AN EXPLORATORY REVIEW OF FOREIGN DIRECT INVESTMENT AND ECONOMIC GROWTH IN FOUR SSA COUNTRIES

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Abstract

This paper highlights the status of foreign direct investment (FDI) and economic growth in four middle-income sub-Saharan Africa countries, namely: Angola, Mauritius, Namibia and Seychelles. The study examines the individual countries' policies and strategies that were aimed at boosting FDI and economic growth. The study finds that the FDI inflows were fairly low during the period the 1980s and the 1990s. This is mainly because during this period, the policies of these countries, like many other sub-Saharan African countries, hinged mainly on import substitution, socialism and centralized economic systems. However, following the implementation of policies, such as privatisation, liberalisation, structural-adjustments, etc, in the 1990s and 2000s, the FDI inflows into these countries increased significantly, especially from developed countries. The biggest recipient of FDI inflows among the four studied countries, however, was Angola – where the FDI inflows increased from US$ 2145.5 mill in 2001 to US$ 16581.0 million in 2008.

Keywords: Foreign Direct Investment, Economic Growth, Angola, Mauritius, Namibia, Seychelles

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1. Introduction

Foreign direct investment (FDI) is defined by the IMF (1993) as international investment by an entity resident in one economy – in the business of an enterprise resident in another economy – that is made with the objective of obtaining a lasting interest. In the neoclassical or exogenous growth model, it is argued that FDI promotes economic growth by increasing the volume of investment and/or its efficiency (Li and Liu, 2005). In the endogenous growth model, FDI increases economic growth by generating technological spill-overs from the industrialised nations to the host country (De Mello, 1997 and 1999). Recent empirical studies have shown that FDI can affect the host country's economic growth, via increase in the stock of capital, bringing know-how and technology, boosting the prevailing stock of knowledge in the host economy through formal or informal labour training, skill acquisition and diffusion, and the introduction of new business management methods and organisational arrangement (OECD, 2002 and Li & Liu, 2005).

However, regardless of the important role of FDI in economic development, and the increase in FDI inflows into sub-Saharan African countries in particular, there is a significant absence of literature on the policies and strategies implemented to attract FDI, and to boost economic growth. Most studies focus on the impact of FDI on economic growth, causality, or on the FDI-growth nexus (Juma, 2012); but they do not examine the policies, strategies and challenges faced by individual countries in attracting FDI.

This paper evaluates the status of foreign direct investment (FDI) and economic growth in four middle-income sub-Saharan African countries, namely Angola, Mauritius, Namibia, and Seychelles. This study highlights the policies, initiatives and strategies that have been implemented by these countries to boost FDI inflows and economic growth. The paper also highlights the trends and dynamics of FDI inflows and economic growth in the four studied countries during the period 1980-2012.

2. A Review of Foreign Direct Investment and Economic Growth in sub-Saharan African Countries: Experiences from Angola, Mauritius, Namibia and Seychelles

2.1 Angola

Angola is Africa's second largest oil producer, after Nigeria, with an installed capacity of over 1.9 million bpd (ADB, 2012a). In 2011, the mining sector, dominated by oil, accounted for about 47% of the total GDP, while diamonds accounted for about 1% of the GDP. Angola discovered huge oil deposits in 2006; and it became a member of the Organisation of the Petroleum Exporting Countries (OPEC) in the same year. The country is currently the largest oil producer in Sub-Saharan Africa, and the second-largest economy in the SADC region, after South Africa.

According to the World Bankrankings (World Bank, 2012), the country graduated from a lower-income country (LIC) to a middle-income country (MIC)[42] in 2004 (Glennie, 2011:4). The country is one of the few with a relatively high GDP per capita (US$6,000). As shown in the GDP trend analysis in Figure 1 the country is among the three fastest-growing economies in the world.

Policies to attract FDI and to boost economic growth in Angola

According to the African Development Bank (ADB), the Country-Strategy Paper for Angola (ADB, 2011a), as well as the Angolan government's broad economic and development strategy, are aimed at stimulating and accelerating economic growth and competitiveness through diversification and poverty-reduction. The country is currently implementing the National Reconstruction Programme, which saw capital expenditure reaching 11.6% of GDP, and budget spending in social areas increased to 31.5% of GDP in 2011 (ADB, 2011a).

The African Economic Outlook Report (ADB, 2012b) identified Angola as one of several African countries that are making concerted efforts to further diversify their economies. Angola has adopted programmes to support its manufacturing sector. The ADB (2012b) noted that the government is excessively dependent on oil revenues, as shown by the fact that oil constituted 97% of all exports, and accounted for around 80% of fiscal revenues. This makes the country's economy susceptible to external shocks. For example, Angola's GDP growth rate fell from a high of 22.6% in 2007 to a low of 2.4% in 2009, due to the world economic crisis in 2009, which curbed oil demand and generated a terms-of-trade shock (ADB, 2011a). However, the ADB (2011a) appraised the country's "home-grown" macro-economic stability plan for bringing inflation down from more than 70 per cent to 13 per cent; built-up reserves to US$18billion; contain external debt at around 13 per cent of GDP; and allowing for the effective pegging of the kwanza to the dollar.

In an effort to improve its regulatory and legal framework, so as to facilitate and protect foreign investments, the Government of Angola established the National Private Investment Agency (ANIP) in July 2003. The ANIP is responsible for assisting and facilitating new investment in Angola (ANIP, 2013). In the same year, the country replaced the 1994 Foreign Investment Law with the Law on Private Investment (Law 11/03) (FAO, 2011:1). The new law sets out the broad parameters, benefits and obligations for foreign investors in Angola; and it acknowledges that investment plays a vital role in the country's economic development.

In order to deepen its implementation of FDI attraction initiatives, the country amended its investment laws by introducing a new investment regime applicable to national and foreign investors that invest in developing areas, special economic zones or free trade zones. The New Private Investment Law, which was gazetted in May 2011, offers investors several incentives in a wide range of industries. The sectors include agriculture, manufacturing, rail, road, port and airport infrastructure, telecommunications, energy, health, education and tourism (Government of Angola, 2011).

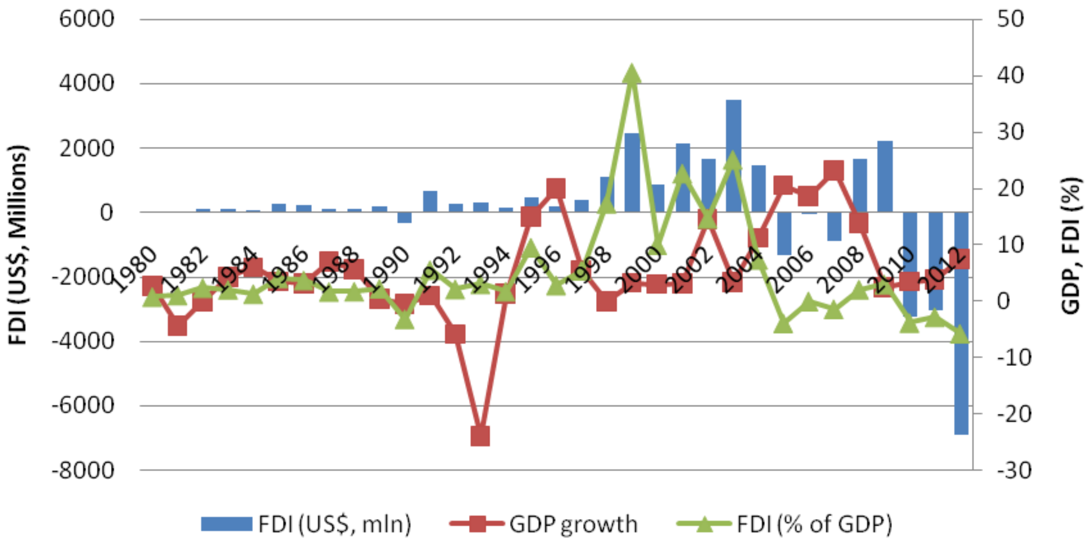
Though it might be too early to assess the impact of the new laws on FDI, the country received positive and significant FDI inflows consecutively from 1998 to 2004; but it is currently experiencing net FDI outflows. The ADB (2011a) argues that the new legislation represents a fundamental shift in attracting FDI, from a more open regime to a stricter one. It includes new and more rigid regulation of fiscal incentives, subsidies and profit repatriation, and in particular, for new projects below US$10 million.

The new laws further require that projects above the US$10 million threshold be decided directly by the government's cabinet; and these laws include new controls on profit repatriation. The ADB (2011a) concludes that the new legislation is broadly perceived by the global investment market as being restrictive to FDI in the country.

Figure 1 shows the trends of real GDP and FDI in Angola during the period 1980-2012.

[42] As of April 2011, the range for LIC was US$995 or less gross national income (GNI) per capita, while that for MIC ranged from US$996-12,195 American dollars.

Figure 1. Angola GDP and FDI Inflows (1980-2012)



Source: Compilation from UNCTAD and WDI's Databases

2.2 Mauritius

Mauritius had an estimated GDP of US$10,809 million in 2011, and the World Bank (2012) classified it as an upper-middle income country with its gross national income (GNI) *per capita* at US$8,230 (World Bank, 2013a). Madhoo and Nath (2004) showed that the country accelerated its economic growth through the policy of a developing export-oriented manufacturing sector after 1982, constantly reforming its sugar industry and progressively diversifying into tourism and offshore services.

Policies to attract FDI and boost economic growth in Mauritius

In a study explaining the economic growth performance of Mauritius, Madhoo and Nath (2004) categorised the economic-development trajectory of the country into phases; these are briefly described below:

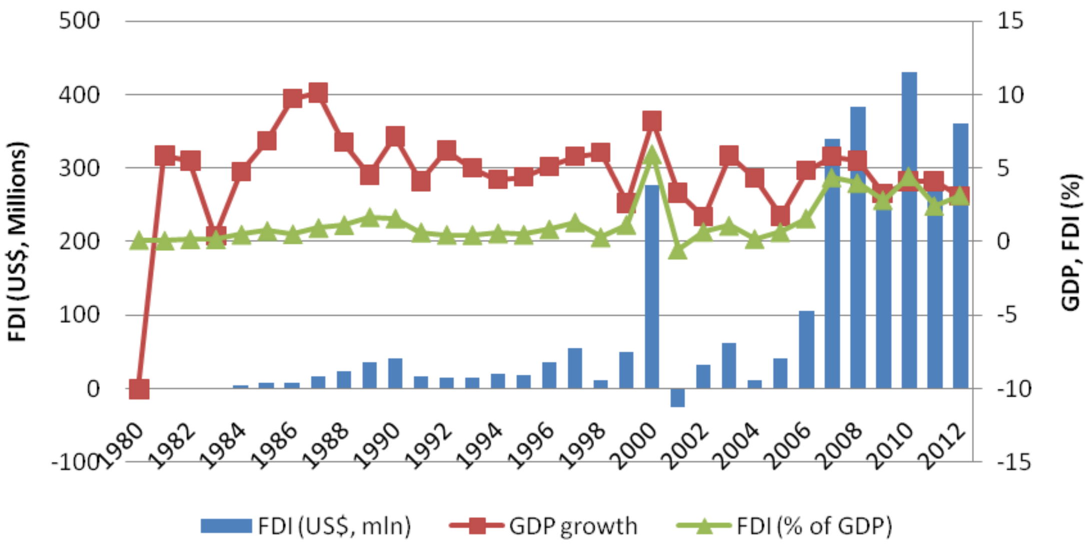
Table 1. Phases of the Economic-Development Trajectory in Mauritius

Economic policy	Period	Policy Actions and Result
Import Substitution Strategy and Structural Transformation	1960-1977	– Adoption of a new industrial policy in 1963, which had a number of fiscal benefits for import substitution manufacturers. – The government gave a greater role to the private sector and foreign investors in the development of the economy through the establishment of the Mauritius Export Processing Zone (MEPZ). – The economy underwent a transition period from dependence on traditional agriculture to the manufacturing sector. – Slow growth or economic stagnation, with average real growth rate of 0.7%. – The result was almost a total collapse of the economy.
Economic Structural Adjustment Programme	1978-83	– Adopting the IMF-recommended ESAP in 1979. – The main policy measures put into operation were fiscal stabilisation, exchange-rate deregulation, liberalisation of labour markets and trade liberalisation. – The unfavourable economic situation overturned.
FDI-Export-Led Growth	1984-88	– The expansion of export-led industries. – The number of EPZ enterprises rocketed to 591, FDI increased and the economy expanded.
Diversification and Consolidation	1989-2002	– Transformation of the economy from a mono-crop (sugar) economy to a diversified one consisting of the manufacturing and services sectors. – Opening of the Stock Exchange of Mauritius (SEM), – Establishment of a free port in 1992, as a part of the country's strategy to develop as a regional trade centre. – Establishment of the EPZ.

Source: Own illustration from Madhoo and Nath (2004)

In its review of the investment policy in Mauritius, the UNCTAD (2001) noted that FDI had played a small but essential role in the country. The report credits the government for enacting the EPZ Act (the first in Africa), which helped attract Asian investors to locate textile and garment-manufacturing operations in Mauritius, and its ability to benefit from the preferential access to the European and United States markets. Figure 2 shows the trends in FDI and economic growth in Mauritius during the period 1980-2012.

Figure 2. GDP and FDI Trends in Mauritius (1980-2012)



Source: Compilation from UNCTAD and WDI's databases

2.3 Namibia

Namibia is an upper-middle income country that has experienced significant successes since it gained independence from South Africa in 1990 emanating from sound economic management and good governance (World Bank, 2013b). Its GDP *per capita* (current prices) increased from US$1,661 in 1990 to US$5,383 in 2011. The country's economy is strongly connected to that of South Africa through trade, investment, and common monetary policies. The Namibian dollar is pegged to the South African rand, making economic trends (including inflation) to closely follow those in South Africa.

Policies to attract FDI and boost economic growth in Namibia

The country's economic policies and strategic goals are driven by the Namibian Vision 2030, which states that by the year 2030, Namibia should become a "prosperous and industrialised" nation (Government of Namibia, 2004:15). Industrialisation is to be achieved through growing the manufacturing sector; and this is to be achieved through the diversification of the export base into the exporting of processed goods (as compared to raw materials), as well as through the import substitution of manufactured goods (Rosendahl, 2010:18). Below is a brief discussion of some of the major policies and strategies that have been enacted, in order to boast economic growth and to attract FDI into Namibia.

The White Paper on Industrial Development, which was adopted by the government in 1992, had increased value-addition in manufacturing as its main objective (Government of Namibia, 1998:2)[43]. The White Paper called for increased productivity; import substitution; increased diversification through increased economic growth and inter-industrial linkages; employment generation, especially for disadvantaged groups; and the improved geographical distribution of industries (Government of Namibia, 1998:2).

The country's major macro-economic policies follow a five-year planning cycle, according to the government National Development Plans (NDPs). The first NDP (NDP1) was adopted in 1995 (Government of Namibia, 2004:15). It focused on boosting and sustaining economic growth, creating employment, reducing inequalities in income distribution, and reducing poverty. The NDP1 was succeeded by the NDP2 in 2001, which continued with the NDP1 goals, but with the special goal of increasing the share of manufacturing in the economy.

The NDP2 set the goal of growing the share of employment in the manufacturing sector from 6.4% in

[43] The original version of the White Paper is not available at the Ministry, so the study could only access a review of the White Paper.

2000 to 20% in 2006 (Government of the Republic of Namibia, 2012). The NDP3, which came into being in 2008, emphasised the importance of improving growth rates against worsening unemployment and underemployment. It projected a GDP growth rate of 5% per annum; however the actual rate was only 3%. The Government of Namibia (2012) attributed the below-par performance of the economy over the NDP3 period to "the global financial and economic crisis, which led to a global recession in 2009". The current and Fourth National Development Plan (NDP4) has three major goals: faster and more sustainable economic growth, the creation of employment opportunities, and enhanced income equality (Government of Namibia, 2012).

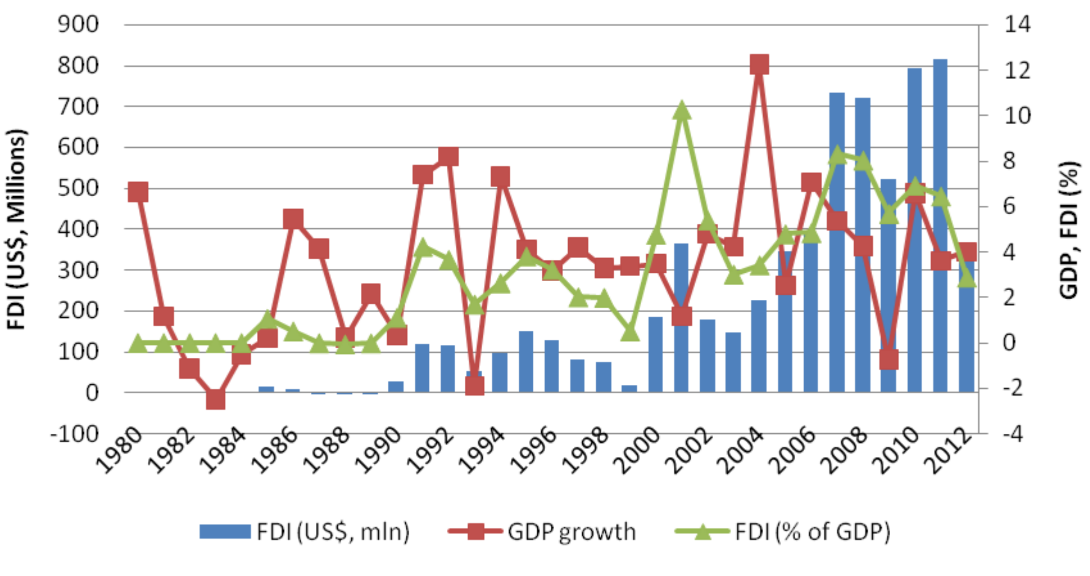
Successive NDPs have acknowledged the importance of FDI in the economy of Namibia. NDP3 admitted that FDI had played a significant part in augmenting investments in the country (Government of Namibia, 2008); and NDP4 states that the Government has been pursuing macro-economic stability, including fiscal discipline, in order to create an attractive environment for domestic and FDI that would create the much-needed growth and employment opportunities (Government of Namibia, 2012).

Some specific initiatives aimed at attracting FDI are briefly described herein. Firstly, the Government of Namibia promulgated the Foreign Investment Act in 1990, which established the Namibian Investment Centre (NIC). The NIC is responsible for the promotion and facilitation of foreign investment in the country. Secondly, the government established an Export Processing Zone (EPZ) through the Export Processing Zone Act of 1995. Through the two Acts, and other supporting initiatives, the government has ushered in a general open-door policy on FDI, which is characterised by a non-discriminatory treatment of foreign investors, and the promotion of the manufacturing sector, in line with its Vision 2030 (Rosendahl, 2010:22).

Furthermore, the country offers a broad range-of-incentives regime, especially for firms in the manufacturing sector: both domestic and foreign. These incentives also include substantial tax, and non-tax, incentives for registered manufacturers, exporters of manufactured goods and for the EPZ enterprises (Rosendahl, 2010:22).

Figure 3 shows the trends of FDI and GDP in Namibia during the period 1980-2012.

Figure 3. GDP and FDI Trends in Namibia (1980-2011)



Source: Compilation from UNCTAD and WDI's databases

2.4 Seychelles

Seychelles is a Small Island Developing State (SIDS), and is one of the smallest and most indebted countries in the developing world, with a total public debt stock-to-GDP ratio of around 140% in 2008 (World Bank, 2009). The country's total GDP stood at US$1.06 billion in 2011. The World Bank (2012a) classified Seychelles as an upper-middle class country; its GDP *per capita* rose by more than four times – from a mere US$2,288 in 1980 to US$12,321 in 2011. As a SIDS, the country's economy faces constraints characteristic of a small island state, such as lack of economic diversification, susceptibility to external shocks, distance from markets, and risks of environmental degradation, and weather-related disasters (World Bank, 2013e).

Policies to attract FDI and boost economic growth in Seychelles

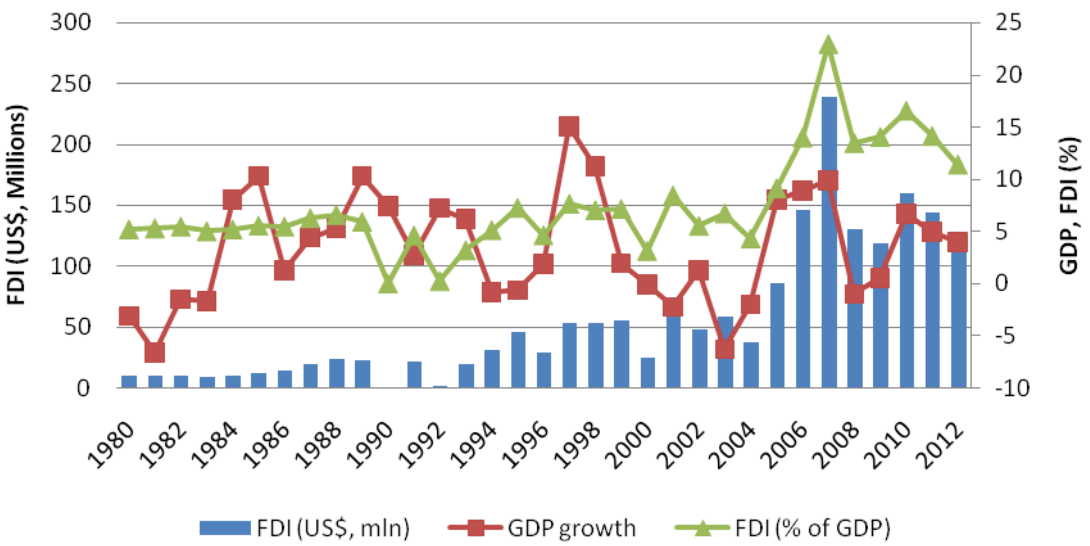
The Government of Seychelles currently has an ambitious plan to double its GDP by the year 2017 (Government of Seychelles, 2007). The ADB (2011b) noted that before the country's current reform programme the economy used to be managed by the state-led development strategy that was modelled on self-sufficiency and direct intervention in manufacturing, distribution, trade and other economic activities through state-owned enterprises (SOEs). These earlier policies were characterised by persistent expansionary fiscal and monetary policies, and incompatible trade and exchange rate policies, which led to severe macroeconomic imbalances. In fact, the economy became so unstable that, by 2008 the country failed to honour its foreign debt obligations.

The Government of Seychelles has also been implementing Macroeconomic Reform Programmes (MERPs). The first MERP was adopted in 2002, and was intended to assist in restructuring the country's economy, and exploring ways to promote growth and raise the standard of living for the citizenry. The first MERP also recognised the significance of the private sector in growing the economy and creating employment for the youth. Through the MERP of 2002, the Government privatised many of its assets (Government of Seychelles, 2010).

The second MERP was initially implemented in 2008. This was initiated with the support of major development partners (including the ADB, WB, IMF and the European Union). The reforms undertaken since 2008 include exchange rate and monetary policy deregulation, tax reform, the elimination of subsidies, and the enactment of legislations, such as the Public Debt Management Act. The ADB (2011b) applauds these reforms and attributed them to a major economic turnaround. By September 2011, Seychelles' total public debt ratio to GDP declined to 84%, from 128% in 2008.

UNCTAD (2010) argues that SIDSs are by nature attractive destinations for FDI in tourism, as well as eco-tourism. Seychelles has been taking advantage of its SIDS status by pursuing a niche strategy, and by highlighting tourism services – with a combination of quality and exclusivity, based on their small size-offering – which is not always available in mass-market package destinations. Apart from attracting tourism-related FDI, the country has also been marketing the exclusive economic zone (EEZ), with the aim of directing FDI to offshore oil exploration and other sectors, in a bid to diversify the economy. Figure 4 shows the trends of FDI and GDP during the period 1980-2012.

Figure 4. GDP and FDI Trends in Seychelles (1980-2012)



Source: Compilation from UNCTAD and WDI's databases

3. Conclusion

In this paper, the policies and strategies aimed at boosting economic growth and attracting FDI have been analysed in the four middle-income sub-Saharan African countries. These include Angola, Mauritius, Namibia, and Seychelles. The paper has also highlighted the trends in FDI inflows and economic growth in individual countries during the period 1980-2012. The analysis of this study shows that the FDI inflows into these countries were fairly low during the 1980s and early 1990s. This is mainly because during this period, the policies of these countries, like many other sub-Saharan African countries, hinged 'mainly on import substitution, socialism and centralised economic systems. However, the FDI inflows into these countries started to increase in the late 1990s, as governments embarked on privatisation, liberalisation and economic structural-adjustment programmes. These reforms saw the warming up of countries to multinational corporations (MNCs), and the setting up of investment promotion and facilitation agencies. Some of the policies that have been implemented in these countries include, amongst others: i) Deregularisation of the economy; ii) relaxation of exchange controls; iii) adoption of 'market-friendly' policies, such as privatisation and trade liberalisation; iv) allowing foreign investors to repatriate profits and dividends; and v) guaranteeing lawful protection of foreign investments; vi) political stability; and vii) multilateral and bilateral trade and investment agreements. Moreover, in recent years, some of these countries have introduced special economic zones that offer further incentives to investors in 'strategic industries', such as manufacturing, tourism and oil exploration. The biggest recipient of FDI inflows among the four countries during the studied period, however, was Angola – where the FDI inflows increased from US$ 2145.5 mill in 2001 to US$ 16581.0 mill in 2008.

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