of human capital tended to grow faster, whereas higher inflation, less political rights and higher government spending impinges negatively on growth. Other factors that seem to consistently determine economic growth in the SADC include incomes of the rest of the world, particularly the advanced industrialized countries like the United States and United Kingdom. The results of this study suggest that policies may not only accelerate the pace of countries reaching long-run levels of incomes, but most importantly, they can affect the long run income levels. AGOA is seen by many as the most influential step in promoting trade and investment, social and political stability, and the improvement of institutions and performance within Sub-Sahara Africa.

This study concludes that AGOA is benefiting few countries that produce the products that are imported by the U.S. and these countries are mainly in the Southern region except for Nigeria. South Africa has increased its manufactured exports to the U.S., most especially cars, since AGOA's inception. South Africa gains the most

from investment and trade while the benefits to other African countries are only of a long-run uncertain nature. Given the huge potential that exists in Africa, the region should not look on trade with the U.S. as the only way out. As the results of regional economic integration show, it is important to strengthen the efforts towards regional integration by putting together resources and liberalizing trade and investment. This should be undertaken with the aim of trade among themselves and diversifying their exports to the rest of the world. Trade and investment with the U.S will ultimately expand if the countries act jointly as a larger regional market.

CHAPTER VI

SUMMARY AND CONCLUSIONS

6.1 Introduction

This chapter gives the summary and conclusions of this study. To sum up, the major objective of this research were, first, to explain the institutional and policy factors that are more likely to influence FDI into South African Development Community (SADC); second, to test the hypothesis that trade, FDI and infrastructure are likely to be effective in promoting growth in SADC; third, to analyze the unique and special role of South Africa in process of promoting economic promoting growth and integration in the SADC in the context of AGOA; and finally, to analyze the economic integration moves among SADC member countries. The chapter begins with a brief review of the econometric methodology. The empirical results are then revisited. Finally, conclusion and policy recommendations.

6.2 Summary of Methodology and Data issues

The methodology of the analysis adopted for this study is panel data. Fixed effects model has been used because of a limited number of years we can use in our analysis due to missing data. Given the short period of the data in Africa, a fixed effects model as opposed to random effect is used (suggested by Gujarati, 2003). Fixed effects is compatible with SUR in the sense that both heteroskedastcity and contemporaneous correlation can be corrected using SUR. For the estimation of

growth equation, the methodology employed is similar to Arora and Vamvakidis (2001) in their study of the impact of U.S. economic growth on the rest of the world. It is often argued that growth regressions are very sensitive to the variables included in the regression and that outliers may drive the results. The model addressed sensitivity issue by adding the independent variables in states, starting with a simple regression to more general specifications.

The analysis covers twelve countries in SADC over the period 1980-2001. All the data were obtained from World Development Indicators on CD Rom, published by the World Bank in 2003, International Financial Statistics on CD Rom, published by the International monetary Fund in 2002, World Freedom published by Freedom House (indexes of political rights and civil liberties) and country sources. The number of countries and the variables included in the regressions were determined by data availability. The sample chosen is broadly representative of the varied experiences of the Sub-Saharan countries with regard to growth and implementation reform.

6.3 Summary of Empirical Results

First, I summarize the main findings for the determinants of FDI inflows into SADC. And then explain the institutional and policy factors that are more likely to influence FDI into SADC. The econometric results show that countries with a large market size, more liberalized trade regime represented by higher degree of openness, low inflation and highly skilled labor will promote FDI inflows, while bad institutions- reflected by less political rights-, high inflation rates, and high debt ratio to GDP as is common in Africa, have a negative impact on FDI inflows. The results have several important policy implications. First, it suggests that FDI to SADC is not

mainly determined by uncontrollable factors, and that their governments can increase FDI flows by streamlining their investment policies, implementing FDI friendly policies, and also creating a stable macroeconomic and political environment. Second important result is that, bad institutions, reflected in fewer political rights as is common in Africa, have a negative impact on FDI.

What African policy makers should learn from this is that most investors prefer to choose their investment location that gives them higher return on capital. They should turn their economies towards export-processing zones, which have a relatively hassle-free administrative environment for business and a relatively good infrastructure. Hungarian industries attracted investors by becoming free trade zone. AGOA's aim is to improve Africa's competitiveness through its trade and investment strategy. African leaders should understand that trade liberalization alone will not boost growth and poverty reduction in Africa. That's the key message of this year's Economic Report on Africa 2004 (ERA 2004), published by the UN's Economic Commission for Africa. Entitled "Unlocking Africa's Trade Potential", ERA 2004 argues that trade policies in many African countries have been applied haphazardly with too little relevance to overall development objectives. Data from African countries that have liberalized their economies show that dynamic trade policies, alongside gradual and targeted liberalization, are more effective than liberalization per se.

The flagship report uses a competitiveness index that combines the economic and political environment, availability of direct inputs to production and state of infrastructure to provide insights into why development in Africa has fallen behind,

compared to other regions. Mauritius, South Africa, Namibia, and Tunisia are cited as Africa's most competitive nations. The results of this study suggest that attracting FDI and successful integration of Africa into the world economy will require better-educated and healthier workforces, improved economic and political governance, and better-quality infrastructure. This is in line with the report by ERA on the continent's overall economic performance. ERA states that in 2003 Africa advanced to real GDP growth of 3.8 percent, compared to 3.2 percent in 2002. This encouraging increase reflects Africa's progress in a number of critical areas:- through AGOA, the continent has continued to exhibit good macroeconomic fundamentals; - fiscal deficits have been kept under control; - inflation has largely stabilized;- and the region's current account deficit fell. The challenge lies in translating these achievements into faster growth. According to ERA, in 2003, only five countries-Angola, Mozambique-achieved the 7percent growth necessary to reach the Millennium Development Goal of halving poverty by 2015.

The second part of the study address the following question: What impact FDI and infrastructure are having in these nations' arduous path towards growth-enhancing insertion into the world economy? What is special about South African corporations that explain their enthusiasm for investing in countries – including in non-SADC Africa – from which industrialized country-based ones still stay clear? What is the impact of South African economy on the development of the rest of the SADC region? And closely, will it follow the "flying geese" model of East and South-East Asia?

The econometric results show that infrastructure and FDI are complementary. Which means that, improving both investment policies and quality of infrastructure

improves that the production and distribution process. Lower production process will lead to higher levels of economic growth. On the impact of South Africa's foreign direct investment, the results show that South Africa can play an important in the development of SADC and Africa by increasing the stock of FDI to Africa. The data presented in table 4-4 indicates that SA is the leading investor in Africa followed by the U.S. and UK respectively. This is so because the African governments have seen first hand the benefits South African MNCs are bringing to their economy. As the results of the impact of SA in the SADC region show, South Africa has a positive role to play in the development of the region. This is in support of the flying geese catch-up model of economic development. Thus, the other remaining countries are regarded to be the leaping frogs. All the African countries, the flying geese and the leaping frogs should get courage of following the lead goose. These countries can advance their economies together with that of South Africa through demonstration effects, learning and emulation, with the transmission mechanism being flows of trade in goods and services, management, flows of FDI, technology transfer and other TNCs-related assets. South Africa is taking advantage of the untapped market in Africa.

SA's MNCs are creating jobs in the host countries, which can contribute to the upgrading of domestic employment. Higher employment and efficient labor force improves the country's production capacity, and hence economic growth. Low growth rates and high unemployment dampens the prospects of faster wages increases in the host countries, an important incentive for interactive regional restructuring assisted by TNCs. On the other hand, countries' such as Mozambique which host the largest SA MNC achieved the GDP growth of 7 percent. According to the ERA, the higher

growth rate has been achieved because of Mozambique's successful restructuring process. For African countries to increase investment inflows they need to accelerate the economic reforms. Increase in SAFDI can facilitate the development of competitive manufacturing sectors in the region. Regional integration would also lead to attraction of more intra-trade, intra-FDIs in the continent. Regionalization creates a virtuous cycle envisaged by the flying geese paradigm. The next section presents the benefits of creating investment promotion agencies.

6.4 The Role of Trade and Investment Promotion Agencies

The country's investment climate and market size, greater investment promotion is associated with higher cross-country FDI flows (Morisset, 2000). Almost all SADC countries have one or more investment promotion agencies (Table 6-1) that provide one or more of services, such image building, investment generation, investor services, and policy advocacy.

Table 6-1 SADC Trade and Investment Promotion Agencies

Malawi	Malawi Investment Promotion Agency
Angola	Angola National Private Investment Agency
Mauritius	Mauritius Export and Investment Authority (MEDIA)
Namibia	Namibia has created Namibia Investment Center (NIC)
South Africa	Trade and Investment South Africa (TISA)
Swaziland	Swaziland Chamber of Commerce Industry
Zambia	Zambia Investment Agency (ZIC)
Zimbabwe	Zimbabwe Investment Agency (ZIC

Source: AGOA, 2004

As their most successful equivalents in countries such as Chile, Ireland, and Singapore, they are all public sector organizations. Their location in government and the range of activities they perform, however, differ and this is to some extent a reason for the wide differences in their effectiveness.

In relative terms, Lesotho has been the main beneficiary of AGOA. FDI has created new skills and work attitudes, but local linkages in the form of spin-offs or subcontracting activity are negligible, although some backward integration into textile production is starting (UNCTAD 2003). Another country taking advantage of AGOA is Namibia, where the textile and clothing industry was almost noexistent before a major investment by the Malaysian group Ramatex to set up a fully integrated plant. Despite very low productivity – garment output per worker is said to be only half as high as in South Africa, where it is return equal to 25 percent of Asia – Namibia enjoys the advantage of shipping times to the United States and Europe up to 30 percent lower than South Africa's (Gonteb, 2002).

Trade or FDI liberalization alone is not enough. They require supporting environment and institutions, such as, sound governance and macroeconomic stability. Macroeconomic stability involves having sound fiscal framework, stable and competitive real exchange rates. In the SADC the following governance issues need to be addressed:

- low capacity of the legal system to guarantee contracts and effectively impose sanctions in the event of litigation, constraining private sector access to finance, inhibiting investments and exports
- Excessive use of discretionary measures resulting in unstable and unpredictable rules, overlapping and contradictory legislation, all of which discourage investment and trade should be avoided

6.5 What can Africa do to emerge from poverty?

Finally, this study address what African governments should do to get out of cycle of poverty? The question is, how do macroeconomic developments, political events, and institutional quality impact on different stakeholders, foreign and domestic alike, what measures can be taken to improve competitiveness? There is no quick fix solution to poverty reduction in Africa. Much of what needs to be done will take time and therefore, short-term emergency relief not matched by long term engagement only buys time until the next emergency.

For SADC countries to benefit more from South Africa and the rest of the world, they need to create a friendly FDI environment. In order to be successful, any growth-oriented adjustment strategy of getting Africa out of low-level equilibrium trap need to address a lot of challenges, including savings, poverty reduction, the restoration of peace, social and political stability, the improvement of institutions and performance, and the improvement of human welfare. Each of these challenges involves interrelated and mutually reinforcing factors interacting in a dynamic fashion. AGOA is seen by many as the most influential step in promoting trade and investment, social and political stability, and the improvement of institutions and performance within Sub-Sahara Africa. As a result of AGOA, SADC countries are transforming their institutions and restructuring their economies to maximize their benefits (Appendix A table 15).

Above all, for AGOA and FDI to be more fruitful, requires political stability and the rule of law. For economic growth to be sustainable, it is important to end military and internal conflict and direct resources to economic development of the

region. The fight against corruption and bribery should also be at the center of socio economic reform programs in SADC. Trade and FDI are not zero sum game and it is to the advantage of African countries to expand trade through rationalization among each other so that they can maximize the benefits from GSP and AGOA. Trade and investment should be instruments of promoting peace and stability and should not be a source of conflict; regional economic integration should be encouraged and consolidated in Africa. South Africa has recently followed a strategy of expanding trade and investment with eastern and southern African states to expand intra-African trade and trade with the rest of the world. Eight African countries are among South Africa's top 30 export destination. Six of which are SADC countries (appendix A table 8). With regionalization, this number will increase.

6.6 Conclusion

This study concludes that AGOA is benefiting few countries that produce the products that are imported by the U.S. and these countries are mainly in the Southern region except for Nigeria. South Africa has increased its manufactured exports to U.S. more especially cars since AGOA's inception. South Africa is the gainer from investment and trade while the benefits to other African countries are only of a long run uncertain nature. Given the huge potential that exists in Africa, the region however should not look on trade with the U.S. as the only way out. As the results of regional economic integration show, it is important to strengthen the efforts towards regional integration by putting resources together and liberalizing trade and investment. This should be undertaken with the aim of trade among themselves and diversifying their exports to the rest of the world. The mechanism to spread the gains from regional

integration is through South Africa taking a leading role in the process of trade integration.

To achieve broad-based income growth and to reduce poverty, SADC government needs to focus attention and resources for at least a generation, and need to set short-term goals along the way. Trade and investment with the U.S will ultimately expand if the countries act jointly as bigger regional market. There are many causes for hope in Africa. The African Union is stronger. Several countries are such as in SADC are working to resolve problems to create a well functioning regional market.

Future research can be focused impact of South Africa on other African regions, such as, Commercial Market of East African States (COMESA) and Economic Community of West African State (ECOWAS). I would be interesting to compare this study's results with that of other African regions. The model can be expanded to the Panel co-integration. The impact of AGOA's on different sectors of an individual economy can be done using Social Accounting Matrices and Computable General Equilibrium models.

6.7 Policy recommendations

What measures should governments introduce to attract finance to fill the resources gap? The question is how can macro-economic and political stability be achieved in order to attract FDI into the region? Substantial increase in FDI is required and can be achieved by paying attention to the following issues:

(a) Macro-economic stability

- Macro-economy environment-Investors need reduction in inflation and high debt ratio to restore confidence in investment.
- Human development / human capital investment-in today's knowledge-driven world, training and are fundamental for sustained growth. Education allows country to take full advantage of technology and policy reform. Africa must reform educational opportunities, including those of girls and women. Educated people are vital for institutions that work. Qualification framework should include school, work based / basic skills, vocational and professional.
- Infrastructure- without the appropriate infrastructure- communication and information technology investment would not work. Infrastructure improvements will raise production and lower transaction cost. There should be establishment of regulatory agencies and a framework for negotiating contracts, which optimize benefits for the host country. Agencies are needed to assess new opportunities that private participation and innovative financing have to offer in infrastructural sectors (energy, water, transport and communications). The promotion of regional transport corridors such as Maputo Corridor and the parallel national Spatial Development Initiatives.

(b) Political stability

Political stability is imperative. The transmission of cultural values among countries through the vehicle of foreign direct investment should be avoided. African countries should adopt sense of tolerance among themselves to stabilize the environment. Individual freedom and ambition is the primary driver for improving

conditions. Governments must lift barriers that inhibit individual drive fro prosperity and success. Stability is necessary for progress. Freedom and private initiative go together. For that reason, there needs to be more engagement with failed or near failed states in Africa to help protect against infectious disease and the continued frustration of individual capacity.

Having seen the horrors of internal wars in Rwanda, the Sudan and elsewhere, there is a need for regional collective mechanisms and policies to prevent conflict. African Union has decided to build s ready reaction peace keeping force to prevent conflict from devolving into genocide.

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APPENDIX A

List of Variables and Data sources

CL-Civil Liberties Index: Freedom House

DCREDIT-Domestic credit to private sector (% of GDP): World Bank 2003

DEBTR-External balance on goods and services (% of GDP): World Bank 2003

EXP-Exports of goods and services as % of GDP: World Bank 2003

EXR-Exchange rate (LCU per US$, period average): World Bank 2003

FDI-Foreign direct investment in US dollars: World Bank 2003.

GDP- Gross Domestic Product (constant 1995 US$): World Bank 2003

GDPC- Gross Domestic Product per capita (constant 1995 US$): World Bank 2003

GDPG- Gross Domestic Product growth (annual %): World Bank 2003

GOVCON-Government spending by general government final consumption expenditures: World Bank 2003.

HC-School enrollment, secondary (% gross): World Bank 2003

IMP- Imports of goods and services as % of GDP: World Bank 2003

INFL -Domestic Consumer Price Index: World Bank 2003.

INFR- Kilometers of total road: World Bank 2003.

M3-Liquid liabilities (M3) as % of GDP: World Bank 2003

OPN- Sum of imports and exports ratio to GDP: World Bank 2003.

PR-Political Rights Index as a measure of country risk: Freedom House

SAGDPC-South Africa's real GDP per capita: World Bank 2003.

UKGDPC-UK real GDP per capita: World Bank 2003.

USGDPC-U.S. real GDP per capita: World Bank 2003.

AGOGDPC-Angola GDP per capita: World Bank 2003

BWAGDPC-Botswana GDP per capita: World Bank 2003

DRCGDPC-Democratic Republic of Congo: World Bank 2003

LSOGDPC-Lesotho GDP per capita: World Bank 2003

MWIGDPC-Malawi GDP per capita: World Bank 2003

MUSGDPC- Mauritius GDP per capita: World Bank 2003

MOZGDPC-Mozambique GDP per capita: World Bank 2003

SWZGDPC-Swaziland GDP per capita: World Bank 2003

TZAGDPC-Tanzania GDP per capita: World Bank 2003

ZAMGDPC-Tanzania GDPC per capita: World Bank 2003

ZWEGDPC-Zimbabwe GDP per capita: World Bank 2003

Table 1. Foreign Direct Investment Inward stock by Host Region, 1980-2000

Host region/economy	1980	1985	1990	1995	1999	2000
			millions of U.S dollars			
World	615,805	893,567	1,888,672	2,937,539	5,196,046	6,314,271
Developed countries	374,968	546,281	1,397,983	2,051,739	3,353,701	4,210,294
Developed countries 1/	358,449	537,257	1,388,762	2,036,723	3,301,924	4,157,916
Developing Countries	240,837	347,237	487,694	849,376	1,740,377	1,979,262
Developing countries 2/	257,357	356,262	496,915	864,392	1,792,154	2,031,916
Africa including South Africa	32,714	33,853	48,648	75,914	140,548	148,035
South Africa(SA)	16,519	9,024	9,221	15,016	51,777	52,654*
Latin America and the Caribean	49,960	79,673	116,678	201,616	520,282	606,907
Developing Europe	156	286	1,131	3,262	9,455	11,461
Asia	173,347	241,266	328,232	580,697	1,118,416	1,261,776
The Pacific	1,180	1,183	2,226	2,903	3,453	3,737
Central and Eastern Europe	0	49	2,996	36,424	101,968	124,715
			Share of global stock of FDI, in percent			
Developed countries 1/	58.2	60.1	73.5	69.3	63.5	65.8
Developing countries 2/	41.8	39.9	26.3	29.4	34.5	32.2
Africa	5.3	3.8	2.6	2.6	2.7	2.3
Latin America and the Caribean	8.1	8.9	6.2	6.9	10	9.6
Developing Europe	0	0	0.1	0.1	0.2	0.2
Asia	28.1	27	17.4	19.8	21.5	20
The Pacific	0.2	0.1	0.1	0.1	0.1	0.1
Central and Eastern Europe	0	0	0.2	1.2	2	2

Source: World investment report (WIR)

1/ For expositioal purposes, excludes SA; WIR includes South Africa in the list of developed countries.

2/ For expositioal purposes, includes SA; WIR includes South Africa in the list of developed countries.

* Estimated by adding flows to the stock of 1999

Table 2. Foreign Direct Investment Inflows by Host Regions and Economy1989-2000

Host region/economy	1989-94 (Annual average)	1995	1996	1997	1998	1999	2000
				Millions of U.S dollars			
World	200,145	331,068	384,910	477,918	692,544	1,075,049	1,270,764
Developed countries 1/	137,054	202,221	218,870	267,561	482,604	828,316	1,004,304
Developing countries 2/	59,638	114,580	153,310	191,168	188,933	223,511	241,045
Africa	4,012	5,935	6,440	10,970	8,274	10,473	9,075
South Africa (SA)	60	1,241	818	3,817	651	1,502	877
Latin America and the Caribbean	17,506	32,311	51,279	71,152	83,200	110,285	86,172
Developing Europe	232	477	1,085	1,699	1,608	2,723	2,035
Asia	37,888	75,856	94,506	107,205	95,599	99,728	143,479
The Pacific	229	564	155	142	251	302	284
Central and Eastern Europe	3,444	14,268	12,730	19,188	21,008	23,222	25,419
				Share of global FDI inflows, in percent			
Developed countries 1/	68.5	61.5	56.9	56	69.7	77	79
Developing countries 2/	29.8	34.6	39.8	40	27.3	20.8	19
Africa	2	1.8	1.7	2.3	1.2	1	0.7
Latin America and the Caribbean	8.7	9.8	13.3	14.9	12	10.3	6.8
Developing Europe	0.1	0.1	0.3	0.4	0.2	0.3	0.2
Asia	18.8	22.7	24.5	22.4	13.8	9.3	11.3
The Pacific	0.1	0.2	0	0	0	0	0
Central and Eastern Europe	3,444	14,268	12,730	19,188	21,008	23,222	25,149
				Share of FDI inflows to developing countries, in percent			
Africa	6.7	5.2	4.2	5.7	4.4	4.7	3.8
Latin America and the Caribbean	29.4	28.2	33.4	37.2	44	49.3	35.7
Developing Europe	0.4	0.4	0.7	0.9	0.9	1.2	0.8
Asia	63.1	65.7	61.5	56.1	50.6	44.6	59.5
The Pacific	0.4	0.5	0.1	0.1	0.1	0.1	0.1
				Share of FDI inflows to Africa, in percent			
Least developed countries	22.2	22	25.7	19.8	38.8	45.6	42.9

Source: World investment report (WIR), 2001

1/ For expositioal purposes, excludes SA; WIR includes South Africa in the list of developed countries.

2/ For expositioal purposes, includes SA; WIR includes South Africa in the list of developed countries.

Table. 3	THE STRUCTURE OF SOUTH AFRICAN TRADE IN SA CURRENCY (R'000)										
Exports Rand million	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total	68,880	74,500	90,234	102,124	115,403	131,537	144,953	165,555	210,373	251,330	314,102
Agriculture	2,502	2,784	4,689	4,315	5,748	5,972	6,999	8,115	7,862	10,174	13,944
Mining	37,200	40,507	45,261	45,006	47,301	52,102	57,870	62,749	79,905	95,251	115,798
Manufacturing	27,717	30,112	38,982	51,299	61,483	72,722	79,276	93,699	121,673	145,220	183,859
Other Trade	1,460	1,097	1,301	1,504	872	741	809	992	933	685	501
Percent											
Agriculture	3.63	3.74	5.2	4.23	4.98	4.54	4.83	4.9	3.74	4.05	4.44
Mining	54.01	54.37	50.16	44.07	40.99	39.61	39.92	37.9	37.98	37.9	36.87
Manufacturing	40.24	40.42	43.2	50.23	53.28	55.29	54.69	56.6	57.84	57.78	58.53
Other Trade	2.12	1.47	1.44	1.47	0.76	0.56	0.56	0.6	0.44	0.27	0.16
Imports Rand million	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total	46,559	59,965	76,823	99,055	113,642	127,940	144,171	147,356	187,608	216,033	275,427
Agriculture	2,668	1,965	1,688	2,879	2,703	2,717	2,946	2,730	3,237	3,025	5,948
Mining	3,585	6,978	6,390	9,596	11,487	17,507	12,807	16,664	30,658	32,443	36,461
Manufacturing	40,130	50,741	68,473	86,339	99,185	107,463	128,157	127,720	153,317	180,184	232,235
Other Trade	176	281	271	241	268	254	262	242	396	381	783
Percent											
Agriculture	5.73	3.28	2.2	2.91	2.38	2.12	2.04	1.85	1.73	1.4	2.16
Mining	7.7	11.64	8.32	9.69	10.11	13.68	8.88	11.31	16.34	15.02	13.24
Manufacturing	86.19	84.62	89.13	87.16	87.28	83.99	88.89	86.67	81.72	83.41	84.32
Other Trade	0.38	0.47	0.35	0.24	0.24	0.2	0.18	0.16	0.21	0.18	0.28
Total Trade Rand million	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total	115,438	134,465	167,056	201,179	229,045	259,477	289,124	312,911	397,981	467,362	589,529
Agriculture	5,170	4,749	6,377	7,194	8,450	8,688	9,945	10,846	11,099	13,198	19,893
Mining	40,785	47,485	51,651	54,602	58,788	69,608	70,676	79,413	110,563	127,694	152,258
Manufacturing	67,847	80,853	107,456	137,639	160,668	180,185	207,432	221,419	274,990	325,404	416,094
Other Trade	1,636	1,378	1,572	1,744	1,140	996	1,071	1,234	1,329	1,066	1,284
Percent											
Agriculture	4.48	3.53	3.82	3.58	3.69	3.35	3.44	3.47	2.79	2.82	3.37
Mining	35.33	35.31	30.92	27.14	25.67	26.83	24.44	25.38	27.78	27.32	25.83
Manufacturing	58.77	60.13	64.32	68.42	70.15	69.44	71.75	70.76	69.1	69.63	70.58
Other Trade	1.42	1.02	0.94	0.87	0.5	0.38	0.37	0.39	0.33	0.23	0.22
Trade Balance Rand million	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total	22,321	14,536	13,411	3,069	1,761	3,596	782	18,199	22,765	35,297	38,674
Agriculture	-166	820	3,001	1,436	3,045	3,255	4,053	5,385	4,625	7,149	7,996
Mining	33,615	33,529	38,872	35,410	35,815	34,595	45,063	46,085	49,247	62,808	79,337
Manufacturing	-12,413	-20,629	-29,491	-35,040	-37,702	-34,741	-48,881	-34,021	-31,643	-34,965	-48,377
Other Trade	1,284	816	1,030	1,263	604	487	548	750	537	305	-282
Percent											
Agriculture	-0.35	1.47	4.14	1.96	3.95	4.45	4.11	6.24	5.37	6.79	5.88
Mining	70.8	60.09	53.7	48.41	46.41	47.34	45.73	53.44	57.23	59.69	58.34
Manufacturing	-26.14	-36.97	-40.74	-47.9	-48.86	-47.54	-49.6	-39.45	-36.77	-33.23	-35.57
Other Trade	2.7	1.46	1.42	1.73	0.78	0.67	0.56	0.87	0.62	0.29	-0.21

Source: South African Department of Trade and Industry, 2004

Table 4	South African top 30 exports by commodities					
Code	EXPORTS(R'000)				Rank	
NAME	2004	2003	2002	2001	2004	2003
71.NATURAL OR CULTURED PEARLS,PRECIOUS OR SEMI-PREC IOUS STO	39,483,115	59,181,783	61,224,405	46,834,822	1	2
72.IRON AND STEEL	16,251,289	29,154,296	24,987,677	18,007,899	2	3
27.MINERAL FUELS,MINERAL OILS AND PRODUCTS OF THEIR DISTILLA	10,878,795	23,597,348	30,430,789	26,094,818	3	4
87.VEHICLES(EXCLUDING RAILWAY OR TRAMWAY ROLLING- STOCK)AND	10,546,937	23,276,206	22,906,582	17,388,295	4	5
84.NUCLEAR REACTORS,BOILERS,MACHINERY AND MECHANICAL APPLIAN	8,977,645	17,733,355	20,272,340	17,516,813	5	6
76.ALUMINIUM AND ARTICLES THEREOF	4,778,055	7,790,752	9,686,211	7,306,410	6	9
26.ORES, SLAG AND ASH	4,714,615	9,133,371	11,467,675	9,057,998	7	8
08.EDIBLE FRUIT AND NUTS;PEEL OF CITRUS FRUIT OR MELONS	4,311,896	6,825,230	6,258,840	4,724,445	8	10
85.ELECTRICAL MACHINERY AND EQUIPMENT & PARTS THERE- OF;SOUN	3,125,738	5,704,614	6,707,582	5,544,075	9	11
28.INORGANIC CHEMICALS;ORGANIC OR INORGANIC COMPOUND OF PREC	3,032,565	4,357,935	6,508,120	5,077,331	10	13
94.FURNITURE;BEDDING,MATTRESSES,MATTRESS SUPPORTS, CUSHIONS	2,327,051	4,346,677	4,952,524	3,383,716	11	14
29.ORGANIC CHEMICALS	2,321,430	3,657,780	4,070,179	3,141,944	12	16
22.BEVERAGES,SPIRITS AND VINEGAR	2,102,817	4,871,724	4,822,349	3,408,009	13	12
73.ARTICLES OF IRON OR STEEL	1,915,352	3,214,907	3,683,038	2,733,160	14	18
44.WOOD AND ARTICLES OF WOOD;WOOD CHARCOAL	1,845,319	3,375,292	3,794,916	2,612,097	15	17
48.PAPER AND PAPERBOARD;ARTICLES OF PAPER PULP, OF PAPER OR	1,834,587	3,800,430	4,435,538	3,927,697	16	15
39.PLASTICS AND ARTICLES THEREOF	1,715,844	3,029,354	3,538,586	2,746,957	17	19
03.FISH AND CRUSTACEANS,MOLLUSCS AND OTHER AQUATIC INVERTEBR	1,398,663	2,747,244	2,925,049	2,182,269	18	21
38.MISCELLANEOUS CHEMICAL PRODUCTS	1,386,204	2,437,432	3,020,470	2,291,850	19	22
47.PULP OF WOOD OR OF OTHER FIBROUS CELLULOSIC MATERIAL;WAST	1,367,492	2,793,123	2,996,231	2,722,019	20	20
20.PREPARATIONS OF VEGETABLES, FRUIT, NUTS OR OTHER PARTS OF	1,067,707	2,241,891	2,402,724	1,678,155	21	23
40.RUBBER AND ARTICLES THEREOF	994,859	2,096,338	2,279,451	1,389,248	22	24
88.AIRCRAFT,SPACECRAFT AND PARTS THEREOF	707,984	798,243	1,193,060	2,027,073	23	38
41.RAW HIDES AND SKINS(EXCLUDING FURSKINS) AND LEATHER	698,890	1,286,043	1,802,941	1,439,679	24	29
51.WOOL,FINE OR COARSE ANIMAL HAIR;HORSEHAIR YARN AND WOVEN	664,786	1,544,774	1,792,889	1,249,559	25	26
75.NICKEL AND ARTICLES THEREOF	658,700	752,498	683,072	542,600	26	42
17.SUGARS AND SUGAR CONFECTIONERY	656,227	1,911,074	2,565,930	2,930,961	27	25
90.OPTICAL PHOTOGRAPHIC,CINEMATOGRAPHIC,MEASURING, CHECKING,	655,219	1,485,534	1,475,042	1,178,418	28	27
99.OTHER UNCLASSIFIED GOODS	636,898	16,902,698	30,317,877	29,866,306	29	7
74.COPPER AND ARTICLES THEREOF	605,448	1,272,185	1,546,942	1,401,045	30	30

Source: South African Department of Trade and Industry, 2004

Table 5 South African top 30 imports by commodities						
Code	IMPORTS R'000				Rank	
Name	2004	2003	2002	2001	2004	2003
84.NUCLEAR REACTORS,BOILERS,MACHINERY AND MECHANICAL APPLIAN	24,139,551	45,239,883	45,308,641	34,944,217	1	2
27.MINERAL FUELS,MINERAL OILS AND PRODUCTS OF THEIR DISTILLA	18,455,876	30,721,337	33,690,501	31,901,226	2	3
85.ELECTRICAL MACHINERY AND EQUIPMENT & PARTS THERE- OF;SOUN	13,410,859	25,628,182	31,085,055	25,131,020	3	4
98.SPECIAL CLASSIFICATION PROVISIONS (Vehicles' parts)	12,474,232	24,325,026	24,785,656	18,412,912	4	5
87.VEHICLES(EXCLUDING RAILWAY OR TRAMWAY ROLLING- STOCK)AND	11,115,170	19,261,014	18,811,526	13,720,331	5	6
88.AIRCRAFT,SPACECRAFT AND PARTS THEREOF	7,820,805	9,551,954	7,452,574	6,631,783	6	7
90.OPTICAL PHOTOGRAPHIC,CINEMATOGRAPHIC,MEASURING, CHECKING,	4,632,936	8,820,509	10,197,517	8,016,391	7	8
39.PLASTICS AND ARTICLES THEREOF	3,379,406	6,516,686	7,878,084	5,759,254	8	9
30.PHARMACEUTICAL PRODUCTS	3,340,020	5,811,755	6,174,638	5,381,124	9	10
71.NATURAL OR CULTURED PEARLS,PRECIOUS OR SEMI-PREC IOUS STO	2,759,352	5,283,513	5,571,734	3,899,941	10	12
29.ORGANIC CHEMICALS	2,574,394	5,562,197	6,631,442	5,217,621	11	11
28.INORGANIC CHEMICALS;ORGANIC OR INORGANIC COMPOUND OF PREC	2,198,555	4,079,277	4,841,905	3,825,900	12	14
89.SHIPS,BOATS AND FLOATING STRUCTURES	2,039,096	1,167,045	104,167	290,497	13	35
38.MISCELLANEOUS CHEMICAL PRODUCTS	1,968,954	4,267,951	5,042,390	3,410,142	14	13
40.RUBBER AND ARTICLES THEREOF	1,704,837	3,557,247	3,616,221	2,500,237	15	15
10.CEREALS	1,671,222	2,728,363	3,695,495	1,573,276	16	18
73.ARTICLES OF IRON OR STEEL	1,666,637	3,291,519	3,732,909	2,519,667	17	17
48.PAPER AND PAPERBOARD;ARTICLES OF PAPER PULP, OF PAPER OR	1,532,278	3,433,586	3,682,000	2,723,073	18	16
72.IRON AND STEEL	1,428,876	2,462,235	2,180,278	1,901,427	19	19
15.ANIMAL OR VEGETABLE FATS AND OILS AND THEIR CLEA VAGE PRO	1,256,470	1,975,341	2,109,479	1,431,318	20	21
64.FOOTWEAR,GAITERS AND THE LIKE;PARTS OF SUCH ARTICLES	1,082,316	2,041,247	2,000,414	1,664,869	21	20
32.TANNING OR DYEING EXTRACTS;TANNING AND THEIR DERI VATIVES	929,551	1,858,759	2,147,160	1,649,314	22	22
62.ARTICLES OF APPAREL AND CLOTHING ACCESSORIES,NOT KNITTED	893,836	1,447,166	1,130,104	856,566	23	26
26.ORES, SLAG AND ASH	877,408	1,399,942	934,070	257,575	24	28
23.RESIDUES AND WASTE FROM THE FOOD INDUSTRIES; PREPARED ANI	847,752	1,033,004	1,398,241	1,169,535	25	37
69.CERAMIC PRODUCTS	833,667	1,570,628	2,000,914	1,715,443	26	24
94.FURNITURE;BEDDING,MATTRESSES,MATTRESS SUPPORTS, CUSHIONS	821,813	1,577,295	1,731,232	1,273,526	27	23
44.WOOD AND ARTICLES OF WOOD;WOOD CHARCOAL	746,606	1,378,756	1,472,973	1,095,006	28	29
33.ESSENTIAL OILS AND RESINOIDS;PERFUMERY,COSMETIC OR TOILET	718,868	1,423,297	1,559,032	1,142,199	29	27
75.NICKEL AND ARTICLES THEREOF	705,698	1,256,436	873,949	223,557	30	33

Source: South African Department of Trade and Industry, 2004

Table 6 South African Manufacturing Exports by Countries						
Country	Export (R'000)				Rank	
Name	2003	2002	2001	2000	2003	2002
UNITED STATES	6,273,311	23,281,654	17,085,974	14,259,129	1	1
GERMANY	4,812,581	17,635,405	15,233,377	12,766,717	2	2
UNITED KINGDOM	4,241,919	14,680,742	10,860,020	8,671,236	3	3
JAPAN	4,059,144	10,879,502	6,568,324	6,320,549	4	4
MOZAMBIQUE	1,825,535	5,916,260	5,161,938	4,599,123	5	6
ITALY	1,763,811	5,811,955	4,707,454	4,730,873	6	7
ZIMBABWE	1,713,533	6,322,748	5,097,349	4,674,285	7	5
SHIP STORES	1,689,662	4,960,123	4,639,337	3,828,159	8	11
NETHERLANDS	1,684,016	5,551,752	5,043,817	3,770,542	9	8
AUSTRALIA	1,611,601	5,027,366	3,638,373	3,131,316	10	10
CHINA	1,563,255	2,591,370	2,237,510	1,381,903	11	21
FRANCE	1,463,974	4,307,197	3,021,994	2,420,739	12	15
TAIWAN	1,436,063	4,414,509	3,337,907	3,075,067	13	14
SPAIN	1,215,910	2,767,548	2,238,278	1,784,092	14	18
ZAMBIA	1,181,471	5,030,893	4,739,309	4,479,900	15	9
BELGIUM	1,071,447	4,529,985	3,740,772	3,023,659	16	12
KOREA REP SOUTH	910,371	4,470,775	3,423,476	3,471,101	17	13
ANGOLA	891,008	3,201,280	2,426,239	1,256,020	18	16
INDIA	859,421	2,904,203	2,509,136	1,948,073	19	17
HONG KONG, China	853,445	2,608,126	2,191,537	1,945,097	20	20
SWITZERLAND	766,694	2,315,078	1,565,901	1,169,257	21	24
NIGERIA	712,184	2,698,776	1,634,650	697,136	22	19
UNITED ARAB MIRATES	700,756	1,301,212	1,044,938	1,449,470	23	34
KENYA	690,618	2,252,131	1,722,276	1,220,906	24	25
MALAYSIA	668,046	1,785,529	1,333,104	1,003,947	25	29
MAURITIUS	645,055	2,407,278	1,908,460	1,885,080	26	22
TANZANIA	610,269	1,982,460	1,502,195	1,282,538	27	27
SINGAPORE	565,923	1,735,057	1,890,439	1,405,543	28	30
MALAWI	522,380	2,180,539	1,775,546	1,627,983	29	26
THAILAND	485,362	1,918,960	1,198,557	1,198,004	30	28

Source: South African Department of Trade and Industry, 2004

Table 7	South African Manufacturing Imports by Countries					
Country	IMPORT (R'000)				Rank	
Name	2003	2002	2001	2000	2003	2002
GERMANY	12,984,838	42,641,446	32,141,830	24,430,916	1	1
UNITED STATES	8,073,368	31,097,118	25,523,311	21,411,099	2	2
UNITED KINGDOM	6,171,122	20,033,614	15,115,019	13,570,539	3	3
JAPAN	6,013,695	19,017,302	14,657,902	14,814,265	4	4
FRANCE	5,930,255	11,010,138	8,051,659	7,682,262	5	6
CHINA	4,325,950	13,766,810	8,929,326	6,770,137	6	5
ITALY	2,820,946	9,827,871	7,696,035	6,212,326	7	7
AUSTRALIA	1,829,918	6,153,230	4,241,390	4,076,439	8	8
TAIWAN	1,596,332	5,414,073	4,512,329	4,219,875	9	9
BRAZIL	1,553,770	4,593,960	3,136,900	1,965,040	10	12
NETHERLANDS	1,516,743	4,858,360	3,960,142	3,465,401	11	10
KOREA REP SOUTH	1,275,395	4,493,244	3,981,088	3,521,957	12	13
SWITZERLAND	1,221,565	4,737,298	3,942,209	3,678,098	13	11
SPAIN	1,164,645	3,507,035	2,383,703	2,060,546	14	15
BELGIUM	1,146,598	3,777,244	3,089,995	2,818,876	15	14
SWEDEN	1,115,433	3,335,242	2,596,622	2,894,068	16	16
THAILAND	924,786	2,942,892	2,182,077	1,801,988	17	19
MALAYSIA	911,530	3,210,946	2,325,485	1,927,537	18	17
AUSTRIA	887,965	2,938,161	2,239,577	1,518,268	19	20
IRELAND	885,583	3,022,172	2,959,269	2,374,585	20	18
INDIA	876,985	2,753,966	1,989,619	1,656,632	21	21
ARGENTINA	716,272	1,891,713	1,639,847	1,100,888	22	25
SINGAPORE	701,624	2,152,597	1,441,281	1,383,098	23	23
HONG KONG, China	664,388	2,347,814	2,046,468	1,937,050	24	22
CANADA	550,993	1,989,068	1,373,034	1,335,497	25	24
FINLAND	488,654	1,638,800	2,605,099	2,565,679	26	27
INDONESIA	488,246	1,675,868	1,164,408	1,209,810	27	26
DENMARK	364,550	1,239,581	1,014,443	851,648	28	30
ISRAEL	360,789	1,348,917	998,189	1,215,777	29	29
SAUDI ARABIA	350,673	1,368,648	1,407,399	767,870	30	28
Total Country	71,648,987	230,989,136	178,752,193	152,986,341	237	1

Source: South African Department of Trade and Industry, 2004

Source: South African Department of Trade and Industry, 2004

Table 8 South African top 30 export destination by Countries						
COUNTRY	EXPORT IN(R'000)				Rank	
name	2004	2003	2002	2001	2004	2003
UNITED STATES - (NAFTA)	15,190,329	28,841,353	35,940,276	30,595,217	1	1
UNITED KINGDOM - (EUROPEAN UNION)	13,298,248	24,170,332	27,568,126	24,016,788	2	3
JAPAN - (NORTH-EAST ASIA)	13,160,183	24,172,021	24,783,866	19,474,064	3	2
GERMANY - (EUROPEAN UNION)	10,004,874	18,071,769	22,172,003	19,431,086	4	4
NETHERLANDS - (EUROPEAN UNION)	6,010,595	11,405,869	12,620,911	9,661,411	5	5
ITALY - (EUROPEAN UNION)	3,720,175	6,952,868	8,184,675	6,662,138	6	7
BELGIUM - (EUROPEAN UNION)	3,611,413	7,364,724	9,258,024	6,696,856	7	6
AUSTRALIA - (PACIFIC_CONTINENT)	3,498,630	5,723,886	5,150,115	3,792,474	8	12
CHINA - (CHINAS)	3,493,806	6,704,340	4,744,393	3,829,982	9	8
SWITZERLAND - (EFTA & OTHER)	3,253,738	5,743,533	5,567,727	4,128,900	10	11
SPAIN - (EUROPEAN UNION)	3,117,153	6,156,553	6,424,855	4,646,763	11	10
TAIWAN - (CHINAS)	3,023,592	5,033,724	5,118,085	3,858,975	12	15
ZIMBABWE - (SADC)	2,862,739	6,551,409	7,309,455	5,411,762	13	9
FRANCE - (EUROPEAN UNION)	2,448,661	5,161,144	6,806,192	4,847,312	14	14
MOZAMBIQUE - (SADC)	2,277,313	5,676,203	6,418,899	5,774,064	15	13
ZAMBIA - (SADC)	2,204,290	4,048,960	5,541,140	4,922,301	16	17
INDIA - (SAARC)	2,048,059	3,350,322	4,037,280	3,300,032	17	20
KOREA REP SOUTH - (NORTH-EAST ASIA)	2,019,700	4,367,342	5,539,213	4,098,131	18	16
ISRAEL - (MIDDLE EAST)	1,844,999	3,823,738	5,504,842	4,344,822	19	18
ANGOLA - (SADC)	1,576,114	3,393,776	3,430,398	2,621,496	20	19
NIGERIA - (WEST AFRICA)	1,459,020	2,548,612	2,727,822	1,648,290	21	22
HONG KONG, China - (CHINAS)	1,450,737	3,241,751	3,467,563	2,721,972	22	21
KENYA - (N-EAST AFRICA)	1,309,188	2,214,106	2,318,347	1,806,923	23	24
THAILAND - (ASEAN)	1,180,786	1,618,663	2,042,383	1,361,333	24	30
UNITED ARAB EMIRATES - (MIDDLE EAST)	1,155,498	2,413,084	1,763,628	1,329,875	25	23
CANADA - (NAFTA)	1,115,639	1,596,343	1,809,541	1,527,419	26	31
TANZANIA - (SADC)	1,070,423	1,887,931	2,016,760	1,526,816	27	26
MALAYSIA - (ASEAN)	1,012,576	1,856,420	2,010,334	1,524,223	28	27
MAURITIUS - (SADC)	897,487	2,068,591	2,685,141	2,064,247	29	25
SINGAPORE - (ASEAN)	829,305	1,796,017	1,839,156	2,061,880	30	28

Source: South African Department of Trade and Industry, 2004

Table 9 South African top 30 import by Countries

COUNTRY	IMPORTS (R'000)				Rank	
Name	2004	2003	2002	2001	2004	2003
GERMANY - (EUROPEAN UNION)	19,397,322	38,451,417	43,155,758	32,356,315	1	1
UNITED STATES - (NAFTA)	12,692,310	25,079,415	31,981,200	25,841,278	2	2
FRANCE - (EUROPEAN UNION)	12,130,743	15,463,951	11,310,442	8,153,900	3	6
UNITED KINGDOM - (EUROPEAN UNION)	10,089,142	22,596,969	25,117,075	18,363,521	4	3
JAPAN - (NORTH-EAST ASIA)	9,880,914	18,236,646	19,122,094	14,698,791	5	4
CHINA - (CHINAS)	9,656,863	16,600,250	14,266,388	9,098,558	6	5
SAUDI ARABIA - (MIDDLE EAST)	6,635,659	15,049,987	12,497,470	14,977,431	7	7
IRAN - (MIDDLE EAST)	6,141,151	9,286,363	9,667,271	8,841,717	8	8
ITALY - (EUROPEAN UNION)	4,486,541	8,418,809	9,939,139	8,072,839	9	9
AUSTRALIA - (PACIFIC_CONTINENT)	3,819,195	6,112,773	7,793,284	6,050,084	10	10
KOREA REP SOUTH - (NORTH-EAST ASIA)	3,047,714	4,184,035	4,498,573	3,983,732	11	14
BRAZIL - (MERCOSUR)	2,676,470	5,343,984	4,918,614	3,347,699	12	11
NIGERIA - (WEST AFRICA)	2,605,361	2,764,216	3,618,516	1,657,996	13	23
TAIWAN - (CHINAS)	2,460,846	4,638,442	5,418,155	4,521,268	14	12
SPAIN - (EUROPEAN UNION)	2,073,076	3,845,187	3,541,844	2,402,227	15	15
SWEDEN - (EUROPEAN UNION)	2,068,317	3,356,685	3,337,698	2,597,472	16	18
IRELAND - (EUROPEAN UNION)	1,920,756	2,800,544	3,048,372	2,975,152	17	22
ARGENTINA - (MERCOSUR)	1,904,253	2,178,694	2,384,020	1,913,974	18	27
NETHERLANDS - (EUROPEAN UNION)	1,902,002	4,410,527	5,013,020	4,060,406	19	13
THAILAND - (ASEAN)	1,844,766	3,172,700	2,981,134	2,204,635	20	19
BELGIUM - (EUROPEAN UNION)	1,803,600	3,764,359	3,902,552	3,150,287	21	16
MALAYSIA - (ASEAN)	1,793,237	3,019,636	3,643,829	2,448,680	22	21
INDIA - (SAARC)	1,754,774	3,126,148	2,943,267	2,113,505	23	20
SWITZERLAND - (EFTA & OTHER)	1,486,510	3,483,799	4,765,871	4,032,571	24	17
AUSTRIA - (EUROPEAN UNION)	1,343,157	2,734,246	2,954,067	2,255,827	25	24
ZIMBABWE - (SADC)	1,267,265	2,656,012	2,159,775	1,443,736	26	25
SINGAPORE - (ASEAN)	1,232,065	2,155,132	2,233,000	1,488,177	27	28
HONG KONG, China - (CHINAS)	1,193,980	2,288,565	2,358,778	2,055,371	28	26
FINLAND - (EUROPEAN UNION)	1,141,906	1,475,805	1,639,169	2,623,368	29	31
CANADA - (NAFTA)	1,077,914	2,060,431	2,423,047	1,515,062	30	29

Source: South African Department of Trade and Industry, 2004

Table 10 South African trade with SADC countries excluding SACU members[1]

Country	Exports ($ millions)				Imports ($ millions)			
	1998	1999	2000	2001	1998	1999	2000	2001
Africa	**3,548**	**4,057**	**4,090**	**3,950**	**569**	**887**	**557**	**674**
Angola	196	192	309	305	3	32	10	1
DRC	195	131	126	107	5	3	2	3
Malawi	217	235	237	219	82	75	41	38
Mauritius	188	441	293	244	5	169	6	18
Mozambique	478	758	731	664	32	22	20	29
Seychelles	33	35	32	6	2	1	4	4
Tanzania	184	172	198	180	5	4	3	4
Zambia	381	392	634	568	39	34	39	48
Zimbabwe	*931*	*837*	*697*	*625*	*201*	*208*	*181*	*165*

Source: IMF, Direction of Trade Statistics yearbook 2002, page 425.

[1] Members of Southern African Custom Union are South Africa, Botswana, Lesotho, Namibia and Swaziland.

Table 11A AGOA COUNTRIES BI-LATERAL TRADE OVERVIEW WITH U.S.

BOTSWANA	Except for the year 2000, when Botswana's exports to the United States peaked, the country records a trade deficit with the U.S. For the full year 2002, this trade deficit amounted to approximately $ 2,1 million. In terms of Sub-Saharan African countries' exports to the U.S., Botswana ranks in the bottom half. Botswana's exports to the U.S. are currently dominated by minerals and metals, which during 2001 accounted for over 70% of the country's exports to the U.S. For the year 2002, this figure remained fairly constant at 72%.
LESOTHO	States and Lesotho is characterized by the latter country's rapid expansion of its exports to the US. In 2001, Lesotho recorded a $ 215 million trade surplus with the U.S., double that of two years previously. By the end of 2002, this had risen further to $ 319 million. Lesotho imports only a very small amount of goods from the U.S. The U.S. has traditionally provided a ready market for Lesotho's exports of apparel, which have been strongly bolstered by the advent of the AGOA. In 2001 and 2002, 99% of Lesotho's exports fell into the 'textiles and apparel' category, of which 98% were AGOA-eligible, a feat achieved by no other AGOA-eligible country
MALAWI	Malawi's exports to the US consist almost exclusively of 'agricultural products', followed by 'textiles and apparel'. Of the apparel exports, all are currently exported to the U.S. under AGOA Due to the concentrated nature of goods exports from Malawi to the US, two thirds of the country's goods qualify for the duty-free benefits of AGOA
MAURATIUS	Mauritius annually records a significant trade surplus with the United States, which in 2002 amounted to $ 253 million (2001: $249 million). There are strong indications that the magnitude of trade between Mauritius and the US will persist in the foreseeable future However, over 90% of Mauritius' exports to the U.S. consist of 'textiles and apparel', a trade category that has remained relatively constant in recent years. Other exports to the U.S. are diversified and emanate from a cross section of different industry sectors.
MOZAMBIQUE	Mozambique's overall bi-lateral trade deficit with the US has increased sharply in 2002, and stood at almost $ 90 million (2001: $21 million) fairly consistent, and was recorded at $ 21 million in 2001. A very large proportion of Mozambique's exports to the US in 2002 consisted of 'agricultural products', most of which were exported under the provisions of AGOA. Mozambique's imports consist predominately of agricultural exports, which increased fourfold in the 2001-2002 period.
NAMIBIA	Trade between Namibia and the United States was relatively balanced in 2002, following the large trade surplus in favor of the US in 2001. In 2001, this deficit amounted to $ 218 million, a 6-fold increase from 2000. In 2002, this had been reduced to virtually zero, largely as a result of lower US imports into Namibia. The bulk of Namibia's 2002 exports to the U.S. consisted of 'energy-related products' followed by 'minerals and metals', 'textiles and apparel' and 'agricultural products'. Of significance is the fact that Namibia's exports of textiles and apparel have increased significantly, some of which qualified under AGOA. Namibia's imports from the U.S. are dominated by 'electronic products' and 'chemicals and related products'
SWAZILAND	Swaziland is one of the relatively few Sub-Saharan African (SSA) countries able to show an increasing trade surplus over the United States in recent years. In 2001, this trade surplus in favor of Swaziland had reached $ 53 million. Preliminary 2002 data indicates that approximately 85% of exports under the 'textile and apparel' category are AGOA-eligible, while year-on-year growth of said products has doubled between 1999 and 2001 and continues to grow strongly beyond

TANZANIA	The value of bi-lateral trade flows between Tanzania and the United States has remained fairly constant in recent years. In 2002, Tanzania recorded a trade deficit of $ 37 million (2001: $36 million) with the US. Tanzania's exports to the U.S. are dominated by two product categories, 'agricultural products' and 'minerals and metals', which together accounted for over 84% of the country's exports to the US in 2002. Imports to Tanzania consist of a variety of products, including 'transportation equipment', 'electronic products', 'textiles and apparel' and 'chemicals and related products'

Table 11B AGOA COUNTRIES BI-LATERAL TRADE OVERVIEW WITH U.S

S O U T H A F R I C A	South Africa is one of the United States' foremost trading partners in Africa. Total trade between the two countries has been increasing steadily in recent years, with South Africa holding an increasing trade surplus since 1999. This amounted to just under $ 1,5 billion in 2001, growing slightly in the year 2002, even though total trade flows decreased slightly during 2002 U.S. exports to South Africa far exceed US exports to any other country from Sub-Saharan Africa (SSA), emphasizing the importance of access to the South African market. In terms of SSA exports to the United States, South Africa's exports rank second after those of Nigeria, with Gabon's exports being in third position. However, the latter two countries' AGOA exports consisted (in 2001 and again in 2002) virtually only of energy-related products (mostly oil), whereas South Africa's AGOA exports were highly diversified. Exports falling under AGOA amounted to $ 1,3 billion in 2002 (2001: $ 923 million), although this figure includes exports under the GSP program, of which AGOA is essentially an extension Exports of products that were *added* under AGOA amounted to $ 789 million (2001: $ 417 million). It is clear that newly qualified exports (under AGOA) have been increasing significantly. This also includes South Africa's AGOA-eligible textile and clothing exports after the 7th March 2001, the date of South Africa's qualification under the 'Special Wearing Provisions'. Of South Africa's exports of textiles and apparel to the US in 2002 ($ 215 million), $ 88 million (or 40%) were AGOA-eligible items. This is an increase from the previous year (2001), where AGOA-eligible apparel exports made up only $ 33 million (or 15%) of South Africa's total exports of textiles and apparel to the US.2003) indicate that the following of South Africa' industry sectors produce the majority of products that are AGOA-eligible (i.e. exports in those product categories that were specifically added under AGOA). These exports are dominated by 'transportation equipment' (45%; 2001: 60%), followed by AGOA-eligible 'minerals and metals' (27%; 2001: 34%), 'textiles and apparel' (6,5%; 2001: 3,5%), as well as 'agricultural products' (9%; 2001: 8,5%). Under 'transportation equipment', the export of motor cars (HS code 87032390 AGOA-eligible) has become one of the largest single product categories that are exported from South Africa to the US. A further product that has achieved wide export success (falling under 'minerals and metals') is ferromanganese (HS code 72021150 AGOA-eligible), exports of which amounted to $ 44 million in 2002, and South Africa accounting for over 50% of imports into the US of this product.
ZAMBIA	The value of bi-lateral trade between Zambia and the United States has been on a declining trend over the 6-year period to 2002, and in 2002 resulted in an significant trade surplus in favor of the U.S. of $ $ 27,8 million (2001: $0.3 million). Of particular significance is the fact that Zambia's exports to the U.S. have decreased from $ 55 million to $ 7.5 million over that period, while the country's imports from the U.S. increased from $ 29.3 million to $ 35,7 million in 2002 (2001: $ 15.9 million). Zambia's exports consisted mostly of 'minerals and metals', accounting for approximately 75% of the country's exports to the U.S. in 2002. Imports to Zambia on the other hand were diversified, but were dominated by capital-intensive product categories such as 'agricultural products', 'transportation equipment', 'electronic products' and 'machinery'. Of significance is the fact that agricultural imports from the US have increased from $ 0,7 million in 2001 to $ 14 million in 2002

Source: Compiled from: http://www.agoa.info/?view=country_info&country

Imports and Exports from thee major industrial countries: US., UK AND JAPAN

Table 12A

Exports from U.S. in US$ millions

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Angola	260	268	281	354	253	219	276	373	492
Botswana	36	29	43	36	35	33	43	32	26
DRC	77	73	38	34	21	10	19	28	31
Lesotho	2	3	2	1	1	1	1	2	5
Malawi	18	13	18	15	9	13	15	30	46
Mauritius	25	25	31	23	39	24	29	27	32
Mozambique	49	22	46	46	36	62	29	98	63
Namibia	27	22	26	51	199	80	256	58	28
Seychelles	7	103	6	10	7	7	176	8	7
South Africa	2,751	3,106	3,000	3,626	2,809	3,100	2,962	2,525	2,821
Swaziland	3	2	5	8	13	9	12	12	8
Tanzania	66	50	65	67	76	44	64	62	66
Zambia	49	46	30	22	21	19	19	46	19
Zimbabwe	122	91	82	93	62	53	32	49	42
SADC	***3,492***	***3,853***	***3,673***	***4,386***	***3,581***	***3,674***	***3,933***	***3,350***	***3,686***
AFRICA	**6,904**	**7,438**	**7,543**	**8,068**	**6,929**	**7,525**	**8,557**	7,438	7,931
Rest of Africa	**3,412**	**3,585**	**3,870**	**3,682**	**3,348**	**3,851**	**4,624**	**4,088**	**4,245**

Source: IMF, Direction of Trade Statistics yearbook 2004

Table 12B **Imports from U.S. (exports to U.S.) in US$ millions**

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Angola	2,390	2,855	2,966	2,451	2,570	3,614	3,277	3,275	4,506
Botswana	22	28	25	20	18	42	21	30	26
DRC	200	260	304	180	238	239	167	209	183
Lesotho	58	68	90	105	112	144	224	343	420
Malawi	68	78	88	65	76	59	84	76	83
Mauritius	196	230	254	289	279	307	301,296	301	316
Mozambique	20	28	32	28	12	26	8	9	9
Namibia	12	28	65	54	33	45	39	59	128
Seychelles	3	3	3	2	6	8	24	27	14
South Africa	2,311	2,436	2,616	3,190	3,327	4,317	4,588	4,183	4,831
Swaziland	35	33	47	27	39	56	69	123	174
Tanzania	24	20	28	33	37	34	29	27	26
Zambia	33	65	57	48	38	21	16	8	13
Zimbabwe	105	145	148	135	136	125	96	109	62
SADC	***5,477***	***6,277***	***6,723***	***6,627***	***6,921***	***9,037***	***309,938***	***8,779***	***10,791***
AFRICA	**15,586**	**18,746**	**20,469**	**16,343**	**17,310**	**26,983**	**25,843**	**21,876**	**32,675**
Rest of Africa	**10,109**	**12,469**	**13,746**	**9,716**	**10,389**	**17,946**	**(284,095)**	**13,097**	**21,884**

Source: IMF, Direction of Trade Statistics yearbook 2004

Table 13A **Exports from U.K. in US$ millions**

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Angola	49	72	132	69	107	114	133	100	169
Botswana	41	37	34	33	35	30	35	25	22
DRC	25	27	24	10	4	6	14	8	13
Lesotho	2	3	8	2	1	...	3	2	...
Malawi	22	32	30	22	28	16	12	20	17
Mauritius	113	115	108	114	88	83	75	85	77
Mozambique	21	23	23	18	18	28	18	21	26
Namibia	10	11	7	27	26	19	18	13	17
Seychelles	30	26	35	32	23	21	19	20	22
South Africa	2,893	2,932	2,694	2,542	2,078	2,125	2,228	2,416	2,909
Swaziland	5	3	2	4	4	7	6	4	3
Tanzania	145	128	128	106	103	85	95	92	92
Zambia	79	81	79	65	39	42	34	29	35
Zimbabwe	140	162	158	129	120	65	52	51	48
SADC	**3,575**	**3,652**	**3,462**	**3,173**	**2,674**	**2,641**	**2,742**	**2,886**	**3,450**
AFRICA	**6,516**	**6,794**	**6,848**	**6,514**	**5,845**	**5,826**	**6,004**	**6,201**	**7,523**
Rest of Africa	**2,941**	**3,142**	**3,386**	**3,341**	**3,171**	**3,185**	**3,262**	**3,315**	**4,073**

Source: IMF, Direction of Trade Statistics yearbook 2004

Table 13B **Imports from U.K. (exports to U.K.) in US$ millions**

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Angola	35	14	30	12	17	8	104	40	16
Botswana	85	74	175	129	402	511	1,552	1,548	1,815
DRC	18	23	8	7	5	1	1	1	2
Lesotho	1	...	...	...	...	1	3	2	1
Malawi	26	25	22	17	18	17	22	19	19
Mauritius	544	540	561	546	499	436	487	508	532
Mozambique	3	3	5	6	4	8	11	6	14
Namibia	42	39	29	45	127	88	455	270	172
Seychelles	16	14	7	33	57	58	69	93	88
South Africa	1,751	1,902	2,279	2,354	2,651	3,971	4,241	4,208	1,519
Swaziland	63	62	46	41	49	51	48	53	52
Tanzania	43	45	54	48	30	46	51	58	56
Zambia	31	28	77	110	25	19	17	16	35
Zimbabwe	236	214	211	202	200	151	131	228	48
SADC	**2,894**	**2,983**	**3,504**	**3,550**	**4,084**	**5,366**	**7,192**	**7,050**	**4,369**
AFRICA	**4,956**	**5,412**	**5,479**	**5,636**	**6,316**	**7,837**	**9,331**	**9,479**	**10,548**
Rest of Africa	**2,062**	**2,429**	**1,975**	**2,086**	**2,232**	**2,471**	**2,139**	**2,429**	**6,179**

Source: IMF, Direction of Trade Statistics yearbook 2004

Table 14A **Exports from Japan in US$ millions**

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Angola	26	36	61	44	13	25	31	35	53
Botswana	1	1	1	3	2	2	2	1	3
DRC	11	14	6	9	3	9	5	13	7
Lesotho	2	4	4	4	1	3	1	..	1
Malawi	13	19	20	29	15	12	12	15	19
Mauritius	75	82	72	77	68	53	56	52	56
Mozambique	18	21	31	21	67	18	13	84	21
Namibia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	..	4
Seychelles	11	8	11	14	4	3	5	8	5
South Africa	2,483	2,071	1,872	1,773	1,639	1,878	1,496	1,558	2,036
Swaziland	6	4	6	3	4	5	6	4	4
Tanzania	108	77	79	78	111	66	75	69	77
Zambia	60	19	25	35	18	17	18	19	15
Zimbabwe	121	117	125	91	62	37	13	15	17
SADC	2,935	2,473	2,313	2,181	2,007	2,128	1,733	1,873	2,318
AFRICA	**6,331**	**4,815**	**4,165**	**4,492**	**4,311**	**4,068**	**3,752**	**3,753**	**3,754**
Rest of Africa	3,396	2,342	1,852	2,311	2,304	1,940	2,019	1,880	1,436

Source: IMF, Direction of Trade Statistics yearbook 2004

Table 14B **Imports from Japan (exports to Japan.) in US$ millions**

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Angola	16	22	3	20	9	3	22	392	82
Botswana	3	4	4	5	8	5	5	8	9
DRC	81	82	53	38	16	19	10	82	11
Lesotho	....	....	....	....	....	....	....	..	1
Malawi	48	26	33	47	23	51	36	26	28
Mauritius	14	17	24	29	16	32	21	14	12
Mozambique	34	18	22	18	18	23	22	20	14
Namibia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	..	4
Seychelles	2	3	3	6	6	11	16	3	18
South Africa	2,542	2,832	2,803	2,359	2,278	3,010	2,797	2912	3592
Swaziland	11	11	15	9	11	11	7	5	6
Tanzania	65	65	59	67	67	46	63	106	99
Zambia	222	192	139	121	98	94	60	66	68
Zimbabwe	179	162	189	151	180	177	131	124	141
SADC	3,217	3,434	3,347	2,870	2,730	3,482	3,190	3,758	4,085
AFRICA	**4,531**	**4,901**	**4,680**	**3,777**	**3,930**	**4,784**	**4,432**	**5,595**	**6,426**
Rest of Africa	1,314	1,467	1,333	907	1,200	1,302	1,242	1,837	2,341

Source: IMF, Direction of Trade Statistics yearbook 2004

Table 15 Economic and Political Reform

DRC	In the context of reform policy implementation, the Democratic Republic of the Congo established an Anti-Corruption Commission, floated its exchange rate, enhanced macroeconomic stability, and adopted a new investment code.
South Africa	▪ SA embarked on a privatization program, which included divestiture of Telkom and Aventura Resorts, while enhancing the Central Bank's independence and anti-inflation credibility ▪ Motor Industry Development
Mauritius	▪ Mauritius moved to protect Polo Ralph Lauren trademarks by preventing the sale of counterfeit products and allowing the local manufacturer's legally questionable production permit to expire ▪ Mauratian Export processing Zone Association (MEPZA)
Zambia	Export Process Zone Authority
Mozambique	Umvila Export processing Zone
Swaziland	Passed a labor legislation to retain AGOA
Malawi	▪ Government is re-organizing its institutions Government is strengthening its regulatory environment by developing new policies and legislation on counterfeit and consumer protection.
Benin	Benin continued efforts to privatize more than 50 parastatals, including cotton ginning plants.
Madagascar	In the aftermath of the 2002 political crisis, Madagascar, a significant beneficiary of AGOA preferences, adopted an ambitious economic recovery plan based on market reforms and private sector-led growth
Cameroon	Cameroon opened a stock exchange, providing an alternative source of private sector financing, and continued the privatization of the banking and nongovernmental public sectors
Kenya	The Government of Kenya has made progress on combating corruption, including the enactment of two key anti-corruption bills in April 2003 that led to reengagement by the IMF and World Bank after a nearly three-year hiatus
Nigeria	▪ A new sense of economic reform took root in Nigeria. Oil deregulation is underway, and prosecutions against some leading politicians for corruption have begun. The stock exchange is at an all-time high. ▪ Nigeria export processing zone
Ghana	Ghana implemented new revenue measures and pushed forward the liberalization of fuel prices.

Source: Compiled from: http://www.agoa.info/?view=country_info&country

APPENDIX C: CLASSIFICATION OF ECONOMIES BY REGION

Sub-Saharan Africa

Angola; Benin; Botswana; Burkina Faso; Burundi; Cameroon; Central African Republic; Cape Verde; Chad; Democratic Republic of Congo; Cote d'Ivoire; Djibouti; Equatorial Guinea; Eritrea; Ethiopia; Gambia; Gabon; Ghana; Guinea-Bissau; Kenya; Lesotho; Liberia; Madagascar; Malawi; Mali; Mauritania; Mauritius; Mozambique; Namibia; Niger; Nigeria; Rwanda; Sao Tome and Principe; Senegal; Seychelles; Sierra Leone; Somalia; South Africa; Swaziland; Sudan; Tanzania; Togo; Uganda; Zaire; Zambia; Zimbabwe.

Southern African Development Community (SADC)

Angola; Botswana; Democratic Republic of Congo; Lesotho; Malawi; Mauritius; Mozambique; Namibia; Seychelles; Swaziland; South Africa; Seychelles; Tanzania; Zambia; Zimbabwe.

Southern African Customs Union (SACU)

South Africa; Botswana; Lesotho; Namibia and Swaziland.

Economic Community of West African States (ECOWAS)

Benin, Burkina Faso, Cape Verde, Cote d'Ivoire , The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo.

Common Market for Eastern and Southern Africa (COMESA)

Angola, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, Zimbabwe