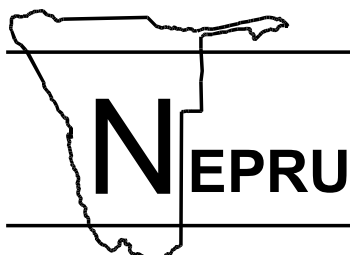


**Incentives for  
Foreign Direct Investment  
- The case of SADC in the 1990s**

**Johan Dahl**

**February 2002**

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**THE NAMIBIAN ECONOMIC POLICY RESEARCH UNIT**

*Postal:* P. O. Box 40710, Ausspannplatz, Windhoek, Namibia

*Street:* 59 Bahnhof, Windhoek, Namibia

*Tel.:* +264 - 61 - 228284

*Fax:* +264 - 61 - 231496

*Email:* [nepru1@nepru.org.na](mailto:nepru1@nepru.org.na)

*Web site:* [www.nepru.org.na](http://www.nepru.org.na)

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## **Disclaimer**

The opinions presented are those of the author and should not necessarily be regarded as the view of NEPRU.



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## **List of abbreviations**

BIT	Bilateral Investment Treaties
COMESA	Common Market for Eastern and Southern Africa
CREFAA	Convention on the Recognition and Enforcement of Foreign Arbitral Awards
EAC	East African Community
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNP	Gross National Product
IBRD	International Bank for Reconstruction and Development
ICSID	International Centre for the Settlement of Investment Disputes
IFI	International Financial Institutions
IMF	International Monetary Fund
MIGA	Multilateral Investment Guarantee Agency
MIT	Multilateral Investment Treaties
OECD	Organisation for Economic Cooperation and Development
SADC	Southern African Development Community
SACU	Southern African Custom Union
TNC	Trans National Corporation
UNCTAD	United nation Conference for Trade and Development
WB	World Bank
WIPO	World Intellectual Property Organization

## 1. Introduction

Globalisation, liberalisation, deregulation and free trade are all concepts of our time. This process of change has increased the room for manoeuvre for global capital, enabling it to penetrate markets and move more freely. This has been particularly so during the last decade and a half. One element of this process of change is Foreign Direct Investment (FDI). In the developing world, the policy of attracting FDI as a substitute for the (perceived) lack of domestic capital and savings has become a panacea for economic growth and economic development. The returns from FDI are estimated to be higher in Africa than in any other developing area (Collier & Pattillio 2000). Despite these lucrative investment opportunities, private investment in Africa was on average only 10 per cent of GDP in 1994, compared with 18 per cent for the rest of the developing world (ibid.).

A pattern with investment in Southern Africa, highlighted in this study, is the poor correlation between so-called 'sound economic performance'; i.e. 'getting the fundamentals right'; and the magnitude of foreign direct investments. This study reveals that there is no strong positive correlation between countries performing well in macro-economic indicators and policy frameworks that are anticipated to attract FDI, and actual FDI in the Southern Africa. This state of affairs will pose the overarching research question for this study: *what are the important incentives for FDI in Southern Africa?* This case study will pay particular attention to the Southern African Development Community (SADC) member states.

The objective of this study is twofold:

- to scrutinise the present state of affairs of FDIs in the Southern African Development Community (SADC) in the 1990s, and
- to examine the correlation between economic indicators, national policy frameworks and risk indicators versus actual FDIs.

The outline of the paper will develop in the following way. In the *first* section the objective of the paper is outlined. In section *two* we will highlight some shortcomings encountered when dealing with the FDI concept. In section *three* the research approach for the study will be outlined. In section *four* FDI in Africa will be dealt with in a global context. Section *five* will delimit the FDI concept as used in this study. In section *six* the current situation of FDI in SADC will be analysed by using four different parameters. In the *seventh* section a number of economic indicators as determinants for FDI will be adopted and evaluated. Section *eight* will expand the discussion to policy framework and risk environment indicators. In section *nine* the findings from the study will be drawn together and in section *ten* some general conclusions from the findings, results and analyses will be highlighted. The paper ends up with a discussion regarding future research areas of FDI in Southern Africa.

## **2. Capital starvation in Africa?**

In the “World Investment Report” UNCTAD reveals what the organisation calls inflows and outflows of FDI capital, which apply to the conceptualisation of equity capital, reinvestments and intra-company loans and transactions (see section four). This delimited conceptualisation of FDI is from a research methodological point of view of course a good example, as a means of both delimiting and concretising the concept of FDI. The result of this kind of research can be used to identify general trends of investment and regions where investment takes place. However, if used for policy recommendations and analysis of the state of affairs in a given economy, the risk is evident that the empirical reality will substantially deviate from what is accurate in the identification of an investment situation. Tandon (2000) has developed a general critique concerning the conceptualisation of FDI by UNCTAD. In his critique he argues that the “outflows” of investments are the causes of capital starvation in much of Africa and the rest of the third world, and that if these outflows are deducted from national accounts it most often gives an impression of a country that is quite different to the reality.

Outflows from developing countries other than those reported as investments are for instance debt payments, profits remitted, and loss of capital for example as a result of structural adjustment programs, etc.<sup>1</sup> These outflows, claims Tandon (*ibid.*), must be thoroughly scrutinised and taken into consideration in order to fully comprehend the nature of outflows of savings from a given country. Following this reasoning, the question can be posed: whether many of the identified low saving countries are in fact low savers, or rather drained by capital (savings). This is an important issue, though beyond the scope of this study.

## **3. Research approach**

Are there any economic indicators and/or national policy frameworks that it is important for a state to follow, in order to attract FDI? Even if this issue is more complicated than merits its reduction to a few parameters, a reductionist approach can nevertheless reveal whether there is any correlation between certain criteria and FDI. This study will adopt 18 economic indicators and national policy frameworks perceived to be of importance, and used in order to sort more likely from less likely determinants for attracting FDI to the SADC member states.

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<sup>1</sup> (i) Dividends/profits remitted by foreign enterprises, (ii) debt payments, (iii) increased payments on account of rise of interest rates in industrialised countries, (iv) increased cost of capital on account of risk premiums, (v) loss of capital (and jobs) on account of Structural Adjustment Programs, (vi) loss of capital through privatisation of public assets of developing countries, (vii) patent and copyright fees on technology agreements, (viii) management and consultancy fees, (ix) loss of capital through corruption and externalisation of funds by residents, (x) intra-enterprise transactions, more commonly known as transfer pricing, (xi) outflows on account of deteriorating terms of trade, (xii) loss of expert revenue on account of protectionism in industrialized countries, (xiii) loss of revenue on account of blockage on the free movement of people, (xiv) loss of capital through bio-piracy.

The research approach taken in this study is based on a comparative review of on the one hand, four parameters that measure the current stock and inflow of FDI (see section six) in the SADC region states, and on the other, the level of fulfilment of the 18 chosen criteria: eight economic indicators (see section seven) and ten national policy frameworks (see section eight). Twelve of the criteria used (seven<sup>2</sup> economic indicators and five<sup>3</sup> national policy frameworks) are adopted from a study by Loots (1999), which she used in order to determine important criteria fulfilled by the top ten FDI recipient developing countries in the world<sup>4</sup> in 1998. In her study, Loots found a correlation between the top ten FDI receiving developing countries in the world and nine criteria (six economic indicators and three national policy frameworks), see table 1. Fifty per cent or more of the ‘top ten’ countries fulfilled the following eight criteria: i) belonging to a regional grouping, ii) an economic growth exceeding population growth, iii) access to foreign markets, iv) a primarily skilled labour market, v) availability of low skilled labour at low cost, vi) high GDP, vii) fiscal discipline, viii) the corporate tax structure, and finally ix) political stability/political risk.

**Table 1. “Top ten” FDI receiving countries in the developing world in 1999 and their most common criteria.**

<ul style="list-style-type: none"><li>✓ Belonging to a regional grouping</li><li>✓ An economic growth exceeding population growth</li><li>✓ Access to foreign markets</li><li>✓ A primary skilled labour market</li><li>✓ Availability of low skilled labour to low cost</li><li>✓ High GDP</li><li>✓ Fiscal discipline</li><li>✓ The corporate tax structure</li><li>✓ Political stability/political risk</li></ul>
--

*Source: Loots (1999)*

This study aims to ascertain whether these parameters also are valid for the present distribution of FDI in the SADC member states.

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<sup>2</sup> 1) Size of the domestic market. 2) An economic growth that exceeds population growth rate, 3) Availability of unskilled labour to a low cost, 4) A primarily skilled labour force, 5) High level of labour productivity. 6) Access to foreign markets, 7) Belonging to a regional grouping.

<sup>3</sup> 1) Fiscal discipline. 2) A single-digit inflation rate for the past decade. 3) Corporate tax structure. 4) Government engaged in privatisation programme. 5) Political risk rating

<sup>4</sup> The countries used in Loots’ study were China, Mexico, Singapore, Brazil, Malaysia, Argentina, Indonesia, Poland, Hungary and Thailand.

## 4. What is FDI?

In order not to confuse Foreign Direct Investment (FDI) with other kind of investments that cross national borders, we will in this paper use the definition of FDI as determined and reported by UNCTAD (2000:267)<sup>5</sup>, whereby it is "... an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate)". Even if this conceptualisation can be questioned (see section two) from different perspectives, this is the way it is reported in international statistics and cited widely. In the international reporting of statistics, FDI is regarded as investments that have the following three characteristics (ibid.):

- Equity capital; i.e. the foreign direct investor's purchase of shares of an enterprise in a country other than its own;
- Reinvested earnings; i.e. the investor's share of earnings not distributed as dividends by affiliates or earnings not remitted to the direct investor. Such retained profits by affiliates are reinvested;
- Intra-company loans or intra-company debt transactions; i.e. short- or long-term borrowing and lending of funds between direct investors (parent enterprises) and affiliate enterprises.

The equity forms of investment, as referred to above, are in the UNCTAD methodology distinguished from non-equity forms of investments. The non-equity forms of investments are for instance subcontracting, management contracts, turnkey arrangements, franchising, licensing and product sharing (UNCTAD 2000). These forms of FDI are not covered in this study.

## 5. FDI in Africa in a global context

In 1999 all except one of the largest 100 Transnational Corporations (TNCs) were located within the developed world, i.e. in Europe, North America or Japan. The exception was Petroleos de Venezuela, the largest TNC in the developing world. Their assets of \$2 trillion accounted for about one-eighth of the total assets of all foreign affiliates world wide in 1999, and these corporations can claim to be among the most important stakeholders and drivers of our contemporary international production (UNCTAD 2000).

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<sup>5</sup> This general definition is based on the Organisation of Economic Cooperation and Development (OECD) benchmark definition of Foreign Direct Investment, third edition (OECD 1996) as well as the International Monetary Fund, Balance of Payments manual, fifth edition (IMF, 1993)

In 1999, the developed countries attracted nearly three-quarters, or US\$636 billion, of the total inflow of FDI. The proportion of the world inflow of the developing world on the other hand, with a quarter of the entire inflow of FDI, continued to decline to 24 percent in 1999 from 38 percent in 1997.

**Table 2. Inflow of FDI to Africa and groupings of countries in 1999.**

	US\$ Billion	Percent
<b>Developed countries</b>	<b>636</b>	<b>76</b>
<b>Developing countries</b>	<b>205</b>	<b>24</b>
<i>Africa</i>	<i>10</i>	<i>1.2</i>

*Source: UNCTAD (2000:29)*

Africa has during the last three decades managed to attract more FDI (UNCTAD 2000) in absolute terms, from around 8 dollars to almost 15 dollars per \$1,000 of GDP between 1970-1997 (UNCTAD 1999a:4). However, as a percentage of the total inflow of FDI to the developing world, Africa has slowly been losing ground. While making up more than 25 per cent of the inflow to the developing world in 1970, the figure for 1997 was less than 5 per cent. (ibid.) If FDI is indicated as an important substitute for domestic investments, this trend could be seen as alarming and should be thoroughly scrutinised and analysed. If it holds true that Africa experience a general lack of domestic savings and risk capital, which, literally speaking, forced it to turn to FDI in order to attract capital for economic growth and development of the industrial and manufacturing sectors, as well as to boost employment, then the identification of incentives for FDI can be seen as a highly significant exercise.

In order to evaluate the importance of these parameters as a prerequisite for attracting FDI and as of explanatory value for understanding the rationale for capital movements and investments globally, we will in the following section focus on the current magnitude of the inflow and stock of FDI in the SADC member states.

## **6. Foreign Direct Investments in SADC**

During the previous decade fundamental structural change has taken place on a global scale, including in Southern Africa. This process of change has primarily taken the direction of liberalisation, privatisation and deregulation of nation-state economies and a general commitment to trade liberalisation: i.e. the removal of tariff as well as non-tariff barriers. A general objective of the states has been to subsidise a widespread perceived lack of domestic capital and savings with FDI, which has steered many - if not all - SADC countries to implement special laws, acts and decrees that will promote such a policy. Thus, the aim of this section is to evaluate the recent trend of FDI inflow during the 1990s. How much investment have the

SADC countries managed to attract during the previous decade? In order to evaluate this, we will measure four different indicators of FDI.

- ✓ the total FDI stock change between 1990 and 1999 in %.
- ✓ the FDI inflows change between 1990 and 1998 as % of GDP.
- ✓ the inward FDI stock as % of GDP 1998, and
- ✓ the FDI inflows, by host region and economy in 1999 as % of GDP.

### **6.1. FDI stock change 1990-1999**

The general impression is that the change in FDI inflow has been very different in the SADC member states during the 1990s (see appendix 1). Some have experienced a significant shift upwards, while others have stagnated or even showed tendencies of regression. In order to score in the stock change between 1990 and 1999, an increase of stock of at least 100 percent is required (see appendix 2). Seven of the 14 countries did meet this requirement. Mozambique, Lesotho, Zimbabwe and Angola had a substantial increase with 2,126, 1,437, 998 and 529% respectively. At the other end of the spectrum we find Namibia, the Democratic Republic of the Congo and Botswana, with a stagnating FDI stock of 26, 6 and 4% respectively.

### **6.2. FDI inflow increase**

With inflows as a percentage of GDP, seven countries also scored with an increase of FDI with at least 10 per cent in the 1990s. It seems that the correlation between FDI inflows and FDI stocks is quite marked, since six out of seven countries that scored at all, scored in both categories. One outstanding case is Lesotho, with an FDI inflow during the 1990s which exceeds 250% of GDP. Except for Angola (56%), which also shows a relatively high increase of inflow during the studied period, most of the other nations managed to increase their stocks moderately, with figures higher than 10%. However, both Namibia and Botswana indicate a negative change with -35 and -12% respectively. The 'abnormal' figure for Lesotho is solely owing to the huge inflow of capital to the multi-billion 'Highlands Water Project' under way.

### **6.3. Inward FDI stock size 1998**

In 1998, eight of the 14 SADC member states were able to demonstrate an inward stock of 20% or more of their GDP. Malawi (279%), Seychelles (78%) Angola (69%) and Zambia (52%) were the top 4 nations. Three nations had a FDI stock which in relation to their GDP was less than 10%; these were Congo D.R., Mauritius and Tanzania with 2.9, 8.5 and 9.9% respectively. An interesting case is Mauritius, which is often referred to as a showcase of developing performance in Africa, where

regarding inward stock, FDI seems to play a relatively limited role in explaining the economic success story.

#### 6.4. FDI inflow in 1999

An indication of the current 'hot spots' in SADC for FDI is given by focusing on investments made in 1999. Three countries had investments in 1999 that comprised more than 10% of their GDP: Angola, Lesotho and Seychelles. Mozambique should also be considered, with an inflow of FDI of 9.9% in 1999. Most other nations were only able to demonstrate an increase of a few per cent, and countries such as Congo D.R. and Swaziland, even a net decrease.

#### 6.5. Summary and Conclusions

Interestingly, the highest ranking states in the African competitiveness index (World Economic Forum 2000); Botswana, Namibia and Mauritius, ranked three, four, and two respectively, only fulfilled one of the four criteria for FDI performance set out in this study in the 1990s (see appendix 2). South Africa, ranked second in the African competitiveness index, failed to meet a single criterion. The best performing economies of Southern Africa in the 1990s seem rather to be the less economically-developed countries in the region: Angola, Lesotho, Malawi and Mozambique, with the exception of Seychelles, which scored four out of four of the FDI criteria (see table 3).

**Table 3. Number of FDI indicators fulfilled by SADC member states.**

<b>Number of scores</b>	<b>Countries</b>
4	Angola, Lesotho, Seychelles
3	Malawi, Mozambique
2	Tanzania, Zambia, Zimbabwe
1	Botswana, Mauritius, Namibia, Swaziland
0	Congo D.R., South Africa

In absolute terms however, South Africa is outstanding in FDI inward stock with more than US\$17 billion. The gap is considerable thereafter, with Angola in second place with US\$6.4 billion. All the other SADC member states are spread out between US\$0.2 to US\$1.9 billion.

**Table 4. FDI inward stock among SADC states in 1999 (US\$).**

	FDI stock (US\$bn)	Rank (1-14)	FDI stock/capita (US\$)	Rank (1-14)	Population 1999 (m)
<b>Angola</b>	6.4	<b>2</b>	497	<b>6</b>	12.9
<b>Botswana</b>	1.4	<b>6</b>	875	<b>3</b>	1.6
<b>Congo DR</b>	0.2	<b>14</b>	4	<b>14</b>	49.3
<b>Lesotho</b>	2.3	<b>3</b>	1,095	<b>2</b>	2.1
<b>Malawi</b>	0.45	<b>12</b>	40	<b>12</b>	10.0
<b>Mauritius</b>	0.4	<b>13</b>	333	<b>8</b>	1.2
<b>Mozambique</b>	0.94	<b>8</b>	54	<b>11</b>	16.8
<b>Namibia</b>	1.5	<b>5</b>	882	<b>4</b>	1.7
<b>Seychelles</b>	0.5	<b>10</b>	6,250	<b>1</b>	0.08
<b>South Africa</b>	17	<b>1</b>	394	<b>7</b>	43.1
<b>Swaziland</b>	0.48	<b>11</b>	500	<b>5</b>	1
<b>Tanzania</b>	1.0	<b>7</b>	31	<b>13</b>	32.0
<b>Zambia</b>	1.9	<b>4</b>	183	<b>9</b>	10.4
<b>Zimbabwe</b>	0.88	<b>9</b>	69	<b>10</b>	13.1

Source: UNCTAD 2000:294f, <http://www.sadcreview.com/>

However, if analysed per capita a very different pattern emerges. Seychelles turns out to be the country that attracts most FDI/capita with an inward stock of US\$6,250/capita in 1999. This is compatible with countries such as for instance the USA, which had an inward stock of FDI of US\$4,800. Other industrialised countries around the world with high inward stock/capita are for example Denmark (US\$7,600), Sweden (US\$7,500), Germany (US\$2,800), and Taiwan (US\$2,200). One more country in SADC passes the threshold of US\$1,000, namely Lesotho (US\$1,095). In a middle category we find Botswana and Namibia with US\$875 and US\$882 respectively. All the others are found below US\$500 with the lowest, Congo DR with just US\$4/capita (UNCTAD 2000).

A correlation test between inward stock of FDI and inward stock of FDI per capita indicate a weak relationship, as shown in table 5 below. A correlation calculation gives the figure 0.393, which should be regarded as a weak relationship between total inward stock and inward stock per capita.

**Table 5. Rank correlation between FDI stock and FDI stock/capita in the SADC member states.**

	FDI stock	FDI stock/capita
FDI stock	-	.393
FDI stock/capita	.393	-

Source: Table 4.

## **7. Economic indicator incentives for FDI**

In this section we will deal with eight economic indicators for the 14 SADC member states. The eight indicators are: i) economic growth in relation to population growth, ii) literacy ratio as an indication of degree of skilled labour, iii) export as a measure of access to foreign markets, iv) belonging to a regional grouping as a sign of integrated developed market, v) availability of low-skilled labour to low cost, vi) size of GDP as an indication of domestic market, vii) competitiveness ranking as a measurement of productivity, and finally viii) external debt rate. The exact figures for each indicator are found in appendix 1, and the fulfilment of criteria, in appendix 2.

### **7.1. Economic growth**

Most SADC countries managed to keep their economic growth per capita higher than population growth during the 1990s, with few exceptions; Angola, Congo D.R., South Africa and Zambia. In Lesotho, Mauritius and Seychelles the economic growth rate in relation to population growth was exceptionally good, that is between three and five per cent during the span of the previous decade. Ten of the 14 states met the requirement in this criterion.

### **7.2. Literacy ratio**

The literacy rate is relatively high in six of the 14 states, with figures all over 80 per cent. Nevertheless, some countries such as Angola and Mozambique, still demonstrate figures below 50 per cent. In order to classify (with a literacy ratio of over 90%) as a country wherein the work force is comprised of primarily skilled labour, none of the SADC countries met this demand. However, closest to reach the bar is Zimbabwe with a literacy rate of 87.5 per cent.

### **7.3. Foreign trade**

Most of the countries demonstrate a relatively high percentage of foreign trade. More than 50 per cent of the SADC states have exports that make up more than 30 per cent of the GDP. At one extreme we find Swaziland with 90 per cent, and at the other, Tanzania with 18 per cent. Most of the countries are inbetween 30 and 50 per cent. The countries in SADC should therefore be regarded as having generally high access to foreign markets. It should nevertheless be remembered that most of the countries are still highly dependent on the export of primary products with little value added, which today have easier access to such developed markets as the European Union (EU), rather than for instance manufactured products.

#### **7.4. Belonging to a regional grouping**

All the SADC member states except for Mozambique are members of more than one regional organisation. The other three regional groupings are the Common Market for East and Southern Africa (COMESA), East African Community (EAC) and Southern African Customs Union (SACU). This creates a complex problem of navigation between the different constellations of member countries when it comes to economic and political integration.

The mix of countries in the four organisations is a real obstacle to an effective reduction of barriers to investments in Southern Africa, since investors in Africa also identify the domestic market as important for investments, and not only for export (UNCTAD 2000). The additional fact that all SACU countries are members of SADC and that all SADC countries except for Botswana, Mozambique, Tanzania and South Africa belong to COMESA is a complicated issue. In addition Tanzania belong to the EAC together with Kenya and Uganda. These duplications of interests are a quagmire that requires a radical solution, in order to find a common way for the SADC member states to create a conducive investment environment within a regional common market. The high degree of market integration of SACU means the five member states fulfil the criteria of regional integrated market. All the other SADC states have too many regulation tariffs and hindrances in trade to be regarded as members of an integrated regional grouping.

#### **7.5. Cost of labour**

The level of literacy was used above as a means of identifying whether the workforce was made up of primarily skilled labour. As the literacy rate was found to be below the required level, logical reasoning would suggest that all the SADC member states have a supply of unskilled labour at low cost. Even those countries with a literacy rate over 80 per cent and close to 90, as in the case of Zimbabwe, have in most cases very high unemployment rates. This is the case in Namibia, South Africa and Zimbabwe, which automatically pushes the salaries to a minimum in a situation of international competition. Borderline cases are Mauritius and Seychelles, with relatively high literacy ratios (well above 80 per cent) but at the same time, low unemployment rates. All SADC states except for Mauritius and Seychelles are therefore regarded as countries with low-skilled labour available at a low cost.

#### **7.6. Gross Domestic Product**

The sixth economic indicator evaluates the size of the domestic market. Here we are dealing almost exclusively with small markets, except for South Africa with a GDP of more than 130 US\$ billion. All other member states have a GDP that varies on a scale between 0.5 and 8.0 US\$ billion. This gives us a very unbalanced relationship between the member states, where the South African GDP exceeds that of the rest of the 13 members states combined, almost three times over. Not even all 14 SADC

member states together will reach a GDP of 200 US\$ billion. As a result, none of the countries will classify as a large domestic market. However, SADC has the potential, when more integrated, to be a regional grouping of both size and importance.

### 7.7. Competitiveness

Countries in Africa rank low in terms of competitiveness, compared to the rest of the world. Even if states in Southern Africa generally perform better than other regions on the continent, it is only Mauritius, South Africa and Zimbabwe, that in 1999 entered the list of the top 60, ranked 29, 47 and 57 respectively. To rank as a competitive nation, the country would need to appear on the top 30. The only country to fall in this category is therefore Mauritius.

### 7.8. External debt

Debt could be seen as a threat to many investors fearing increases in future marginal tax rates to finance debt payments. Angola, Congo DR, Mozambique and Zambia all had an external debt in 1998 that exceeded 200 per cent of the GNP (UNDP 2000). In the case of these countries, investors might fear that the government would be tempted to tax the business community in order to meet payments. External debt payment demands could then be a disincentive for FDI to enter countries with a high debt ratio. Nevertheless, a majority of the SADC states had a debt burden of less than 100% of GNP in 1998, which could be considered as a debt ratio still under control. In order to score in this category an external debt of less than 200% was required, and ten of the 14 countries fulfilled this requirement.

### 7.9. Summary

As shown in tables six and seven there would appear to be no direct positive correlation between fulfilment of the criteria of economic indicators used in this study and the attraction of FDI.

**Table 6. Fulfilment of the 8 economic indicators among the SADC member states (FDI attracting countries in Bold)**

Number of scores	Countries
5	Botswana, <b>Lesotho</b> , Namibia, Swaziland
4	<b>Malawi</b> , Mauritius, Zimbabwe
3	Tanzania, South Africa
2	<b>Angola, Mozambique, Seychelles</b>
1	Congo D.R., Zambia

Source: Appendix 2.

Among the five countries that fulfilled three or four of the FDI criteria, two are found both at the top and bottom of the table. This would suggest that other parameters could have greater explanatory power than these economic indicators.

**Table 7 Rank correlation between economic indicators and FDI.**

	<b>Economic indicator</b>	<b>FDI</b>
<b>Economic indicators</b>	-	-.351
<b>FDI</b>	-.351	-

*Source: Appendix 3.*

In the next section we will shift the focus to national policy frameworks, in order to investigate whether these criteria correlate better with FDI than was the case with economic indicators.

## **8. National policy framework incentives for FDI**

In this section we will highlight and test 10 identified national policy frameworks that might be of importance in order to attract FDI. We will deal with the following policies: i) budget deficit, ii) corporate tax, iii) risk rating, iv) inflation, v) privatisation programmes, vi) FDI regimes, vii) multilateral agreements, viii) bilateral investment treaties, xi) double taxation treaties, and finally x) development assistance. All the specific figures for each criteria and country will be found in appendix 1.

### **8.1. Budget deficit**

The first national policy framework to be scrutinised is the budget deficit. By evaluating the average deficit of the past ten years, fiscal discipline in the economy can be judged. As can be seen from appendix 1, many of the states have for many years followed a macro-economic policy that kept the budget deficit at a low level. Eight of the 14 states have not passed the general threshold of 3.5%. Some countries, like Botswana and Zambia, have been so driven to restrict macro-economic policies that they have created budget surpluses. Other states such as Angola and Seychelles have been living with deficits of over ten per cent as an average during the 1990s. On this issue the SADC states did not meet the stipulated requirement.

### **8.2. Corporate tax**

The corporate tax level in SADC seems relatively high if compared with the 'top ten recipient countries' of FDI. Most of the countries have the highest marginal tax rate above 30 per cent. Only four countries can attract FDI with a tax of 30 per cent or

below. Those are Botswana, South Africa, Swaziland and Tanzania. Botswana's tax is exceptionally low, with a corporate tax of only 15 per cent. SADC does not qualify when it comes to a compatible corporate tax level.

### **8.3. Risk rating**

Most of the SADC countries have a very low rating compared with the rest of the world. Collier & Pattillo (2000) have argued that the generally low ratings in Africa are actually too low in the context of the reality in the region. As a threshold for living up to an acceptable level of risk for investors, the index of 70 was set as the minimum level. Three countries; Botswana, Namibia and South Africa did qualify with ratings over 70. Botswana scored highest with a rating of 83.5. Ratings for Mauritius and Seychelles were not available, but are estimated to have an index above 70. It could also be that Lesotho should be awarded an index of 70 but this is not certain, and was therefore avoided. The political instability and unrest in the region with conflicts in Angola and Congo D.R. seems to spill over in attitudes to their neighbouring countries in Southern Africa, which is often referred to as a 'bad neighbourhood'. This is one of many reasons for the very low ranking, and possibly also for the insecurity for investors to the SADC and Africa continent in general, compared with Asia and Latin America.

### **8.4. Inflation**

Fewer than 50% of the SADC member states have a good record regarding the level of inflation of the past decade. To make the grade in this category, an average single-digit inflation rate during the 1990s was demanded. Six countries had an inflation rate below 10%; those were Botswana, Lesotho, Mauritius, Namibia, Seychelles and Swaziland. However, both Congo D.R. and Angola point in the direction of hyperinflation with 423 and 814 respectively. Thus SADC does not live up to the low inflation level required.

### **8.5. Privatisation**

Many SADC countries have commercialised their public businesses in the previous decade, and could thus be regarded as being in an intermediate phase of privatisation. However, four SADC countries can be regarded as without any clear movement in the direction of privatising the public sector. Privatisation programmes do usually attract considerable investment in the initial phase. All countries except Angola, Congo D.R., Swaziland and Zimbabwe count here as countries with ongoing privatisation schemes, so on this issue SADC passes the test.

## **8.6. FDI regimes**

Before the 1990s, a general barrier for investors into the SADC region was associated with the absence of laws or decrees that dealt specifically with FDI. However, in 1998 only two countries (South Africa and Swaziland) of the 14 were still without a special law or act that regulated foreign investments (see appendix 2). The time of the creation and implementation of the investment acts correlates quite well with the market-oriented economic policy that came to be introduced and to prevail during the late 1980s and 1990s, up till today. SADC qualifies well when it comes to the FDI regime criteria.

## **8.7. Multilateral agreements**

Most of the SADC countries are members of international institutions and have ratified international agreements that regulate Foreign Direct Investment (FDI). All 14 countries became members of the Multilateral Investment Guarantee Agency (MIGA), a World Bank institution, between 1988 and 1994. Also the World Intellectual Property Organisation (WIPO) had organised all but two of the countries (Seychelles and Tanzania) by 1999. The International Centre for the Settlement of Investment Disputes (ICSID) had been signed and ratified by eleven the 14 SADC member states by 1999. Finally, we have the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (CREFAA), which by 1999 had been ratified by seven of the 14 countries. Eleven member states had by 1999 ratified three of the four multilateral agreements. The remaining three countries were Angola, Namibia and Seychelles.

During the late 1980s and 1990s most of the SADC members ratified international agreements concerning FDI, which also reflects the period of Structural Adjustment Programmes implemented in most African countries, with a general emphasis on trade liberalisation, privatisation and deregulation of the SADC countries economies. However, the genuine commitment to the implementation of SAPs in some countries can be questioned, since the programmes were more or less conditioned by International Financial Institutions (IFI) such as the World Bank (WB) and the International Monetary Found (IMF). The ratification of multilateral agreements should be seen as a step towards an economic strategy of global economic integration into the world economy. SADC qualifies well in the criteria of multilateral investments.

## **8.8. Bilateral investment treaties**

In order to make the environment easier and more secure for investors, more countries have signed bilateral treaties (BITs) concerning FDI with each other. Most of the BITs by SADC countries have been signed with the developed economies in the North, from where most of the investments also flow. With developing countries outside Africa there have been twice as many bilateral agreements signed than with African countries. South Africa has been outstanding in relation to other SADC

countries in signing bilateral investment treaties. Until 1999 the other SADC countries had only signed between two and four agreements each. It should be noted that compared to the North African countries, there have been few BITs signed by countries in Southern Africa. As an example, Egypt had signed 58 treaties as of 1999, which by then was more than any other country in the world. In order to qualify a country needed 10 signed treaties. Only four states had by 1999 signed more than 10 bilateral investment treaties. These were Congo D.R., Mauritius, South Africa and Zimbabwe. SADC does not pass the test when it comes to bilateral investment treaties.

### **8.9. Double taxation treaties**

Another problem that is an investment barrier is the double taxation of investments. To pre-empt this many countries have endorsed double taxation treaties on a bilateral basis. As in the case with BITs, South Africa stands in a division of its own with 43 agreements. Mauritius, Zambia and Zimbabwe have signed 28, 18 and 11 treaties each, while the remaining countries are all below 10. It should be noticed that a majority (2/3) of the treaties with developing countries have been signed with African countries. Otherwise most of the treaties have been endorsed with countries in the developed world. South Africa and Mauritius had up until 1999 signed more double taxation agreements than any other country on the continent. Only four countries have signed at least 10 agreements on double taxation: Mauritius, South Africa, Zambia and Zimbabwe.

### **8.10. Development assistance**

With aid come different forms of conditions. Some of these conditions are related to democracy and liberalisation. Whatever the feeling about these kinds of conditions and reforms implemented as a result of negotiations with bilateral donors or International Financial Institutes, such as the World Bank (IBRD) or International Monetary Fund (IMF), the genuine conviction behind them is not easy to know. These countries are often referred to as 'bogus reformers' (Collier & Pattillio 2000), i.e. those that liberalise and change according to conditions, without real belief. Once it has happened, this kind of policy change can therefore easily recur, and investors subsequently fear this. Suspected countries in SADC community would then be Malawi and Mozambique, with an inflow of aid as a percentage of GNP that was nearly 30 per cent in 1998. Angola, Tanzania, Zambia are also in this risk zone with an official development assistance that made up around 10 per cent of the GNP in 1998 (UNDP 2000). Aid and FDI might then not go so well together. However, most SADC member states have received development assistance of well below 10 per cent, and in this regard SADC would pass the test of Aid dependency.

## 8.11. Summary

As might be expected, the high ranked and economically more developed economies of Mauritius, South Africa and Botswana were found in the top among the SADC community. However, all these countries attract relatively little FDI. On the other hand, among the countries that did not score well we find countries which attract relatively more FDI (table 8).

**Table 8. Fulfilment of 10 national policy frameworks in the SADC member states (FDI attracting countries in Bold letters)**

Number of scores	Countries
9	Mauritius, South Africa
8	Botswana
6	<b>Lesotho</b>
5	Congo D.R., Namibia, Swaziland, Tanzania, Zimbabwe
4	<b>Mozambique, Seychelles, Zambia</b>
3	<b>Malawi</b>
2	<b>Angola</b>

Source: Appendix 2.

A correlation test between national policy framework and FDI performance would then seem to indicate a non-existent relationship (table 9).

**Table 9. Rank correlation between national policy frameworks and FDI indicators.**

	National policy framework	FDI
National policy framework	-	-.359
FDI	-.359	-

Source: Appendix 3.

## 9. Analysis

The pattern of correlation between a high score in economic indicators and national policy framework versus FDI seems to be fairly low. Four of the five well-performing FDI attracting countries only fulfilled seven criteria or less: Angola (4), Malawi (3), Mozambique (3), Seychelles (4). The exception to this rule is Lesotho, scoring 11 out of 18, and thereby among the top countries in SADC. Botswana (1) and Angola (4), which scored thirteen and 4 respectively, are found at the other extremes (Table

10). The correlation between economic indicators, national policy framework and FDI change can therefore not be confirmed (Table 11).

**Table 10. Fulfilment of the 18 economic and national policy criteria versus the 4 FDI indicators (FDI attracting countries in Bold letters) (Number of FDI criteria fulfilled in brackets)**

Number of scores	Countries
13	Botswana (1), Mauritius (1)
12	South Africa (0)
11	<b>Lesotho</b> (4)
10	Namibia (1), Swaziland (1)
9	Zimbabwe (2)
8	Tanzania (0)
7	<b>Malawi</b> (3)
6	Congo D.R. (0), <b>Seychelles</b> (4), <b>Mozambique</b> (3)
5	Zambia (2)
4	<b>Angola</b> (4)

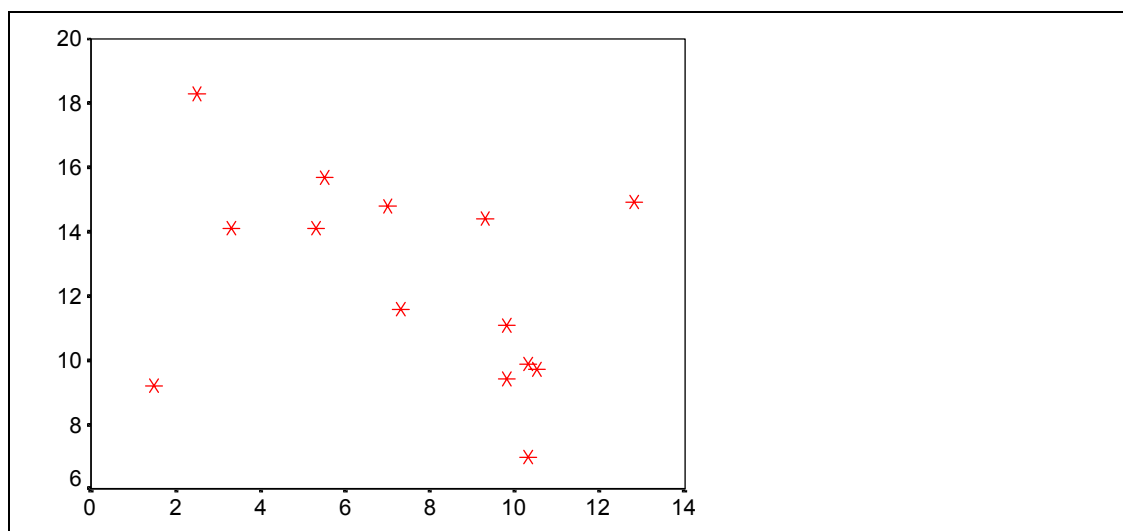
Source: Appendix 2.

**Table 11. Rank correlation between economic indicators, national policy frameworks versus FDI.**

	Economic indicators & national policy frameworks	FDI
Economic indicators & national policy frameworks	-	-.280
FDI	-.280	-

Source: Appendix 3.

The weak correlation found in table 11 between economic indicators, national policy framework versus FDI is also visually illustrated by a scatter plot in Figure 1.



**Figure 1. Rank correlation between economic and policy framework indicators (y) fulfilled and FDI indicators (x) fulfilled in SADC member states.**

Note: Rank correlation – 0,280

Source: Appendix 3.

FDI can in a simplified way be regarded as being market-oriented (access to a market), resource-oriented (access to natural resources and/or labour at a low cost) or efficiency-oriented (enhance productivity). A tentative conclusion of the present FDI allocations in SADC would suggest that most investors in the SADC region are resource-oriented, such as with oil in Angola. These investments seem to take place in Malawi, Mozambique and Angola with few of the supposed positive determinants for FDI fulfilled. It therefore seems that resource-driven FDI are less dependent on macro-economic stability and national policy frameworks than to the market and efficiency-driven FDIs.

What then do the high FDI attracting SADC countries have in common with poor scoring results (Angola, Malawi, Mozambique and Seychelles)? If we try to find common denominators among the parameters used in this study, three indicators were scored by 3 or 4 of the countries;

- ✓ An average annual GDP growth rate higher than population growth rate;
- ✓ Availability of low cost unskilled labour;
- ✓ a special FDI regime adopted, and
- ✓ Privatisation programme underway.

As can be seen in appendix 2, the SADC member states, according to the set-up in the matrix, score 120 of a possible 252 points; i.e. 48 percent. These scores are fairly unevenly distributed. A general observation will confirm that the SADC states did well in 10 of the 18 criteria used in these study (see appendix 2). At the other

extreme the SADC states did not score at all in two of the criteria: a labour force made up primarily of skilled labour, and a national GDP of US\$200 billion or more. If these two economic criteria were proven to have a causal effect on FDI the SADC states would be in real trouble.

A general conclusion would suggest that the SADC states are more focused on getting their national policy framework right than their macro-economic fundamentals. The national policy frameworks criteria were better fulfilled (53%) than the economic indicators (41%) (Appendix 2).

A pattern of capital flight has also been revealed in Southern Africa during the 1990s despite the potential good returns on investments in Africa. Research by LaRRI (2001) indicates, for example, that during the second part of the 1990s Namibia experienced a net capital outflow at the same time as the FDI stock and inflow in absolute terms increased. This is food for thought for a country that appears to have whatever is required to attract FDI. The problem however might rather be, how to avoid capital flight.

## 10. Conclusions

The results from this study lead us to draw the following conclusions:

- ✓ Belonging to an integrated regional grouping appears to be of a high explanatory value among the 'top 10' FDI receiving developing countries in the world, and could therefore be seen as an important factor in attracting FDI. The access to local consumers might be a key determinant for market-driven FDI.
- ✓ Relatively more FDIs have during the 1990s poured into Angola, Malawi, Mozambique and Seychelles despite a poor record in economic indicators and national policy frameworks. The exception to this rule is Lesotho.
- ✓ A positive correlation between FDI and 'good economic behaviour' doesn't appear to exist, at least concerning this study's variables. FDI seems to be primarily driven by more important factors than 'economic fundamentals', at least resource-driven investments in Southern Africa.
- ✓ Strong common criteria for FDI among the high attracting countries appear to be FDI regimes, privatisation programmes, unskilled labour to low cost and GDP growth rate higher than population growth rate.
- ✓ Other soft parameters, such as administrative barriers and the general bad image of Africa or 'bad neighbourhood effect' could very well be of higher importance for understanding the inflow of FDI to Southern Africa than performance, when it comes to 'getting the fundamentals right'.

- ✓ It might be that the current outflow of savings and investments from Southern Africa should be more of a concern for the SADC region than the actual inflow of FDI.

## **11. Future research of FDI in Southern Africa**

In this final section four areas for future research of FDI in Southern Africa will be highlighted and discussed briefly.

### ➤ **'Rep tape'**

Administrative barriers should not be underestimated as a significant impediment for FDI in Africa. A study by the World Bank (Emery et al. 2000) points out the existence of administrative bureaucracy, or what has been referred to as the condition of "red tape", as a main obstacle for investment in many developing countries. Although many Governments today have removed barriers to investments as well as deregulated and liberalised administrative barriers, the process appears to be slow in many countries. In Tanzania and Mozambique it can take 18 months to three years for an investor to become operational and in Namibia it can take between six months and a year. This should be compared to Malaysia for instance, where the same process might take six months (ibid.)

### ➤ **The image of Africa**

The general poor reputation of Africa among investors at international level has been identified by UNCTAD (1999a) as an important investment barrier for Africa. As a result it has been argued that one way to promote investments to the African continent would be to turn around the general perception of Africa as a continent of starvation, war and high risk (Collier & Pattillo 2000) for investors. These stereotypical pictures of Africa will probably continue to promote an attitude of scepticism towards the continent as a good place for FDIs if the African stakeholders do not engage in a counter action of positive promotion.

### ➤ **Type of FDI**

The tools to be used in current research in order to scrutinise FDI are mainly limited to highly aggregated figures provided by UN organisations. However, if a more fine-tuned analysis is required for analyses of FDI and economic development, then we are desperately in need of more precise statistics. The first step in this direction would be to reveal disaggregated data of FDI divided by for instance primary, secondary and tertiary sector investments. This would obviously make it much easier for researchers to draw more accurate conclusions based on factual information. The analyses concerning resource-driven, market-driven and efficiency-driven investment would then be more reliable than is the present case. Tentative attempts to collect this type of information appears to be quite difficult for isolated years, and even more cumbersome if time series are requested.

➤ **The validity and methods of collecting FDI statistics**

The statistics of FDI appear today to be quite blurred, as was discussed in section two above. The reporting of FDI by UNCTAD and WB appear to indicate a huge gap as has been indicated by the South African 'think tank' Businessmap. If this is the case the starting point for the study of FDI and its contribution and impact on economic growth and employment rates should be the methodology behind the compilation and reporting on FDI. Businessmap of South Africa estimated through their own survey among eight SADC states that the level of FDI in general was between 3 to 6 times higher in those countries than reported by UNCTAD and the World Bank.

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### Appendix 1. Economic, national policy and political risk indicators for the SADC member states.

	A	B	AB	C	D	E	F	G	H	I	J	K	L	M	No	O	P	Q	R	S	T	U	V	X
Angola	0.1	3.2	-3.1	42	52	No	Yes	7.5	n/a	297.1	-15.8	40	45	814	No	1994	2	2	2	9.7	529	56.4	69.6	24.2
Botswana	4.3	2.4	1.9	75.6	35	Yes	Yes	4.9	n/a	11.8	8.4	15	83.5	10	Yes	1988	4	2	4	1.9	4	-12.5	26.1	2.3
Congo D.R	-5.1	3.2	-8.3	58.9	24	No	Yes	7	n/a	208.2	-0.8	45	45.3	423	No	1986	3	9	na	2	6	1.1	2.9	< 0.1
Lesotho	7.2	2.2	5	82.4	33	Yes	Yes	0.8	n/a	64.7	-3	35	70.5d	9.6	Yes	1969	4	2	5	6.2	1437	255.1	279	17
Malawi	3.8	3.2	0.6	58.2	31	No	Yes	1.7	n/a	137	-4.9	38	61.3	33.5	Yes	1992	3	2	8	27.2	141	12.7	22.9	3.5
Mauritius	5.2	1.0a	4.2	83.8	41	No	No	4.2	29	59.6	-3.1	35	85d	6.8c	Yes	1993	4	9	28	1	148	2.3	8.5	1.2
Mozambique	5.7	2.2	3.5	42.3	12	No	Yes	3.9	n/a	223	-1.1	35	56.3	36.4	Yes	1993	4	3	2	27.9	2126	12.4	14.4	9.9
Namibia	3.5	2.6	0.9	80.8	63	Yes	Yes	3.1	n/a	na	-4.6	35	78.3	9.8	Yes	1992	2	3	7	5.7	-26	-35.8	48	3.7
Seychelles	5.3a	2.0a	3.3	84	23b	No	No	0.5b	n/a	36.3	-11	40	70d	2.0c	Yes	1967	2	na	4	4.5	170	28.1	78.8	12
South Africa	1.9	2	-0.1	84.6	26	Yes	Yes	133.5	47	18.9	-1.4	30	70.5	10.2	Yes	n/a	3	17	43	0.5	85	4.8	13.4	1
Swaziland	5.3a	2.8a	2.5	78.3	90b	Yes	Yes	1.3b	n/a	18.7	-2	30	70.5d	8.0c	No	n/a	3	3	4	2.3	42	1.4	40.5	< 0
Tanzania	3	2.9	0.1	73.6	18	No	Yes	8	n/a	94.3	0	30	59.0	23.2	Yes	1997	3	4	9	12.9	96	7.7	9.9	2.3
Zambia	1	2.7	-1.7	76.3	29	No	Yes	3.4	n/a	217.4	3.6	35	58.8	56.9	Yes	1993	3	3	18	11	97	23	52.8	4.8
Zimbabwe	2.3	2.2	0.1	87.2	46	No	Yes	6.3	57	79.8	-6.1	35	56.0	23.8	No	1989	4	9	11	5.1	998	13.5	14.5	0.9
<b>Total</b>																								

#### Economic indicators

- A. GDP average annual growth rate (%) 1990-1998.
- B. Population average annual growth rate (%) 1990-1999.
- AB. GDP average annual growth rate (%) 1990-1998 minus the average annual population growth rate (%) 1990-1999
- C. Adult literacy ratio 1998 (age 15 and above).
- D. Exports as percentage of GDP 1998.
- E. Belonging to a developed regional grouping?
- F. Availability of low skilled labour to low cost.
- G. GDP US\$ Billion 1998
- H. World Competitiveness ranking 1999.
- I. External debt as a % of GDP 1998

#### Notes:

- a = 1990-1997
- b = 1997
- c = average for 1997/1998
- d = estimation
- na = not available
- n/a = not applicable

#### National policy framework indicators

- J. Budget deficit
- K. Highest marginal corporate tax structure
- L. Political risk rating. Political Risk Service (March 2000)
- M. An average GDP deflator for the period 1990 to 1999.
- N. Is the government engaging in privatisation programmes?
- O. Special FDI regimes adopted (Year)
- P. Number of multilateral agreements ratified 1999, out of 4 possible.
- Q. Number of bilateral investment treaties ratified by 1999
- R. Number of double taxation treaties by 1999.
- S. Official development assistance received (net official aid) as % of GDP 1998

#### Foreign Direct Investment indicators

- T. Total FDI stock change between 1990 and 1999, in percent.
- U. FDI inflows change between 1990 and 1998 as % of GDP, in per cent.
- V. Inward FDI stock as a percentage of GDP 1998.
- X. FDI inflows, by host region and economy 1999 as a percentage of GDP.

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## Appendix 2. Fulfilment of economic, national policy and political risk indicators by SADC member states.

Number of indicators	1	2	3	4	5	6	7	8		9	10	11	12	13	14	15	16	17	18				1	2	3	4	
	AB1	C1	D1	E1	F1	G1	H1	I1	sum	J1	K1	L1	M1	N1	O1	P1	Q1	R1	S1	sum	Total	T1	U1	V1	X1	Total	
Angola			1		1				2						1				1	2	4	1	1			1	4
Botswana	1		1	1				1	5	1	1	1	1	1		1			1	8	13				1		1
Congo D.R					1				1	1					1	1	1		1	5	6						0
Lesotho	1		1	1	1			1	5	1			1	1	1	1			1	6	11	1	1	1	1	1	4
Malawi	1		1		1			1	4					1	1	1				3	7	1	1	1			3
Mauritius	1		1				1	1	4	1		1	1	1	1	1	1	1	1	9	13	1					1
Mozambique	1				1				2	1				1	1	1				4	6	1	1			1	3
Namibia	1		1	1	1			1	5			1	1	1	1				1	5	10				1		1
Seychelles	1							1	2			1		1	1				1	4	6	1	1	1	1	1	4
South Africa				1	1				3	1	1	1	1	1			1	1	1	9	12						0
Swaziland	1		1	1	1			1	5	1	1		1			1			1	5	10				1		1
Tanzania	1				1			1	3	1	1			1	1	1				5	8						0
Zambia					1				1					1	1	1			1	4	5						2
Zimbabwe	1		1		1			1	4						1	1	1	1	1	5	9	1	1	1			2
<b>Total</b>	<b>10</b>	<b>0</b>	<b>8</b>	<b>5</b>	<b>12</b>	<b>0</b>	<b>1</b>	<b>10</b>	<b>46</b>	<b>8</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>10</b>	<b>12</b>	<b>11</b>	<b>4</b>	<b>4</b>	<b>10</b>	<b>74</b>	<b>120</b>	<b>7</b>	<b>7</b>	<b>8</b>	<b>4</b>	<b>26</b>	
<i>% indicators fulfilled</i>									<b>0</b>											<b>0</b>	<b>0</b>						<b>3</b>
<i>Fulfilled by 7 states or more</i>	<b>1</b>		<b>1</b>		<b>1</b>			<b>1</b>	<b>4</b>	<b>1</b>				<b>1</b>	<b>1</b>	<b>1</b>			<b>1</b>	<b>5</b>	<b>9</b>	<b>1</b>	<b>1</b>	<b>1</b>			<b>3</b>
<i>% of indicators fulfilled</i>																											

### Criteria for fulfillment of indicators:

AB1. If a higher average annual GDP growth rate than population growth rate during the 1990s.

C1. If the literacy ratio (age 15 and above) is 90% or higher.

D1. If exports as percentage of GDP 1998 exceeds 30%.

E1. If member of an integrated regional grouping.

F1. Estimation based literacy ratios, unemployment rates

G1. If a GDP of at least 200US\$ Billion 1998.

H1. If the world competitiveness ranking is 30 or better

I1. If the external debt was not exceeding 200% of GNP in 1998.

J1. If the budget deficit is less than 3.5%.

K1. If the highest marginal corporate tax rate is 30 per cent or below

L1. If the political risk rating index is at least 70 or more?

M1. If an average single-digit inflation rate during the 1990s.

N1. If the government is engaged in a privatisation programme.

O1. If a special FDI regime has been adopted by the government.

P1. If at least three out of four multilateral agreements have been ratified.

Q1. If 10 or more investment treaties been signed by 1999.

R1. If 10 or more double taxation treaties been signed by 1999.

S1. If official development assistance was not exceeding 10 % of GDP in 1998.

T1. If a FDI stock increase of at least 100% between 1990 and 1999.

U1. If a FDI inflow increase of 10 percent or more of GDP between 1990 and 1998.

V1. If an inward FDI stock of at least 20% of GDP 1998.

X1. If a FDI inflow of at least 10% of GDP in 1999.

### Appendix 3. Ranking of economic, national policy and political risk indicators for the SADC member states.

	AB	C	D	E	F	G	H	I	J	K	L	M	SUM	N	O	P	Q	R	S	SUM	SUM	T	U	V	X	SUM
Angola	13	14	3	6	1	3	14	12	14	4	14	2	8.3	11	12	1	12	10	14	10.0	<b>18.3</b>	4	2	3	1	<b>2.5</b>
Botswana	6	9	6	1	1	6	1	1	2	4	6	1	3.7	4	1	1	9	3	2	3.3	<b>7.0</b>	13	13	7	8	<b>10.3</b>
Congo D.R	14	11	11	6	1	4	4	14	13	4	13	2	8.1	3	6	10		4	11	6.8	<b>14.9</b>	12	12	14	13	<b>12.8</b>
Lesotho	1	5	7	1	1	13	8	5	4	4	4	1	4.5	2	1	1	8	9	7	4.7	<b>9.2</b>	2	1	1	2	<b>1.5</b>
Malawi	10	12	8	6	1	11	11	11	8	4	10	1	7.8	6	6	1	6	13	10	7.0	<b>14.8</b>	7	6	8	7	<b>7.0</b>
Mauritius	2	4	5	6	12	7	9	5	1	1	2	1	4.6	8	1	10	2	2	6	4.8	<b>9.4</b>	6	10	13	10	<b>9.8</b>
Mozambique	3	13	14	6	1	8	5	5	11	4	11	1	6.8	8	1	5	12	14	13	8.8	<b>15.7</b>	1	7	10	4	<b>5.5</b>
Namibia	7	6	2	1	1	10	10	5	3	4	5	1	4.6	6	12	5	7	8	1	6.5	<b>11.1</b>	14	14	5	6	<b>9.8</b>
Seychelles	4	3	12	6	12	14	13	13	7	4	1	1	7.5	1	12		9	6	5	6.6	<b>14.1</b>	5	3	2	3	<b>3.3</b>
South Africa	11	2	10	1	12	1	6	2	4	2	7	1	4.9		6	13	1	1	4	5.0	<b>9.9</b>	10	9	11	11	<b>10.3</b>
Swaziland	5	7	1	1	1	12	7	2	4	4	3	2	4.1		6	5	9	5	3	5.6	<b>9.7</b>	11	11	6	14	<b>10.5</b>
Tanzania	8	10	13	6	1	2	3	2	9	4	8	1	5.6	12	6	9	5	12	9	8.8	<b>14.4</b>	9	8	12	8	<b>9.3</b>
Zambia	12	8	9	6	1	9	2	5	10	4	12	1	6.6	8	6	5	3	11	12	7.5	<b>14.1</b>	8	4	4	5	<b>5.3</b>
Zimbabwe	9	1	4	6	1	5	12	5	12	3	9	2	5.8	5	1	10	4	7	8	5.8	<b>11.6</b>	3	5	9	12	<b>7.3</b>
<b>Total</b>																										

#### Economic, national policy and risk indicators

- A. GDP average annual growth rate (%) 1990-1998.
- B. Population average annual growth rate (%) 1990-1999.
- AB. GDP average annual growth rate (%) 1990-1998 minus the average annual population growth rate (%) 1990-1999
- C. Adult literacy ratio 1998 (age 15 and above).
- D. Exports as percentage of GDP 1998.
- E. Belonging to a developed regional grouping?
- F. Availability of low skilled labour to low cost.
- G. GDP US\$ Billion 1998
- H. Budget deficit
- I. Highest marginal corporate tax structure
- J. Political risk rating. Political Risk Service (March 2000)
- K. World Competitiveness ranking 1999.
- L. An average GDP deflator for the period 1990 to 1999.
- M. Is the government engaging in privatisation programmes?

#### N. Special FDI regimes adopted (Year)

- O. Number of multilateral agreements ratified 1999, out of four possible.
- P. Number of bilateral investment treaties 1999
- Q. Number of double taxation treaties 1999.
- R. Official development assistance received (net official aid) as % of GDP 1998
- S. External debt as a % of GDP 1998

#### Foreign Direct Investment indicators

- T. Total FDI stock change between 1990 and 1999, in percent.
- U. FDI inflows change between 1990 and 1998 as % of GDP, in per cent.
- V. Inward FDI stock as a percentage of GDP 1998.
- X. FDI inflows, by host region and economy 1999 as a percentage of GDP.