

Module-5

Foreign Direct Investment and Related Issues in South Asia and Sub-Saharan Africa

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Table of Contents

Acronyms	iv
1. Introduction	1
2. Main Types of FDI	2
3. FDI: Measurement Issues.....	4
4 Trends in FDI inflows & Outflows in South Asia.....	6
5 Trends in FDI Inflows & Outflows in SSA	7
6. Sources of Information on FDI Inflows/Outflows	9
7. Investment Climate Indicators.....	10
8. How to Promote Investment Promotion Strategy.....	12
Annexure.....	15
References	25

List of Tables

Table 1: Components of FDI Inflows in India in 2003 (in US\$ million).....	5
Table 2: FDI Flows in South Asia – Stylised Facts	6
Table 3: FDI Inflows in SSA – Stylised Facts	8
Table 4: Business Environment in SA and SSA	12

List of Boxes

Box 1: Example of Resource-seeking FDI	3
Box 2: Example of Market-seeking Investment.....	3
Box 3: Example of Strategic Asset –seeking FDI.....	4
Box 4: South Africa – Import substitution to export orientation in the automotive industry	11

Acronyms

BOP	Balance of Payments
DAC	Development Assistance Committee
FDI	Foreign Direct Investment
GDCF	Gross Domestic Capital Formation
GDP	Gross domestic Product
HIPC	Heavily indebted poor countries
IMF	International Monetary Fund
IPI	Investment Promotion Intermediaries
M&As	Merger & Acquisitions
MERCOSUR	Southern Common Market,
MIDP	Motor Industry Development Programme
OECD	Organisation for Economic Co-operation and Development
RTA	Regional Trade Agreement
SSA	Sub-Saharan Africa
SA	South Asia
TNC	Trans-national Corporations
UNCTAD	United Nations Conference on Trade and Development

1. Introduction

Many developing countries, once hostile to the entry of foreign direct investment (FDI) or inclined to restrict it severely, now compete to attract foreign firms. Experience with the development process over the last two decades has been partly responsible for these attitudes. Today, FDI flows contribute more resources to the developing countries than the debt flows. The global debt crisis of 1980s made developing economies to realise the dangers of debt finance. One distinct disadvantage of debt finance is that it creates fixed debt-servicing obligations. During the debt crisis, even when the borrowing agency was a private entity, the government often had to come to its rescue in order to maintain the credibility of the country. The growing volume of FDI, the stagnating volume of debt flows, and the servicing aspect of debt finance – all have contributed to the current policy shift of the developing countries towards FDI. Furthermore, FDI inflows promise a variety of potential benefits to country recipients.

FDI, apart from being an important source of development financing, contributes to productivity gains by providing new investment, better technology, management expertise and export markets. Given resource constraints and lack of investment in developing countries, there has been increasing reliance on the market forces and private sector as the engine of economic growth. In the neo-classical growth model, FDI promotes economic growth by increasing the volume of investment and its efficiency. Therefore, all countries, particularly developing and least developed countries (LDCs), seek to attract FDI for the package of benefits it brings along with it into the host country economy. FDI, not only supplements domestic investment resources but also acts as a source of foreign exchange and can relax balance of payment constraints on growth. Considering the economic benefits and importance of FDI for promoting economic growth, most of the countries have formulated wide-reaching changes in national policies to attract FDI.

The empirical literature suggests that FDI raises national welfare by increasing the volume and efficiency of investment through improved competitiveness, technological diffusion, accelerated spillover effects and the accumulation of human capital (Borensztein *et al.* 1998; Chakrabati, 2001, Durham, 2004). Overall, the flow of FDI to developing countries contributes to growth through two mechanisms, i.e., increasing total investment in the host country and increasing productivity through technology and management spillover.

In the FDI arena, the primary actors are the trans-national corporations (TNCs) that make overseas investments and the locations that serve as hosts for these investments. In many cases, locations are represented and marketed by investment promotion intermediaries (IPIs) that work to bring companies to their locations. In other words, the TNCs, in seeking out a good site to do business, is the “client” of the IPI, and the IPI sells its location. In reality, IPIs are generally part of the government or work closely with government in many of the economies of South Asia (SA) or Sub-Saharan Africa (SSA). Thus, for fruitful working of the IPIs, it is vital that officials in the IPIs have a clear understanding of the client. This understanding requires an appreciation of the history, current and past trends, and site-selection factors of FDI.

All FDI is not the same. Different types of companies have different reasons for investing overseas. They also go about the decision to invest in different ways and have different priorities when selecting an investment location. Moreover, the main types of FDI have changed dramatically over recent decades. Most governments typically think of FDI in terms of the number of jobs created. However, FDI can have several other important impacts that are both direct and indirect. These impacts vary with the type of FDI that is attracted, the country's level of economic development, the linkages between FDI and the domestic economy and the extent to which FDI promotion is integrated into the national economic development strategy.

This training module attempts to illustrate the various facets of FDI with examples drawn from country experiences in SA and SSA. The plan for the rest of the report is as follows. Section 2 articulates different types of FDI flows, while the measurement related issues on FDI are discussed in Section 3. The trends in FDI inflows and outflows in SA and SSA economies are analysed in the Sections 4. Section 5 examines the investment climate indicators in SA and SSA countries. Finally, in Section 6, an attempt is made to provide a guideline on investment promotion strategy from the perspective of a developing country.

2. Main Types of FDI

At the outset, no one definition applies to all types of FDI. Still, the academic community has attempted to categorise varieties of FDI into four types.[†] These are: resource seeking; market seeking; efficiency seeking; and strategic asset seeking. As the names suggests, these categorisation is based on the motivating factors for flows of FDI, as outlined below:

Resource seeking

- FDI in natural resources (minerals, raw materials, and agricultural products); and
- FDI seeking low-cost or specialised labour.

Market seeking

- FDI into markets previously served by exports, or into closed markets protected by high import or other barriers;
- FDI by supplier companies following their customers overseas; and
- FDI that aims to adapt products to local tastes and needs, and to use local resources.
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Efficiency seeking

- Rationalised or integrated operations (regionally/globally) leading to cross-border product or process specialisation.

Strategic asset seeking

- Acquisitions and alliances to promote long-term corporate objectives.

[†] See Dunning (1993).

Most FDI in developing economies such as SA and SSA is resource seeking. This type of investment aims to exploit a country's comparative advantage. For instance, countries rich in primary materials, such as oil or minerals, will attract companies seeking to develop these resources. Low-cost and specialised labour are two other factors that attract resource-seeking FDI. In fact, resource-seeking FDI is used to produce goods for export (see Box 1).

Box 1: Example of Resource-seeking FDI

The buoyant global demand for oil in recent years implies high rate of return in this sector. Consequently, there has been a spate of FDI flows in petroleum exploration, extraction and related activities in SSA in recent years. Major examples are FDI flows from US, EU, China in Angola, and FDI flows from Malaysia in Mozambique, the same from China in Nigeria.

Source: UNCTAD (2006), World Investment Report.

In contrast, market-seeking investment is aimed at reaching local or regional markets, often including neighbouring countries. Companies making this type of investment typically manufacture a wide variety of household consumer products or other types of industrial goods in response to actual or future demand for their products. In some cases, market-seeking FDI occurs as supplier companies follow their customers overseas. For example, an auto component manufacturer may follow a car producer. Market-seeking investment is often defensive and is used by companies to try to circumvent real or threatened import barriers. A liberal trade regime is essential if the investor wishes to serve neighbouring or overseas markets. A typical example of such type of investment is shown in Box 2.

Box 2: Example of Market-seeking Investment

In the last decade, TNCs made large market seeking investments in the automotive industry in Brazil and Argentina. TNCs affiliates in these countries have improved their export competitiveness to produce cars for markets outside MERCOSUR. Simultaneously, TNC producers reorganised their Latin American production networks. At present, MERCOSUR affiliates specialise in small, low-cost vehicles aimed at consumers with low purchasing power, while Mexican affiliates focus on consumers with high purchasing power. Bilateral agreements between MERCOSUR member countries and Mexico, which entered into force in January 2003, supported this new export strategy through the reduction in import tariffs and implementation of import quotas. Currently, Argentina and Brazil export significant number of automobiles to Mexico, US, and Chile.

Source: UNCTAD (2005), World Investment Report (pp. 68).

Efficiency-seeking FDI frequently occurs as a follow-on form of investment. A TNC may make a number of resource or market-seeking investments, and over time, it may decide to consolidate these operations on a product or process basis. Companies are able to do this, however, only if cross-border markets are open and well developed. As a result, this form of FDI is most common in regionally integrated markets. The reorganisation of the automobile industry in MERCOSUR is a case in point in efficiency seeking investments (see Box 2).

TNCs also may undertake smaller-scale product rationalisation among a few neighbouring countries. This type of investment is illustrated by Nestlé’s North African and Middle Eastern affiliates. Each affiliate produces a specialised product for the regional market. Each affiliate also imports other products from sister affiliates in neighbouring countries. Taken together, the region has access to a full spectrum of products, but each affiliate is responsible for the production of only a small segment.

Strategic asset-seeking FDI occurs when companies undertake investments, acquisitions or alliances to promote their long-term strategic objectives. For example, a TNC may form a strategic alliance with a company based in another country to jointly undertake mutually beneficial research and development (R&D). Strategic asset-seeking FDI is common in industrialised countries (see Box 3).

Box 3: Example of Strategic Asset –seeking FDI

1. South African Breweries bought a 64 percent stake in Miller Brewing (US). After this acquisition, South Africa Breweries changed its name to SABMiller. Subsequently, it acquired Birra Peroni (Italy), and Harbin Brewery (China) in 2003.
2. South African Airways bought Air Tanzania, as part of its plan to build an African regional network.
3. Among the SA based TNCs, Tata group has been active in overseas acquisition to consolidate its position in the steel sector. In 2006, TISCO, the subsidiary of TATA, acquired CORUS group of UK with operations in four continents. As a result, TISCO has emerged as the 6th largest producer of steel in the world.

Source: UNCTAD (2003), “World Investment Report”
<http://www.tatasteel.com>

3. FDI: Measurement Issues

It is important to note that there are significant problems with the definition and interpretation of FDI data in different countries. According to international guidelines based on the recommendations by the International Monetary Fund (IMF) in its Balance of Payments (BoP) manual (fifth edition, 1993), FDI is defined as international investment that reflects the objective of a resident entity in one economy (foreign direct investor or parent enterprise) obtaining a “lasting interest” and control in an enterprise resident in an economy other than that of the FDI enterprise or affiliate enterprise or foreign affiliate. “Lasting interest” implies the existence of a long-term relationship between a direct investor and the enterprise, and a significant degree of influence on the management of the enterprise resident in the other economy.

Such investment involves both the initial transactions between the two entities and all subsequent transactions between them and among foreign affiliates – both incorporated and unincorporated. FDI may be undertaken by individuals as well as business entities. The general rule of thumb presented in the Manual is that the direct investor owns (or controls) at least 10 percent of the ordinary shares, voting power or equivalent. Flows of FDI comprise capital provided (either directly or through other related enterprises) by a foreign direct investor to an FDI enterprise, or capital received from an FDI enterprise by a foreign direct investor. FDI has the following three components:

- **Equity capital:** It is the foreign direct investor's purchase of shares of an enterprise in a country other than its own.
- **Reinvested earnings:** It comprises of the direct investor's share of earnings not distributed as dividends by affiliates, or earnings not remitted to the direct investor, which reinvested by affiliates.
- **Intra-company loans or intra-company debt transactions:** It refers to short- or long-term borrowings and lending of funds between direct investors (parent enterprises) and affiliate enterprises.

FDI stock is the value of the share of their capital and reserves (including retained profits) attributable to the parent enterprise, plus the net indebtedness. FDI flows are recorded on a net basis (capital transactions' credit less debit between direct investors and their foreign affiliates) in the BoP. Net decreases in assets (outward FDI) or net increases in liabilities (inward FDI) are recorded as credits (recorded with a positive signs in the BOP), while net increases in assets or net decreases in liabilities are recorded as debits (recorded with an opposite signs in the BoP). Hence, FDI flows with a negative sign indicate that at least one of the three components of FDI (equity capital, reinvested earnings or intra-company loans) is negative and not offset by positive amounts of the remaining components. It would be useful to understand these concepts with actual data of India in 2003 (see Table1).

Table 1: Components of FDI Inflows in India in 2003 (in US\$ million)

Components	Claims on direct investors	Liabilities to direct investors	Net
(1)	(2)	(3)	(4)
Equity Capital	2295	-48	2247
Reinvested earnings			1808
Other capital	530	0	530
Direct investment in India			4585

Source: IMF (2006), "Balance of Payments Statistics, year book," Part 1, pp. 457.

As Table 1 indicates FDI inflows in India or direct investment in India as reported by IMF's BoP yearbook amounted to US\$4.5bn in 2003. It is sum of the three components, viz. equity capital, reinvested earnings, and other capital, which are basically intra-company loans. Table 1 suggests that equity capital (net) is obtained by adding claims on direct investors and liabilities to direct investors on the same component. Similarly, other capital (net) is derived, though in this example, liabilities to direct investors on this component turn out to be zero. However, IMF usually provides data on reinvested earnings only on net basis.

IMF's BoP yearbook also provides data of direct investment abroad broken up into equity capital reinvested earnings and other capital for each country. This data can be used to estimate FDI outflow from a country. In general, the IMF guidelines are followed closely by industrial countries, but not completely by many developing countries, due to difficulties in compilation of FDI data. However, the findings of the recent IMF/OECD survey of 2001 on FDI show that there have been marked improvements in the availability of FDI statistics and in the applications of a number of the recommendations of the international standards for compilation of FDI statistics.

4 Trends in FDI inflows & Outflows in South Asia

It is evident from Table 2 that South Asia is a small player in respect of FDI. The share of South Asia in the FDI inflows of world stands at about 1.7 percent in 2005. Even when compares the share of SA in FDI flows of developing countries, the number comes to be quite small, i.e. about two percent in 2005 (see Table A-1). The share of FDI inflows as a percentage of GDP in South Asian countries is quite low though they have increased gradually since 2000 (see Table 2). Note that the picture is more positive when one compares the share of inward FDI stocks in GDP – it has risen by 1.5 percent since 2000 (see Table A-2 under Annexure).

Table 2: FDI Flows in South Asia – Stylised Facts

	1990-2000	2000-04	2005	2006
GDP (Annual % growth)	5.6	5.8	8.7	8.7
Share in GDP	1990	2004	2005	2006
Merchandise trade (%)	16.5	27.9	33.9	
FDI inflows (US \$ Millions)	541	7301	9765	
Share in world (%)	0.27	1.03	1.07	
Share in GDP	0.1	0.8	0.9	

Source: World Bank, "World Development Indicators", various issues.

However, the positive element is that FDI inflows in absolute value to South Asia have increased continuously over the years (see Table A-1). There are several reasons for this trend. Since the 1990s, most of the SA economies have undertaken economic reforms and have moved towards a market friendly regime where private sector has an important role to play. The tariff and NTBs in all these economies have declined progressively resulting in upsurge in share of trade in GDP in recent years (see Table 2). Last but not the least, SA economies have moved to higher growth trajectory.

An improving economic situation and a more open FDI climate encouraged inflows to India, at record levels of US\$6bn (see Table A-1 under Annexure). Cross-border merger and acquisitions (M&As) in India rose in 2004 as the telecommunications, business process outsourcing and pharmaceutical industries saw an increase in large deals. The improved investment environment and the privatisation of assets in Pakistan and Bangladesh contributed to increased FDI inflows to those countries.[‡] Overall, business confidence in SA countries improved. As Table 2 shows, FDI outflows from individual SA countries have been negligible (except India), which further indicates the health of the economies. In recent years, outflows from India in absolute terms have been large. However, this trend signifies the maturing of the Indian economy leading to overseas investment by the Indian multinationals in foreign economies.

Table A-3 and Table A-4 under Annexure present the Inward FDI Performance Index and FDI Potential Index for South Asia and for its individual countries. Though these two indicators have limitations, they are widely used to judge the relative standings of the different countries in respect of FDI. The UNCTAD FDI inward performance index is a measure of the extent to which a host country receives inward FDI relative

[‡] See Sahoo (2006).

to its economic size. It is calculated as the ratio of the country's share in global FDI inflows to its share in Global GDP. On the other hand, FDI potential index refers to the 3-year moving averages using data for the three previous years including the year in question. The potential index is based on 12 economic and policy variables. The lower values of ranks in both these indicators indicate improvement.

The data of recent years indicates Pakistan and Bangladesh have managed to increase their Inward FDI Performance consistently. In fact, these two countries have fared better than large economies such as India in FDI performance, though the potential of larger economies is higher. However, India's FDI Performance Index has remained more or less constant and has taken a slight dip in the last two to three years, which may be due to delays in FDI reform measures as a result of stiff opposition from leftist political parties. India has not been able to liberalise its FDI policy framework to the extent that some of its neighbours like Bangladesh and Sri Lanka have accomplished in recent years. The sectoral caps on insurance and retail are still in place, with little possibility of deregulation. In the case of Sri Lanka, prolonged internal disturbance is a major hindrance and the rank of the performance index in current year is nearly 25 points higher than that it achieved in 1990.

Among the SA economies, India, with ranks at 82 in 2004 is way above the other countries of the region in respect of UNCTAD's inward potential index. It has improved somewhat in comparison to 2000. The ranks of the other countries have more or less remained same or deteriorated in recent years. In the present decade, SA economies have moved to a higher growth path. By and large, the countries are following sound macroeconomic policy (Sahoo, 2006). They have built in place a transparent FDI regime; hence the economies are more outward oriented. So in the coming years, we can expect SA to receive a higher FDI flows.

5 Trends in FDI Inflows & Outflows in SSA

Over the last decades, FDI inflows to developing countries have soared. From 1990 to 2000 alone, the figure expanded from US\$24bn to US\$178b and further to US\$334bn at the end of 2005.[§] As it turns out, however, the countries SSA have generally not received a proportional share of these unprecedented FDI inflows. According to UNCTAD (2006), "The African continent did not benefit from the increased investment flows to developing countries as a whole..." It is only in that present decade that SSA is receiving FDI inflows in a significant way (see Table 3). As Table 3 shows, SSA received only US\$1.2bn FDI inflows in the last decade in comparison to the tune of US\$11bn flows of the same during the four year period 2000-04. The flows increased further to US\$17.6bn in 2005. The turnaround in FDI flows in the present decade can be ascribed to several factors.

The recent surge in commodity price implies resource rich SSA would be an attractive destination for resource-seeking FDI investors. Of course, a liberal outward-oriented macroeconomic policy has facilitated FDI flows (see IMF, 2004). Note that the share of merchandise trade in GDP, a proxy of outwardness index, increased from 42 percent in last decade to 55 percent during the period 2000-04.

[§] See Table A-5)

Table 3: FDI Inflows in SSA – Stylised Facts

GDP (Annual % growth)	1990-2000	2000-04	2005	2006
	2.5	3.9	6.0	5.7
Share in GDP	1990	2004	2005	2006
Merchandise trade (%)	42.4	54.7	73.3	
FDI inflows (US \$ Millions)	1209	11042	17634	
Share in world (%)	0.60	5.48	8.76	
Share in GDP	0.4	2.2	2.9	

Source: World Bank, (2005, 2006) "World Development Indicators".

The distribution of FDI in SSA is quite uneven (see Table A-5 under Annexure). South Africa has come out to be the most attractive destination of FDI in SSA due to its economic and political stability, sound economic policy and natural resource base. From less than US\$1bn in 2003, FDI inflows in South Africa have increased to nearly US\$6.5bn in 2005.

Traditionally, FDI inflows in SSA have been directed towards region's oil producers – Nigeria and Angola. However, Angola has attracted little FDI inflows since 2004 due to internal instability. On the other hand, a number of non-oil exporting countries – Congo: Dem. Rep., Equatorial Ghana, Mozambique, Namibia, Côte d'Ivoire, Tanzania, and Uganda – have succeeded in attracting significant levels of FDI. In Mozambique, where some "mega projects" are under way for the construction of an aluminium smelter and natural gas pipeline, FDI is expected to have reached 40 percent of GDP in 2005 (see Table A-6 under Annexure).^{**}

The data in Table A-6 under Annexure indicates that the share of inward stocks in GDP in many of the SSA economies is quite high, especially if one compares the same in respect of SA economies. However, one should remember that to some extent, the high number arise due to small size of the economy. Also, note that in some of the large economies – Namibia, Botswana – the shares have also declined significantly. However, in most of the countries, the shares seem to have increased. The shares of inward flows in Gross Fixed Capital Formation (GFCF) in individual economies of SSA seem to be significantly larger than those of SA countries (see Table A-7 under Annexure). By and large, the economies of SSA have been more open towards FDI. Also, SSA economies did not adopt the import-substitutions development strategy, which have been followed by most of the SA economies at one point or other.

How do the SSA economies fare in respect of inward FDI performance index? Table A-8 under Annexure shows the relevant data that out of the 30 economies for which the data are available, about 8 countries show some improvement, whereas about 13 countries indicate deterioration. Note the case of Angola, which occupied rank 3 in 2003, has moved down to 18 in respect of inward performance index. The poor state of the SSA economies is more distinct when one looks at the trend of the inward FDI potential index (see Table A-9 under Annexure). Practically, in almost all the countries, the ranks of the potential indices have fallen over the years.

** See UNCTAD (2005).

What would be the trend of FDI flows to SSA in the coming years? As long as commodity boom continues, resource-seeking FDI would flows to SSA. However, it would not be easy for SSA economies to attract market-seeking FDI. The engine of growth has of late shifted to Asia. The size of the market is much larger in Asia. Moreover, most of the Asian economies are now moving at a rapid pace to integrate their markets through comprehensive economic engagements.^{††} Unlike in the past, most Asian countries are now seeking FDI in a big way. Thus, it would not be easy for SSA economies to keep the FDI inflows at the present pace in the coming years.

6. Sources of Information on FDI Inflows/Outflows

An excellent source of general information on global FDI trends is the *World Investment Report* published annually by the United Nations Conference on Trade and Development (UNCTAD). This report, which available is on Internet, contains extensive data on world-wide, regional, and country-specific investment flows. UNCTAD regularly collects published and unpublished national official FDI flows data directly from central banks, statistical offices or national authorities on an aggregated and disaggregated basis for its FDI/TNC database (www.unctad.org/fdistatistics). These data constitute the main source for the reported data on FDI. These data are further complemented by data obtained from: (i) other international organisations such as IMF, the World Bank and the Organisation for Economic Co-operation and Development (OECD); and (ii) regional organisations such as Banque Centrale de l’Afrique de l’Ouest, Banque des Etats de l’Afrique Centrale. IMF’s CD-ROM on *International Financial Statistics and Balance of Payments* are also useful source of information on FDI.

Furthermore, data on the FDI outflows of the OECD as presented in its annual publication *Geographical Distribution of Financial Flows: Part I (Developing Countries)* can be used as a proxy for FDI inflows. Of course, as these OECD data are based on FDI outflows to developing countries from the members’ countries of the Development Assistance Committee (DAC) of OECD, inflows of FDI to SA or SSA economies may be underestimated.

In recent times, many countries also have independent/government investment promotion agency, which collates data on various facets of FDI. For example, some of the agencies/sources for information on FDI in the SA economies include: SIA Newsletter (monthly, Government of India) for India; Board of Investment (Government of Pakistan) for Pakistan; Board of Investment for Bangladesh; and Board of Investment for Sri Lanka. One can also use the resources at Internet to conduct research on general FDI trends, investment flows into specific countries, and industry-and market-specific investment trends.

^{††} See Kumar (2003).

7. Investment Climate Indicators

Developing countries in 1990s adopted policies to welcome FDI. This policy stance can be explained by the fact that aid to developing countries has fallen in this period as well as some developing countries have been able to extract benefits from foreign investment. Countries now compete with each other fiercely and provide a range of tax and financial incentives to foreign investors to attract higher FDI into their countries. However, recent evidences suggest that incentives per se do not appear to matter much.^{‡‡} What is more important is to establish a favourable climate for investment. Thus, investment climate indicators have become the corner stone of any FDI policy discourse.

Of late, SA countries have opened up and made their FDI policy environments conducive to foreign investment.^{§§} Initially, FDI was allowed in a restrictive manner and on mutually advantageous terms with the majority stake held by domestic firms. However, all five major SA countries have tried to encourage FDI more aggressively in recent years by making changes in their macroeconomic policies along with trade and FDI policies. A summary of FDI policy frameworks in SA for major countries is presented in Table A-10. As this table indicates, the policy regime is transparent and FDI friendly. Of course, there are some sectors where FDI is not wanted and or there are conditions under which it may be permitted. The sectoral caps on FDI in selected sectors are typical of the SA economies. Also, foreign investors are given some fiscal incentives in some cases. However, they have typically not given any relaxation in respect of labour laws.

Overall, we can conclude that there has been a positive change in policies with regard to FDI in all the SA economies. These low-income economies have realised that FDI is not only good debt, but also has a major role in enhancing economic development. Stepping up the economic reform process and making their economies politically stable and free from internal conflict would go a long way toward making SA an attractive destination for FDI. Ongoing initiatives such as the further simplification of rules and regulations and improvements in infrastructure are expected to provide the necessary impetus to increase FDI inflows in the future.

Most SSA countries continued pursuing sound macroeconomic policies.^{***} Inflation generally remained low throughout the region. Inflation rates fell in most countries with histories of higher inflation rates. Fiscal deficits were generally kept to sustainable levels that were covered by concessional donor inflows or non-inflationary levels of domestic financing. In addition, most countries either had balance of payments surpluses or levels of international reserves sufficient to accommodate temporary deficits. Debt burdens fell for most countries, supported by interim and permanent debt relief under the HIPC Initiative. The main challenge facing SSA economies is of moving to a high growth path on a sustaining basis. This will require an energised private sector and large increases in corresponding investment.

^{‡‡} See Lucas (1993).

^{§§} See Sahoo (2006).

^{***} See IMF (2004).

Most of the economies in SSA have continued to liberalise their investment environment.^{†††} The trend towards privatisation seems to be prevalent in many economies such as Angola, Comoros, Congo, Côte d'Ivoire, Kenya, Mauritius, Nigeria, and Sierra Leone. Specific sectors have been privatised in these countries, and there are plans to enhance cross-sectoral liberalisation. The industries affected included utilities, telecommunication and tourism. Another set of favourable changes concerns attempts to improve the investment climate. Mirroring international trends, a number of countries (Ghana, Senegal, South Africa) have reformed their tax systems often reducing corporate income taxes.

Box 4: South Africa – Import Substitution to Export Orientation in the Automotive Industry

The automotive industry has become a dynamic export platform in South Africa as a result of increased FDI. The increase in inflows to the industry was partly due to government policies, particularly the Motor Industry Development Programme (MIDP) in 1995, which sought to give car assemblers greater flexibility in their sourcing and to encourage a shift towards exports.

As a result of FDI, the production of cars and light commercial vehicles grew from 315,000 in 1995 to about 500,000 in 2005, while exports more than doubled, from approximately 60,000 to 140,000. The capital expenditure of affiliates of automotive TNCs (i.e. for investment in production and export facilities, and supporting infrastructure) also more than doubled between 2000, e.g. South African Rand 1.5 billion (US\$212mn) and 2005 (South African Rand 3.6 billion (US\$509mn). South Africa is now emerging as a hub for the production of right-hand-drive vehicles and other models for export and also have emerged as an export hub for auto-components.

At present, investment climates for SSA seem to be good. As a result of FDI inflows, South Africa has emerged, of late, an export hub of automobile industry (see Box 4). Rapidly rising global commodity prices have been the primer for rising FDI inflows, particularly in the oil industry. A recent trend in this respect has been the FDI inflows from the developing countries in the oil sector of the SSA (Nigeria, Angola, and Mozambique). FDI inflows are also indicating increasing trend as a result of increased investments in the primary sector in countries such as Angola, Democratic Republic of Congo.

The experiences of Benin, Burkina Faso, Cape Verde, Mozambique, Tanzania and Uganda demonstrate that high rates of economic growth can be sustained even in the absence of significant amounts of natural resources. These countries have generally implemented, on a sustained basis, sound macroeconomic policies and structural and institutional reforms that have promoted private investment (including FDI), attracted the support of international donors, and promoted the growth of exports. The latter success has been aided by liberalised trade and competitive exchange rates.

If the economies of SA and SSA intend FDI in a big way, they need to improve the business climate, which entails steadfast commitment not only to sound macroeconomic policies, but to more rapid and comprehensive structural and legislative reforms as well. It also requires enhanced governance and participatory processes. As Table 6.1, SA as well as SSA fare poorly in respect of business environment. In spite of economic reforms, the number of procedures or time required in days in SA/SSA economies are significantly more than the standard

^{†††} See UNCTAD, *World Investment Report*, various issues.

prevalent in high-income countries, which emerge as the most attractive destination for FDI. As this table shows, SSA economies are quite down the ladder than SA economies in all these indicators.

Table 4: Business Environment in SA and SSA

Indicators	No. of Procedures			Time Required days		
	Norms*	SA	SSA	Norms*	SA	SSA
Starting a business	7	8	11	24	35	64
Registering Property	5	7	7	47	124	118
Dealing with Licenses	16	16	20	157	195	251
Enforcing contracts	24	30	36	282	386	439

Note: The data pertains to January 2005.

The norms correspond to high-income countries.

Source: World Bank (2006), "World Development Indicators," pp.276

8. How to Promote Investment Promotion Strategy

Today, all countries compete fiercely against each other to attract higher FDI into their respective countries. In this context, most of all pursue investment promotion strategy suited to their country goals, investment needs and to market their locational advantages. Multilateral Investment Guarantee Agency's FDI promotion centre has prepared a useful toolkit for investment promotion strategy from the viewpoint of developing countries.^{***}

An investment promotion strategy is the map that will guide a country to the goals it has established. For example, goals could be attracting ten companies or say 20 million US dollars of investment. Activities such as producing brochures, holding investment conferences, and hosting site visits must take place within a coherent plan if they are to be effective.

This plan should begin with an understanding of what the location can offer companies and how that compares to competing locations within the region or elsewhere. In other words, what can the location "supply" to potential investors? What characteristics or attributes does it have that will prove attractive to certain types of industries? The next step is to identify those industries and sectors, and the likely home countries of potential investors within these industries and sectors that are likely to be attracted to the location. What and where is the "demand?"

After having identified the industry/sectors based on location's attributes, one needs to determine the geographic focus of the investment promotion activities. Which countries have the greatest number of firms in one's targeted industry sector? Should one focus on firms in one country or in several? In one region, or in several? At the end of this process one would be able to identify a discrete number of industry/sectors in a select number of countries that will be the targeted focus of the promotional activities.

The promotional strategy has to be forward looking focussing not only on what industry sectors will be targeted in the near term, but it must also reflect what will be

^{***} <http://www.fdipromotion.com/toolkit/user/index.cfm>

targeted in the medium term, and ideally in the long term. At the same time, the host country has to play its part in improving the location so that higher-end industries will consider it as an investment site. The outcome of a strategic planning session is a detailed strategy document describing the "who," "where," and "how" of the IPI's promotional focus. The problem is that all the countries are currently eager to have FDI and TNCs would only choose location that has maximum facility.

The marketing strategy is used to determine what types of investors should be the focus of promotional efforts, and what types of promotional activities should be undertaken. This is not an easy job. A first step towards it is the following:

- Identify country's development goals and those of your intermediary;
- Assess current global and regional FDI trends;
- Analyse your strengths and weaknesses;
- Assess the strengths and weaknesses of your competitors.

The above four points are not exhaustive but can serve as broad guidelines. For instance, if a government aims to increase exports by 20 percent over three years, then it is clear that attracting export-oriented investment will directly contribute to this goal. Accordingly, this will affect the industries that one targets, the geographic location of those industries, and the way one promote your location. Similarly, if expanded employment is an objective, one will look for sources of labour-intensive investment.

Understanding global FDI trends helps one to understand who is investing, where they are investing, and why. This background, in combination with the knowledge of the country strengths and weaknesses as an investment location, is essential to identify industries that are likely to be attracted to a location. An excellent source of general information on global FDI trends is the annual World Investment Report published by the UNCTAD. This report contains extensive data on world-wide, regional, and country-specific investment flows.

Having analysed FDI trends both globally and in the concerned region, one needs to evaluate the investment characteristics of the location. The best way to do this is by systematically examining the location's strengths, weaknesses, opportunities, and threats (SWOT). This analysis (also known as a "location audit") will enable one to understand the positive and negative aspects of the same as an investment site. It will also provide the basis for comparing this site with those of your competitors, and will help one to identify what types of industry will find this location attractive. Finally, identifying weaknesses in one's investment environment provides the basis to advocate for further policy and regulatory changes.

The key advantage to a SWOT analysis is that it is a dynamic assessment of your location. Unlike the analysis of FDI trends, which is essentially backward looking and focuses on trends over the last several years, the SWOT analysis incorporates upcoming developments – the opportunities and threats – that will affect a location's future competitiveness. Basically, a SWOT analysis has following three key elements: (a) identify your location's strengths and weaknesses; (b) identify opportunities and threats; and (c) summarise key issues.

Once one completes the SWOT analysis, one will have a good idea of the existing and future characteristics of the possible investment location. The next step is to compare these characteristics to those of the chief competitors. Comparative "benchmarking" is a widely used tool in both industry and government to measure the relative competitiveness or performance of competing organisations. Benchmarking one's location's characteristics will enable one to determine its competitiveness as an investment destination. This should emphasise the benefits of your respective locations over your competitors so that TNC ultimately choose your location. Of course, it is not a one shot game and needs to be pursued over time.

Annexure

Table A-1: FDI Flows in South Asia (Millions of dollars)

Host region/economy	FDI Inflows			FDI Outflows		
	2003	2004	2005	2003	2004	2005
<i>World</i>	<i>557869</i>	<i>710755</i>	<i>916277</i>	<i>561104</i>	<i>813068</i>	<i>778725</i>
<i>Developing economies</i>	<i>175138</i>	<i>275032</i>	<i>334285</i>	<i>35566</i>	<i>112833</i>	<i>117463</i>
<i>Asia</i>	<i>110137</i>	<i>156622</i>	<i>199554</i>	<i>18979</i>	<i>83429</i>	<i>83557</i>
<i>South Asia</i>	<i>5729</i>	<i>7301</i>	<i>9765</i>	<i>1378</i>	<i>2092</i>	<i>1456</i>
<i>Share in Dev. Econ.</i>	<i>3.27</i>	<i>2.65</i>	<i>2.92</i>	<i>3.87</i>	<i>1.85</i>	<i>1.24</i>
Afghanistan	2a	1a	1a	..	..	..
	0.00	0.00	0.00			
Bangladesh	350	460	692	6	6	10a
Share in Dev. Econ.	0.20	0.17	0.21	0.02	0.01	0.01
Bhutan	1a	1a	1a	..	..	..
Share in Dev. Econ.	0.00	0.00	0.00			
India	4585	5474	6598	1325	2024	1364
Share in Dev. Econ.	2.62	1.99	1.97	3.73	1.79	1.16
Maldives	14	15	14a	..	..	..
Share in Dev. Econ.	0.01	0.01	0.01			
Nepal	15	-	5a	..	..	..
Share in Dev. Econ.	0.01		0.00			
Pakistan	534	1118	2183	19	56	44
Share in Dev. Econ.	0.30	0.41	0.65	0.05	0.05	0.04
Sri Lanka	229	233	272	27	6	38
Share in Dev. Econ.	0.13	0.08	0.08	0.08	0.01	0.03

Note:

".." denotes data not available; "-" indicates item is equal to zero or negligible; "a" indicates estimates

Source: UNCTAD (2006), "World Investment Report"

Table A-2: Shares of FDI Flows/Stocks in South Asia

<i>Host region/economy</i>		<i>FDI Flows as a % of GFCF</i>			<i>FDI Stocks as a % of GDP</i>		
		2003	2004	2005	1990	2000	2005
World	inward	7.3	7.7	9.4	8.5	18.3	22.7
	outward	7.4	9.3	8.3	8.6	20.6	23.9
Developing economies	inward	9.3	10.7	12.8	9.8	26.3	27
	outward	1.6	4.8	5.1	4.3	13.4	12.8
Asia	inward	7.7	9.4	11.1	8.9	26.5	23.2
	outward	1.4	5.1	4.7	3.5	15.8	13.4
South Asia	inward	3.5	3.4	4.3	1.1	4.7	6.2
	outward	0.8	1	0.6	0.1	0.4	1.1
Afghanistan	inward	0.4	0.1	0.2	0.3	0.6	0.3
	outward	..	..	..	..	..	..
Bangladesh	inward	2.9	3.4	4.9	1	4.4	5.7
	outward	0.1	-	0.1	0.1	0.1	0.2
Bhutan	inward	0.3	0.3	0.2	0.7	2.5	1.9
	outward	..	..	..	..	..	..
India	inward	3.4	3.1	3.5	0.5	3.8	5.8
	outward	1	1.1	0.7	-	0.4	1.2
Maldives	inward	7.2	5.4	4.8	11.6	19	22.6
	outward	0.3	-	-	..	..	..
Nepal	inward	1.3	-	0.4	0.3	1.3	1.7
	outward	..	..	..	..	..	..
Pakistan	inward	4.2	7.5	13	3.6	9.8	8.8
	outward	0.1	0.4	0.3	0.5	0.7	0.7
Sri Lanka	inward	5.7	4.7	5.2	8.5	9.8	10.4
	outward	0.7	0.1	0.7	0.1	0.5	0.7

Note: ".." denotes data not available, "-" indicates item is equal to zero or negligible.

Source: UNCTAD (2006), "World Investment Report"

Table A-3: Inward FDI Performance Index for South Asia

Economy	1990	1995	2000	2002	2003	2004	2005
Bangladesh	109	127	110	115	121	119	116
India	101	107	119	111	109	112	119
Nepal	100	..	131	135	135	136	135
Pakistan	78	84	118	120	115	109	102
Sri Lanka	72	71	108	108	100	96	106

Note: FDI performance index refers to the 3-year moving averages using data for the 3 previous years including the year in question. Change of performance: minus denotes improving ranking.

Source: UNCTAD (2006), "World Investment Report"

Table A-4: Inward FDI Potential Index for South Asia

Economy	1990	1995	2000	2002	2003	2004
Bangladesh	102	118	107	114	113	117
India	76	93	94	87	81	82
Nepal	109	130	129	131	135	137
Pakistan	92	115	130	128	126	128
Sri Lanka	99	107	105	108	115	119

Note: FDI potential index refers to the 3-year moving averages using data for the 3 previous years including the year in question. The potential index is based on 12 economic & Policy variables. The ranking includes 141 countries. Lower rank implies improvement.

Source: UNCTAD (2006), "World Investment Report"

Table A-5: FDI Flows in Sub-Saharan Africa (Millions of dollars)

Host region/economy	FDI Inflows			FDI Outflows		
	2003	2004	2005	2003	2004	2005
<i>World</i>	<i>557869</i>	<i>710755</i>	<i>916277</i>	<i>561104</i>	<i>813068</i>	<i>778725</i>
<i>Developing economies</i>	<i>175138</i>	<i>275032</i>	<i>334285</i>	<i>35566</i>	<i>112833</i>	<i>117463</i>
<i>Sub-Saharan Africa</i>	<i>12638</i>	<i>11042</i>	<i>17634</i>	<i>1137</i>	<i>1847</i>	<i>562</i>
<i>Share of SSA in Dev. Econ.</i>	<i>7.22</i>	<i>4.01</i>	<i>5.28</i>	<i>3.20</i>	<i>1.64</i>	<i>0.48</i>
Angola	3505	1449	24	24	35	29a
Benin	45	64	21a	..	1	..
Botswana	418	391	346	206	39	57
Burkina Faso	29	14	19a	2	9	3a
Burundi	..	2a	1a	..	..	..
Cameroon	..	..	18a	36a	..	..
Cape Verde	14	20	19	..	..	..
Central African Repub.	3	13	6a	..	..	..
Chad	713	478	705a	..	..	..
Comoros	1	..	1a	..	..	..
Congo	323	668	402a	2	..	..
Congo, Democratic Republic of	158a	15a	1344a	..	..	..
Côte d' Ivoire	165	283	192a	23a	26a	4a
Equatorial Guinea	1431	1664	1860	..	..	..
Ethiopia	465	545	205a	..	..	..
Gabon	206	323	300a	57	5a	28a
Gambia	1a	2a	24a	7a	10a	24a
Ghana	137	139	156	-	-	-
Guinea	83	98	102a	..	..	..
Guinea-Bissau	4	2	10a	1	8	4a
Kenya	82	46	21	2	4	10
Lesotho	42	53	47	-	-	..
Madagascar	95	53	48a	..	..	..
Malawi	4a	1a	3a	..	..	..
Mali	132	101	159a	1	1	2a
Mauritius	63	14	24	6	32	48
Mozambique	337	245	108	..	..	..
Namibia	149	226	349	10	22	12
Niger	11	20	12a	-	7	3a
Nigeria	2171	2127	3403	167	261	200
Rwanda	5	8	8	..	..	..
Sao Tome & Principe	1a	2a	7a	..	..	..
Senegal	52	77	54a	3	13	30a
Seychelles	58	37	82	8	8	8
Sierra Leone	3	26	27	..	..	..
South Africa	734	799	6379	565	1352	68
Swaziland	61	60	14	11	1	21
Togo	34	59	49a	6	13	10a
Uganda	202	222	258	..	..	..
United Rep. of Tanzania	527	470	473	..	..	..
Zambia	172	239	259	..	..	..
Zimbabwe	4	9	103	-	-	1

Note: ".." denotes data not available, "-" indicates item is equal to zero or negligible.

Source: UNCTAD (2006), "World Investment Report"

Table A-6: Share of FDI Stocks in GDP in Sub-Saharan Africa

<i>Host region/economy</i>	<i>Inward Stocks as % of GDP</i>			<i>Outward Stocks as a % of GDP</i>		
	1990	2000	2005	1990	2000	2005
	7.3	7.7	9.4			
World	8.5	18.3	22.7	8.6	20.6	23.9
	9.3	10.7	12.8			
Developing economies	9.8	26.3	27	4.3	13.4	12.8
	15.8	11.8	19.1			
Africa	12.2	26	28.2	4.8	8.2	6.2
Sub-Saharan Africa						
Angola	10	87.4	46.5	-	0.5	0.6
Benin	..	9.5	6.6	0.1	1.6	0.9
Botswana	37.2	37.4	11.7	12.7	10.6	8.6
Burkina Faso	1.4	1.3	1.2	0.1	0.9	0.2
Burundi	2.6	6.7	5.6	-	0.3	0.3
Cameroon	7.3	11.7	6.3	1	2.9	2
Cape Verde	1.2	32	24.9	0.4	1.2	0.7
Central African Repub.	7.4	11.4	8.1	1.4	4.7	3.2
Chad	16.2	44.3	71	2.4	5.4	1.3
Comoros	6.8	11.2	6.5	0.4	1.2	0.6
Congo	20.6	58.8	59.7	..	..	..
Congo, Democratic Rep. of	5.8	11.9	32.5	..	..	..
Côte d' Ivoire	8.2	23.2	26.9	0.3	5.9	3.8
Equatorial Guinea	15.6	92.8	108.9	0.2	..	-
Ethiopia	1.5	14.4	24.6	..	..	..
Gabon	22.3	..	6.1	3.1	5.6	1.9
Gambia	47	51.3	62.9	6.5	10.4	16.5
Ghana	5.1	30	19.4	..	3	1.4
Guinea	2.4	8.5	17.5	..	0.2	0.6
Guinea-Bissau	3.4	17.6	20	..	..	..
Kenya	7.8	8.9	5.8	1.2	1.1	0.7
Lesotho	13.4	38.3	41.5	-	0.2	0.2
Madagascar	3.5	9.1	13.8	-	0.3	0.2
Malawi	13	20.5	24.3	..	0.5	0.6
Mali	9.1	5.1	17.4	0.9	2.4	1.6
Mauritius	6.5	14.8	12.5	0.1	2.9	3.5
Mozambique	1.5	28.6	35.5	-	-	-
Namibia	87.5	36.6	39.9	3.4	1.3	1.1
Niger	11.4	2.7	3.6	2.2	8.7	4.3
Nigeria	26.3	48.6	35.1	3.7	8.4	5.1
Rwanda	8.4	14.6	13.1	0.1	0.2	0.2
Sao Tome & Principe	0.7	24.7	34.7	..	..	..
Senegal	4.5	19	13.5	0.9	2.8	2.3
Sierra Leone	55.4	89.6	119.3	16.6	22.8	25.5
Seychelles	..	6.2	9	..	..	..
South Africa	8.2	32.7	29	13.4	24.3	16.1
Swaziland	38.5	38.6	32.1	4.4	6.8	2.9
Togo	17.1	32.2	32.5	0.5	5.9	2.1
Uganda	0.2	14.1	21	..	2.3	1.5
United Rep. of Tanzania	10.3	33.4	49.6	..	..	..
Zambia	25.1	72.9	45.1	..	..	..
Zimbabwe	3.2	22	30.8	0.9	4.2	5.4

Note: ".." denotes data not available, "-" indicates item is equal to zero or negligible.

Source: UNCTAD (2006), "World Investment Report"

Table A-7: Shares of FDI flows in GFCF in Sub-Saharan Africa

<i>Host region/economy</i>	<i>Inward Flows as a % of GFCF</i>			<i>Outward Flows as a % of GFCF</i>		
	2003	2004	2005	2003	2004	2005
World	7.3	7.7	9.4	7.4	9.3	8.3
Developing economies	9.3	10.7	12.8	1.6	4.8	5.1
Africa	15.8	11.8	19.1	1	1.4	0.7
Sub-Saharan Africa						
Angola	198.3	62.2	-1	1.3	1.5	1.2
Benin	6.4	8.1	2.5	-	0.2	
Botswana	23.7	19.2	17.8	11.7	1.9	3
Burkina Faso	3.4	1.3	1.6	0.2	0.8	0.3
Burundi	-	2.6	0.8	-	..	..
Cameroon	-	-	0.7	1.7	..	..
Cape Verde	6.4	6.9	5.9	..	..	..
Central African Repub.	2	7.5	3.4	-	..	..
Chad	49.7	45.9	64.5	-	..	..
Comoros	3.1	-0.3	3	..	..	..
Congo	33.8	56.7	26.4	0.2	..	..
Congo, Democratic Rep. of	22.3	1.3	106.9	..	..	..
Côte d' Ivoire	12.8	15.5	10.1	1.8	-1.4	-0.2
Equatorial Guinea	258.2	285.3	304.2	-	..	..
Ethiopia	34.2	32.2	11.6	..	..	..
Gabon	14.2	17.6	15.6	-3.9	0.3	-1.5
Gambia	-1.6	2.2	23.1	9.6	10	12.4
Ghana	7.8	5.6	6	-	-	-
Guinea	23.1	24.1	23.9	..	..	..
Guinea-Bissau	13.5	4.8	27.5	1.7	-21.6	-9.9
Kenya	3.5	1.8	0.8	0.1	0.2	0.4
Lesotho	9.6	9.9	8.4	-	-	..
Madagascar	10.8	4.8	4.2	..	..	..
Malawi	2.1	-0.4	1.6	..	..	..
Mali	17.2	10.5	15.8	0.2	0.1	0.2
Mauritius	4.9	1	1.8	-0.5	2.3	3.5
Mozambique	44.9	20	8.4	-	-	..
Namibia	11.4	15.7	23.2	-0.8	-1.6	-0.8
Niger	4	4.1	2.3	-	1.5	0.6
Nigeria	32.4	20.5	31.2	2.5	2.5	1.8
Rwanda	1.5	2.4	2.3	0.1	-	0.1
Sao Tome & Principe	4.8	-7.6	32.4	..	..	..
Senegal	3.6	4.3	2.9	0.2	0.7	1.6
Seychelles	92.3	54.7	114.9	13	11.1	10.5
Sierra Leone	2.3	15.4	15.2	..	..	..
South Africa	2.8	2.3	15.8	2.1	3.9	0.2
Swaziland	-25.7	13.8	-3	-4.4	0.3	4.7
Togo	9.9	13.6	10.7	-1.9	-2.9	2.2
Uganda	14.5	14.7	16.3	..	..	..
United Rep. of Tanzania	24.4	19.9	19.1	..	..	..
Zambia	16	18	18.6	..	..	..
Zimbabwe	0.4	1.2	13.5	-	-	0.1

Note: ".." denotes data not available, "-" indicates item is equal to zero or negligible.

Source: UNCTAD (2006), "World Investment Report"

Table A-8; Inward FDI Performance Index for Sub-Saharan Africa

Economy	1990	1995	2000	2002	2003	2004	2005
Angola	111	24	3	4	3	3	18
Benin	18	104	95	97	101	100	108
Botswana	22	136	103	67	36	28	42
Burkina Faso	97	101	121	123	125	121	125
Cameroon	119	129	134	136	137	137	137
Congo	85	7	14	45	30	10	10
Congo, Dem. Rep.	116	131	120	101	83	91	17
Côte d'Ivoire	82	55	80	86	89	92	100
Ethiopia	102	118	84	51	31	22	39
Gabon	35	137	137	138	111	63	47
Gambia	10	27	15	12	21	48	90
Ghana	90	37	87	90	95	93	94
Guinea	60	126	112	124	102	88	74
Kenya	74	120	126	125	128	127	129
Madagascar	73	110	102	100	96	102	99
Malawi	41	83	96	107	116	135	134
Mali	86	52	106	37	38	47	71
Mozambique	89	53	28	25	17	23	51
Namibia	77	28	77	19	20	39	41
Niger	58	122	130	122	123	122	124
Nigeria	9	9	69	70	52	59	61
Rwanda	63	121	127	128	133	129	127
Senegal	69	89	92	105	108	105	118
Sierra Leone	39	133	93	89	127	110	93
South Africa	113	106	115	82	85	124	103
Togo	44	73	89	53	57	73	78
Uganda	112	49	81	72	66	70	67
United Rep. Tanzania	98	50	61	46	37	37	44
Zambia	6	16	42	78	68	49	46
Zimbabwe	94	81	73	127	134	131	117

Note: The UNCTAD FDI inward performance index is a measure of the extent to which a host country receives inward FDI relative to its economic size. It is calculated as the ratio of the country's share in global FDI inflows to its share in Global GDP. The lower value of rank in this indicator indicates improvement.

Source: UNCTAD (2006), "World Investment Report"

Table A-9: Inward FDI Potential Index for Sub-Saharan Africa

Economy	1990	1995	2000	2002	2003	2004
Angola	73	111	102	83	76	80
Benin	113	135	132	133	134	136
Botswana	32	51	71	64	67	70
Burkina Faso	85	122	121	125	127	129
Cameroon	80	128	115	112	110	109
Congo	72	109	97	96	100	99
Congo, Dem. Rep.	105	137	139	140	140	140
Côte d'Ivoire	91	110	108	122	120	126
Ethiopia	112	126	114	123	122	125
Gabon	55	80	86	94	105	103
Gambia	60	103	101	106	107	108
Ghana	81	96	113	111	109	110
Guinea	84	125	120	119	123	133
Kenya	86	97	118	126	124	127
Madagascar	100	129	126	130	132	135
Malawi	93	121	127	132	133	132
Mali	108	106	110	121	119	122
Mozambique	111	131	122	101	97	97
Namibia	96	73	79	85	86	88
Niger	104	127	125	129	130	131
Nigeria	62	76	84	100	93	96
Rwanda	115	140	138	136	129	124
Senegal	94	124	106	105	103	111
Sierra Leone	101	136	140	139	139	139
South Africa	54	60	68	72	72	72
Togo	95	120	116	124	125	130
Uganda	106	119	103	103	104	115
United Rep. Tanzania	90	113	112	118	112	112
Zambia	98	117	133	137	136	134
Zimbabwe	82	100	135	138	138	141

Note: FDI potential index refers to the 3-year moving averages using data for the 3 previous years including the year in question. The potential index is based on 12 economic & Policy variables. Lower rank implies improvement.

Source: UNCTAD (2006), "World Investment Report"

Table A-10: FDI Policy Regime in SA

	India	Pakistan	Nepal	Sri Lanka	Bangladesh
Restricted Sectors	i. Arms & ammunitions ii. Defence aircrafts & warships iii. Atomic energy iv. Railways	i. Arms & ammunitions ii. High explosives iii. Radioactive substances iv. Security printing, currency & mint v. New units of alcohol manufacturing except industrial alcohol is banned	i. Cottage industries ii. Personal business services iii. Arms & ammunitions iv. Consultative services	i. Non bank money lending ii. Pawn broking iii. Retail trade with a capital investment of less than \$1 million	i. Arms & ammunitions ii. Production of nuclear energy iii. Security printing & minting iv. Forestry in reserved forest areas v. Railways
100% equity	For certain sectors, sectoral caps exist	Yes, for all sectors	Yes, except restricted sectors	Yes, except a few sectors such as telecom, education, mass transportation, mining, etc.	Yes
Incentives	Yes, central government gives for R&D measures. State govts. give a wide variety of incentives	Incentives are industry specific but has local content requirement	Yes, with export requirement & local content requirement	Yes, with export requirement & minimum investment	Yes. It varies depending upon the location of industries.
Restrictions in royalty or technology transfer payments	No, but certain minimum conditions to be met such as lump sum payments not exceeding US \$2 Million etc.	No	No	No	No. The condition is that it should not exceed 6% of previous year's sales.

Table A-10: FDI Policy Regime in SA (contd)

	India	Pakistan	Nepal	Sri Lanka	Bangladesh
Performance requirements	Yes, specific rules for automobile sectors	No. (only for eligibility of incentives)	No. (only for eligibility of incentives)	No. (only for eligibility of incentives)	No
EPZ incentives	Yes	Yes, complete exemption of taxation from federal, provincial & municipal bodies	No	No. Industrial Processing Zones for better land allocation.	Yes
Automatic Approval	Yes, by RBI	Yes	No. Approval is given by Industrial Promotion Board (IBP)	Yes, by Board of Investment (BOI)	Yes, by BOI & BEPZ authority
National treatment	Yes	Yes	Contract terms are given precedence over Nepali law in investments valued at more than Nepali rupees 500 million	Yes	Yes
MIGA signatory	Yes	Yes	Yes	Yes	Yes
Tax holidays	Yes	No, only customs duty & sales tax exemption	Income earned from exports is free from Income tax	Yes	Yes

Source: S.K.Das and Manoj Pant, "FDI in South Asia: Do Incentives Work?--- A Survey of the Literature" Report Submitted to CUTS, Jaipur.

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