Assessing China’s Role in Foreign Direct Investment in Southern Africa

A report by Sanne van der Lugt and Victoria Hamblin with Meryl Burgess and Elizabeth Schickerling

March 2011
“Just as throwing aid money at poor countries does not work, simply boosting investment is not the key to economic growth either. Only when capital is allocated to its most productive uses will an economy benefit, and this can only happen when governments are given incentives to respect and support those industries that can contribute to a country’s longer-term potential. The ceremony to cut the red ribbon to launch the newest road, bridge or port is easy. The hard part is ensuring the longevity of infrastructure, which can only be achieved if the economy is growing” - Dambisa Moyo, 2009

The findings, interpretations and conclusions expressed therein are those of the authors and do not necessarily reflect the views of Oxfam Hong Kong

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Cover picture from FrontPage Africa.2

Layout by Matthew McDonald and Sanne van der Lugt.

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<tbody>
<tr>
<td>AfT</td>
<td>Aid for Trade</td>
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<tr>
<td>ARF</td>
<td>African Renaissance Fund</td>
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<tr>
<td>BEA</td>
<td>Bureau for Economic Analysis</td>
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<tr>
<td>BIS&lt;sup&gt;a&lt;/sup&gt;</td>
<td>Bureau of Industry and Security</td>
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<tr>
<td>BIS&lt;sup&gt;b&lt;/sup&gt;</td>
<td>Department for Business, Innovation and Skills</td>
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<tr>
<td>BITs</td>
<td>Bilateral Investment Treaties</td>
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<tr>
<td>CCPIT</td>
<td>China Council for the Promotion of International Trade</td>
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<td>CCS</td>
<td>Centre for Chinese Studies</td>
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<tr>
<td>COMESA</td>
<td>Common Market for Eastern and Southern Africa</td>
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<td>CSO</td>
<td>Civil Society Organisation</td>
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<td>CSPR</td>
<td>Civil Society for Poverty Reduction</td>
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<td>DBSA</td>
<td>Development Bank of Southern Africa</td>
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<tr>
<td>DFID</td>
<td>Department for International Development</td>
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<td>DRC</td>
<td>Democratic Republic of Congo</td>
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<tr>
<td>DTI</td>
<td>Department of Trade and Industry</td>
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<tr>
<td>ESA</td>
<td>Economics and Statistics Administration</td>
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<td>EU</td>
<td>European Union</td>
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<td>FCO</td>
<td>Foreign and Commonwealth Office</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FIP</td>
<td>Financial and Investment Protocol</td>
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<td>FTA</td>
<td>Free Trade Agreement</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>HIPC</td>
<td>Heavily Indebted Poor Countries</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>ITA</td>
<td>International Trade Administration</td>
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<tr>
<td>JCTR</td>
<td>Jesuit Centre for Theological Reflection</td>
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<td>LaRRI</td>
<td>Labour Resource and Research Institute</td>
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<td>MCA</td>
<td>Millennium Challenge Account</td>
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<td>MCC</td>
<td>Millennium Challenge Corporation</td>
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<tr>
<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>MFA</td>
<td>Ministry of Foreign Affairs</td>
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<td>MIGA</td>
<td>Multilateral Investment Guarantee Agency</td>
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<td>MNC</td>
<td>Multinational Corporation</td>
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<tr>
<td>MOFCOM</td>
<td>Ministry of Commerce</td>
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<td>MOU</td>
<td>Memoranda of Understanding</td>
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<tr>
<td>NDRC</td>
<td>National Development and Reform Commission</td>
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<tr>
<td>NEPAD</td>
<td>New Partnership for Africa’s Development</td>
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<td>NGO</td>
<td>Non-Governmental Organisation</td>
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<tr>
<td>ODA</td>
<td>Official Development Assistance</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>OFDI</td>
<td>Outward Foreign Direct Investment</td>
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<td>ONS</td>
<td>Office for National Statistics</td>
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<td>OSIB</td>
<td>Overseas Security Information for Business</td>
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<td>PBC</td>
<td>People’s Bank of China</td>
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<td>PEPFAR</td>
<td>President’s Emergency Plan for AIDS Relief</td>
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<td>PMI</td>
<td>President’s Malaria Initiative</td>
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<td>PRC</td>
<td>Peoples Republic of China</td>
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<tr>
<td>RISDP</td>
<td>Regional Indicative Strategic Development Plan</td>
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<tr>
<td>RTAs</td>
<td>regional trade agreements</td>
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<tr>
<td>SA</td>
<td>South Africa</td>
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<tr>
<td>SACU</td>
<td>Southern African Customs Union</td>
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<tr>
<td>SADC</td>
<td>Southern African Development Community</td>
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<tr>
<td>SADCC</td>
<td>Southern African Development Coordination Conference</td>
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<tr>
<td>SAFE</td>
<td>State Administration of Foreign Exchange</td>
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<td>SASAC</td>
<td>State-owned Assets Supervision and Administration Commission</td>
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<td>SOEs</td>
<td>state owned enterprises</td>
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<tr>
<td>TAZARA</td>
<td>Tanzania Zambia Railway</td>
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<tr>
<td>TIDCA</td>
<td>Trade, Investment and Development Cooperation Agreement</td>
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<tr>
<td>TNC</td>
<td>Transnational Corporation</td>
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<tr>
<td>UK</td>
<td>United Kingdom</td>
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<tr>
<td>UKTI</td>
<td>United Kingdom Trade and Investment</td>
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<tr>
<td>UKTI-DSO</td>
<td>UK Trade and Investment department’s Defence and Security Organisation</td>
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<tr>
<td>UNCTAD</td>
<td>UN Conference on Trade and Development</td>
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<tr>
<td>UNECA</td>
<td>United Nations Economic Commission for Africa</td>
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<tr>
<td>US</td>
<td>United States</td>
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<tr>
<td>Acronym</td>
<td>Description</td>
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<tr>
<td>USAID</td>
<td>US strategy for aid</td>
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<td>USD</td>
<td>United States' Dollar</td>
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<td>WIR</td>
<td>World Investment Directory Report</td>
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<tr>
<td>WTO</td>
<td>World Trade Organisation</td>
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<tr>
<td>ZDA</td>
<td>Zambia Development Agency</td>
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Executive Summary

Popular claims link the inflow of foreign direct investment (FDI) almost automatically to economic development. This notion increased in prominence with the rise of neo-liberal thinking in the 1980s. It was also fuelled by the success of the so-called Asian Tigers achieving high growth rates, coupled with poverty reduction through an outward market-policy orientation. This study explores FDI in Southern Africa and Zambia specifically, based on the analysis of policy documents and interviews with a small sample of twelve Chinese and African government officials, CSO representatives as well as private sector representatives.

Historically the main source countries of FDI funding to Africa are the United States, the United Kingdom and France. China has dramatically increased its presence in the continent in the past decade and became the 5th largest country of origin of foreign investment on the continent in 2009; its growing impact on trade, aid and investment in Africa has attracted increasing academic, media, and government attention. In the context of Southern Africa, South Africa is the most prominent investor from the region, capitalising on the geographical proximity of the African markets in comparison to other foreign investors.

It is within this context that this study investigates the activities of Chinese investors in Southern Africa and in Zambia more specifically. In order to gain a better understanding of the specific consequences of Chinese FDI for economic development in Southern Africa, Chinese FDI is studied against the broader context of FDI inflows in the Southern African Development Community (SADC) region, with a focus on Zambia. The more general discussion is meant to provide a background for a more focused discussion of FDI in Southern Africa from four FDI countries of origin (in addition to China these are the United Kingdom, South Africa and the United States).

The aim of this study is twofold. It will:

(a) investigate the role of China as an investor and how Chinese FDI contributes to economic development and poverty reduction in Southern Africa and in Zambia more specifically;

(b) investigate how SADC and Zambia manage the Chinese FDI inflow and its potential impacts on poverty reduction and how SADC and Zambia can benefit more from FDI inflows;

The findings on these two aspects will contribute to identify opportunities for government officials of FDI host countries and NGOs to engage with Chinese investors and local stakeholders in the receiving countries in such a way that enhances the spin-offs of Chinese FDI with potential impacts for poverty reduction in the region. These will be put forward in this report’s recommendations section.
**Key Findings**

Africa is not a key destination for global FDI; it receives only 5.24 per cent of the world’s total FDI inflow. However, the past decade has seen the continent gain importance as a destination of global FDI, with its percentage of world total FDI inflow increasing seven-fold. Policy-makers in Southern Africa are increasingly focused on raising the potential positive impacts of FDI, with SADC member-states, including Zambia, passing specific regulations in order to attract more FDI. The key findings concerning this report are as noted below:

**i) Chinese FDI compared to other foreign investors**

There are obvious endeavours with all actors to support their companies to invest abroad, with the minimum effort being provision of information. There are, too, obvious linkages to the foreign policy agenda in all countries. Yet, important differences exist between the main foreign investors as well. An important distinction among the four chief investors in the region for example is the way in which FDI is differentiated from other international financial flows, such as Official Development Assistance (ODA). This distinction between ODA and FDI makes the institutional setting difficult to compare. Thereby, the division between public companies, SOEs and parastatal companies often leads to a blurring of the economic and political national policies with profit-seeking strategies of companies.

**ii) Linkages with Poverty Reduction**

Generally speaking, the first priority of FDI from the private sector from any “home” country (where the outflow of capital originates) is to generate a benefit for the investor. However, both FDI and official aid have a range of motivations, _inter alia_: practicing international solidarity, providing global public goods, addressing foreign policy concerns. The international consensus in ODA is that poverty reduction should be the paramount aim while private companies tend not to be primarily concerned about poverty reduction. Although, our findings indicate that some companies, including from China and South Africa, operate in Africa based on long-term relations and thus appear to be sensitive towards the social impacts of their involvements. For the South African companies, a long-term strategy is highlighted as useful and necessary since they are operating within their own region and claim that they want to maintain opportunities in the nearest markets for them. The Chinese approach towards long-term business relations in Africa is mainly based upon norms and values within Chinese business culture. However, culture is a flexible concept and the organisation culture of Chinese multinationals can obviously change when they operate abroad for a long time.

In general, the positive impacts of FDI to poverty reduction in the receiving country are indirect. For example, foreign investors are likely to make use of the local workforce (job creation) who have the chance to acquire new

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3 See Annex Table 1.

4 See Annex Table 1

5 Guanxi (relationships or networking) is a key concept in Chinese (business) culture and means that Chinese business men put a lot of effort in building personal relations with their business partners in order to build trust and therefore to be able to close better deals (see for example Tong Chee Kiong & Yong Pit Kee, 1998. “Guanxi Bases, Xinyong and Chinese Business Networks”, in The British Journal of Sociology, 49(1), pp. 75-96.).
skills by working with foreign technology (transfer of technological knowledge and skills). These potential social impacts are however not the main objectives of the foreign investors and support from the FDI receiving government is necessary in order to use the full potential of FDI inflows for its citizens. It is recognised that the extent to which FDI inflows have positive effects on poverty reduction is highly dependent on the capacity of the receiving country’s government to manage FDI inflows effectively. Furthermore, the intricate impacts of FDI on a given country are highly dependent upon contextual factors, as is shown in-depth by this report's case study of Zambia.

iii) Performance host region and host country to attract and benefit from FDI

SADC has passed a number of protocols and regional integration goals, such as the Financial and Investment Protocol (FIP) - approved in 2006 - and the Regional Indicative Strategic Development Plan (RISDP), passed in 2003, which aim to have a positive effect on the region’s ability to attract and benefit from FDI. However, there is a distinct lack of ability by SADC member-states to implement the measures necessary to attract more FDI. Movement towards a common FDI approach is desired, yet the organisation has struggled to put a structure in place that can most effectively harness FDI inflows. Self-imposed deadlines for the creation of a Free Trade Agreement (FTA) or Customs Union within SADC have not yet been met, having ramifications for the targets to improve transport and to effect the more free movement of people and products. Resultantly the costs of doing business in the region continue to be high, acting as a possible deterrent to FDI. This report puts forward that the SADC region suffers from a key weakness concerning the management of FDI due to its ‘bottom up’ approach to governance, in terms of which policy direction is given by individual SADC member-states, while the organisation assumes the role of a ‘higher’ but more distant advisor and facilitator. This results in a key responsibility for the individual member states to implement the region’s strategy towards attracting and managing FDI. This report contends that the possible benefits for economic growth and poverty reduction to be gained from FDI for SADC are not being maximised due to the lack of management of the FIP and FTA at member-state level, largely irrespective of countries of origin of FDI.

The Zambian Government has managed to make the country, over time, a much more attractive destination for FDI by means such as opening business areas to private companies (privatisation) and new regulations to attract FDI. These economic reforms have caused Zambia to bolster its position in the Ease of Doing Business Index of the World Bank. It is, however, unclear whether foreign investors choose to invest in Zambia because of the relative flexibility concerning environmental and social regulations (stemming from the Zambian government’s attempt to attract FDI to the country) or whether other possible reasons, such as diversity in and accessibility of raw materials, or Zambia’s market potential play a bigger role in investors’ decision-making. These alternative interpretations have consequences for the leverage the Zambian Government has in the negotiation with foreign investors, to make FDI beneficial for poverty reduction and to protect its citizens and environment against exploitation from foreign investors.

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6 Interview with SADC FIP representative on 19 October 2010.
7 Zambia posted 90 in 2010 compared to 99 in 2009.
Recommendations

Following the general finding of this report on the importance of regulation in FDI “host” countries (which receive the FDI), the main recommendations are directed towards the organisation of SADC and the Zambian Government.

- SADC should improve its investment climate for foreign investors by reducing the costs of doing business in the region. One way of achieving this is by speeding up set targets for political and economic integration; improving interconnectivity and thereby enlarging the market size and attractiveness.

- As a landlocked country, Zambia should put more effort into improving its infrastructure (e.g. through better linking ODA and FDI in a coherent step-by-step plan) in order to attract more FDI. More and better regulated FDI is a precondition to have increased gains in poverty reduction.

- A lack of transparency within the Zambian government regarding deals with foreign investors was named as concern by Zambian CSOs. Increased disclosure on details of the deals by the Zambian government would be demanded from these actors.

- Zambia’s decision-makers need to consistently enquire about the protection of its citizens, future generations and the environment. Regulation of these aspects is arguably a key task for government when engaging with multinationals.

- In order to better regulate FDI, the Zambian government should make information readily available to investors about rules and regulations in Zambia. One measure to do so would be a more frequent update of the website of the Zambian Development Agency (ZDA). Another measure would be to make Zambian business law available in Mandarin for Chinese investors, which could make Zambia a more attractive destination for Chinese FDI. Another positive consequence could be to improve law enforcement: Chinese companies who operate abroad have to comply with local laws and regulations. The first step to compliance is to understand the legislation.

- In order to make an informed decision on how best to regulate FDI, the Zambian government should consider conducting a study on the reasons why foreign investors choose to invest in the country. If the reason is to be found in country-specific factors (e.g. raw materials), the Zambian government could better protect its citizens and the environment with stricter regulation without running the immediate risk of losing foreign investors.

- NGOs can assist both CSOs and governments of the SADC countries with conducting such a study by providing detailed information on the motivations for Chinese investors to invest in the specific countries within the SADC region.

- FDI home countries have limited legal responsibility for how their national companies are operating abroad since that would question the right of sovereignty. However, CSO’s can use the technique of naming and shaming: publication of bad practices of companies from a certain nationality can lead to stricter control by their home government. CSO’s could instead also focus on the consuming countries.
and make information available about bad practices of companies in their country for the consumers abroad.

- The findings of this study show that the bottom-up approach to governance of SADC is restricting the role of the SADC secretariat regulating and controlling FDI inflows to the region. The member states have a lot of clout and autonomy over their FDI inflows and SADC appears more as a facilitating authority. At present there is no common strategy concerning FDI in SADC. The first task for SADC is therefore to extract and promote lessons for the rest of the region. The regional body should study especially best practice examples in attracting FDI, not least so from Mauritius.\(^8\) While the first and foremost aim of SADC countries might be to attract FDI, disseminating knowledge on how to manage FDI in such a way that it benefits the development of the region should also be a key focus of SADC.

- To the four FDI source countries researched in this report, we recommend the need to ensure a more comprehensive recording of data concerning their country’s FDI outflow, in addition to making the information available for public access in the near future. As previously noted, the importance of African countries as a destination for global FDI is increasing despite their relatively small market sizes; hence it is crucial for FDI source countries to maintain records of their FDI outflows to them. At present there appears to be significantly limited collection of data concerning the SADC region. A more thorough and transparent recording could serve to benefit both FDI source and host countries: it could contribute to decreasing speculation of neo-colonialism of FDI source countries, in addition to the possibility of attracting further FDI for host countries due to heightened recognition of the possibilities of investing in the country.

**Areas for Further Research**

Some general points need to be made about the need for further research as a matter of caveats to this study’s findings. First, more detailed, country-level studies are required to provide comprehensive insight into the impact of FDI on poverty reduction; this study provides points of entry for the discussion. For this baseline studies should be conducted and detailed analysis done of the sectoral and macro-economic contexts. This, however, was beyond the scope of the present study, which had a narrowly defined execution period. Secondly, the results of more country studies would allow for more grounded evaluation of good practice mechanisms to regulate FDI in a regional context in Africa. A 'more grounded evaluation' will be gained through a lengthier period of research that allows for in-depth field research and the development of a baseline in its design. National economies differ in structure and there is a clear risk of collective action problems based on differences in interests. The Zambia case should thus not lead to a one-size-fits-all approach, but rather serve as an illustrative case. Thirdly, this work focussed on the national discussion with links to regional rules. To complete the picture, more work is needed on the aspect of capacity-building for African policy-makers in trade and investment matters, not least so in the context of the broader debate on Aid for Trade (AfT). There is a need for an in-depth study on if and how China’s involvement on the continent influences the capacity-building of African policy-makers.

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\(^8\) See p.38 of this report for an explanation about how Mauritius made itself an attractive FDI destination.
Introduction

Foreign direct investment (FDI) is often regarded as an essential element in any given country's quest for economic growth. As economic growth is understood as a key condition for poverty reduction to take place, some see FDI as an important, if not crucial, tool for poverty eradication. Organisations such as the International Monetary Fund (IMF) and the World Bank contend that attracting large inflows of FDI will result in economic development by stimulating infrastructural development and growth across different sectors of the affected economies. Thus not surprisingly, FDI has been at the centre of attention and debate for policy-makers in a number of developing countries, including Zambia.9

It is within this context that this research investigated the activities of Chinese investors in Southern Africa and in Zambia more specifically. Historically the main sources of FDI funding to Africa have been the United States (US), the United Kingdom (UK) and France. China10 has dramatically increased its presence on the continent in the past decade and became the 5th largest foreign investor on the continent in 2009. Its growing impact on trade, aid and investment in Africa has attracted increasing academic, media, and government attention. In order to gain a better understanding of the specificities of Chinese FDI and its role in economic development in Southern Africa, Chinese FDI is examined in the broader context of FDI inflows to Africa, and in comparison with the FDI from other main countries. The main research question is:

How does Chinese Outward Foreign Direct Investment (OFDI) compare to OFDI from the three other main FDI source countries to the SADC region, and Zambia more specifically, and how are SADC and Zambia managing the Chinese FDI inflow with a view to its potential impacts on poverty reduction?


10 Throughout this report, the term “China” refers to mainland China, because the data used originates from a report of the Chinese Ministry of Commerce (MOFCOM) which refers to Mainland China; data from the special administrative regions of Hong Kong and Macau or data on Taiwanese FDI are thus not included.
This study is the result of two phases of research, namely: 1) an environmental scan; and 2) a deeper analysis of the data gathered in the first phase. The division into two phases with an initial scoping study allowed the development of a full profile of different stakeholders. The findings of the first phase led to a set of recommendations for the second phase of the study regarding the focus on the key FDI source countries, *inter alia* determining the best suited research methodology for further research.

This report is based on the analysis of policy documents and interviews with a small sample of twelve Chinese and African government officials, CSO representatives (namely the Civil Society for Poverty Reduction (CSPR) and the Jesuit Centre for Theological Reflection (JCTR)) as well as private sector representatives. The interviews are conducted as semi-structured, mainly face-to-face interviews and some via telephone. The policy documents analysed are, amongst others: the *Africa Economic Outlook 2010*; MOFCOM’s *Statistical Bulletin of China’s Outward Foreign Direct Investment 2009*; reports from the Bureau of Economic Analysis (BEA) and the Bureau of Industry and Security (BIS) from the US; reports from the Department of International Relations and Cooperation (DIRCO) from SA; and reports from the Department for International Development (DFID) from the UK.

The critique on China that their activities on the African continent are not transparent and that they do not specifically disclose information on OFDI or ODA does unfortunately also apply in the case of OFDI from the other FDI source countries. The Office for National Statistics (ONS), for example, clarified that they were the key source for FDI outflow figures concerning the UK, and noted that the information they provided (see table 7 in Annex) was the only information they had regarding UK FDI to the respective countries and region, in addition to not being willing to disclose elements of it. In the process of gathering statistical data for the South African country profile, numerous South African financial institutions (South African Reserve Bank, South African Revenue Service etc.), government departments (Department of Trade and Industry, National Treasury etc.) and South African financial and economic experts were contacted; however little data was made available from these relevant sources. Furthermore, discrepancy has been found between data on Chinese FDI to Africa from different sources (see table 9 in Annex). In order to get data that is as complete and accurate as possible, the research team cross referenced all sources. The fact that most of the data on FDI towards Africa from all the main foreign investors is not readily available shows the relevance of this study and that follow-up research is necessary.

Section one of this report defines FDI in relation to investments and aid. It also provides an overview of the literature on the potential impacts of FDI on poverty reduction. It analyses theories and practical examples about how FDI can contribute to economic development and poverty reduction. Section two explores the current global FDI trends in Africa and in Zambia more specifically. It explores the state and trends in FDI inflows to the continent over the last decade, and identifies the key source countries of FDI in Africa and the SADC region.

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11 The decision for the selection of these two Zambian CSOs by the CCS Research Team was mainly methodological and based upon response.
Section 3 provides profiles of the current four main home countries of investors to the SADC region, namely: the US, the UK, China and South Africa (SA). It discusses the policies, rules and regulations of these four main FDI source countries regarding OFDI to Africa, identifies the main authorities, key companies and state owned enterprises (SOEs) involved in it, and highlights their specific roles. It thereby also explores the connection between FDI and ODA\textsuperscript{12} within the four main FDI home countries.

Section 4 and 5 present analyses of how SADC and Zambia, as the respective host region and country of FDI, attract FDI and manage the potential impacts. The sections identify the relevant policies, rules and regulations of SADC and Zambia to attract FDI and evaluate the perceived attractiveness of the investment climate by the investors. Has Zambia made itself an attractive destination for FDI from China and elsewhere – and if so, how? Furthermore, the sections evaluate if and how FDI to SADC and Zambia contributed to poverty reduction; this requires particularly identifying the policies, rules and regulations of SADC and Zambia to manage FDI. The sections conclude with recommendations for improvement in the attracting of FDI and, drawn from stakeholder interviews, suggestions for raising the benefits of FDI.

\textsuperscript{12} ODA is a term defined by the Organisation for Economic Co-operation and Development (OECD) as: “Flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 per cent (using a fixed ten per cent rate of discount). By convention, ODA flows comprise contributions of donor government agencies, at all levels, to developing countries (“bilateral ODA”) and to multilateral institutions. ODA receipts comprise disbursements by bilateral donors and multilateral institutions. Lending by export credit agencies—with the pure purpose of export promotion—is excluded.” [Online] Available: http://stats.oecd.org/glossary/detail.asp?ID=6043.
1. Conceptualising FDI

In its classic definition, Foreign Direct Investment (FDI) is an organisation’s physical financial investment into establishing facilities in an economy other than its economy of origin.\(^{13}\) In recent years, this definition has been broadened and includes a long-term relationship between the direct investor and the direct investment enterprise and implies that the investor has a significant degree of influence on the management of the enterprise.\(^{14}\) The institutions from both the FDI source and the FDI host countries which were interviewed in the course of the present study follow the same definition of FDI as the IMF and the Organisation for Economic Co-operation and Development (OECD), namely: to be considered FDI, it must be in a venture\(^ {15}\) that lasts longer than twelve months and it must be an investment of more than ten per cent in a particular enterprise. An ownership of at least ten per cent of the voting power of the enterprise\(^ {16}\) is regarded as the necessary evidence that the investor has sufficient influence to have an effective voice in its management.\(^ {17}\)

FDI usually comes in the form of equity\(^ {18}\) or loans. Ownership of land and buildings by a non-resident is treated as an equity investment by the non-resident in a resident notional enterprise, which in turn is treated as the owner of the land and buildings. FDI is different from Foreign Portfolio Investment (FPI), which includes investments via equity instruments (stocks) or debt (bonds) of a foreign enterprise which does not necessarily


\(^{15}\) A venture is a start-up firm or small business with exceptional growth potential with high risks involved.


\(^{17}\) As explained by the OECD, in some cases ten per cent ownership of the voting power may not lead to the exercise of any significant influence; indeed an investor may own less than ten per cent but actually have an effective voice in the enterprise’s management. Nevertheless it is necessary to use the same percentage to ensure statistical consistency across countries.

\(^{18}\) Equity is the capital of a firm, after deducting any liabilities to outsiders other than shareholders, who are typically the legal owners of the firm’s equity. This ownership right is the reason why shares are also known as equities (The Economist, Research Tools, [Online] Available: http://www.economist.com/research/economics/alphabetic.cfm?letter=E#equity).
represent a long-term interest. Despite stocks and bonds being excluded from the definition of FDI, there is FDI in the financial sector, for example: lasting investments in banks, insurance companies and other financial institutions. It is therefore important to note that FDI is different from trade. For example, by buying barrels of oil from, say, Angola and Nigeria, China is not investing in the resource sectors of the respective countries.

Furthermore, for the purposes of this study, the basic distinction between FDI inflow and outflow is important. FDI outflow denotes the amount of FDI leaving a continent, region or country, whereby local capital is invested in some foreign resource. In comparison, FDI inflow refers to the amount of FDI entering a continent, region or country, where the investment of foreign capital occurs in host country resources. The total FDI inflow and outflow result in a net FDI inflow that is either positive or negative in the respective country. The cumulative number of FDI for a given period is referred to as FDI stock.

FDI is often referred to as private investment and therefore distinguished from public funding. In practice, however, and with particular relevance to Chinese FDI, the distinction is more blurred since investments from SOEs are also taken into account. The data\(^\text{19}\) on FDI inflows used in section two of this report refers to both private investments and investments from SOEs, since the sources used do not draw a distinction between the two. This report is positioned at the (thin) line between ODA and FDI; both practices can be perceived as investments, however, the two main differences are that: 1) the international consensus stipulates that the paramount aim of ODA should be poverty reduction and; 2) FDI always results in (shared) ownership of the organisation invested in whereas the stated goal of ODA is to empower the recipient country. The findings of our research indicates that it would be useful to distinguish between public and private investments since different regulations, incentives and levels of government support exist which in turn have an influence on the effects of the FDI for the host/receiving country. Distinguishing between public and private investments in a Western perspective is closely linked to the discussion of aid and trade and thus affects the defining lines between ODA and FDI. Is aid a form of (state-induced) investment? Should FDI therefore count as a form of (private or SOE led) development cooperation, or not?\(^\text{20}\)

FDI is often regarded as an essential element in any given country's quest for economic growth, which, in turn, is generally seen as precondition for poverty reduction. Consequently, some see FDI as an important tool for poverty reduction. In recent years, debate has heightened around the contribution of aid to development and growth in Africa, in comparison to FDI inflows. The effectiveness of these different funding methods for development is still in the process of being evaluated. This debate is of key importance to Africa, as the region is home to a significant number of the world’s Least Developed and most poverty-stricken countries. As a continent

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\(^{19}\) A number of precincts were experienced during gathering the data about FDI in the region from the all four of the FDI home countries and this made comparison between the strategies of and challenges for these host countries quite difficult. Section 6.4 on recommendations in the conclusion of this report will discuss these difficulties more in-depth.

\(^{20}\) Interviews with representatives of government officials from FDI home countries suggest that the divide between ODA and FDI is at least disputable. In section three of this report, on the differences and similarities between the strategies, policies and institutional framework of the four main investors in Southern Africa, the different ways of how FDI and ODA are institutionalised in the respective FDI home countries are further explained.
consisting of developing countries, the potential for African economies to benefit from FDI is considerable. Not surprisingly, FDI has been at the centre of attention and debate for policy-makers in a number of developing countries, including the country case used, Zambia. However, research has shown that FDI can have dramatically different impacts – both positive and negative. This may be due to the type of FDI as well as contextual factors such as varying human resources, financial systems in FDI receiving countries and institutional constraints.21

The growth-enhancing effects of FDI inflows are influenced, amongst others, by the chosen mode of FDI. A distinction is made between so-called 'greenfield' FDI and 'brownfield' FDI. Greenfield FDI refers to a form of FDI where a parent company starts a new venture in a foreign country, constructing new operational facilities from the ground up. In addition to building new facilities, most parent companies also create new long-term jobs in the foreign country by hiring new employees, resulting in a substantial inflow of physical capital. On the other hand, under brownfield investment the multinational corporation (MNC) holds already existing facilities in the host country. Brownfield FDI is thus expected to result in a limited increase in the stock of physical capital, since a change in ownership does not necessarily have to result in an inflow of new capital. Therefore, greenfield and brownfield FDI are expected to affect host country growth differently. Literature, however, does not provide a consensus on where the maximum effects for the host country is to be found when comparing greenfield or brownfield FDI. Despite brownfield FDI resulting in a smaller inflow of physical capital, some authors argue that brownfield FDI, in the form of a merger or joint venture, could maximise the potential for technology spill-over.22 This distinction between greenfield and brownfield investments is an important topic in the academic literature on FDI. This issue will, however, not be further explored in this report, as the focus is not on the level of investing companies. Instead, the report provides a discussion on the broader frameworks of FDI home and receiving countries.

Another seemingly important distinction in the debate – and one with key relevance to this report – is between FDI from developed countries versus FDI from the so-called emerging countries, namely Brazil, India, China, Russia and also SA amongst others. Although modest in size relative to global FDI inflows23, FDI inflow from emerging countries assumes considerable importance for host developing countries, as illustrated in the following chapter. It is suggested that emerging country foreign affiliates may be able to interact more effectively with domestic firms in host developing countries than affiliates of Transnational Corporations (TNCs) from developed countries.24 This has been attributed to the "greater familiarity of emerging markets MNEs with

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23 See statistics cited in section 2.

technology and business practices suitable for low-income developing countr[ies] resulting in their projects “fitting” better to local conditions. Therefore, the impact of technological spill-overs from emerging country TNCs on economic growth, eventually enhancing poverty reduction, can also be expected to be higher.

Box 1. The Knowledge Gap in African FDI Reporting

While there is little doubt that the rise of Chinese investment and trade with underdeveloped and developing African states has provided these nations with an unparalleled opportunity to revitalize their economies, there exists a knowledge gap between the media reports on announced investments, and real, critical assessment and analysis of the actual impacts and outcomes of investments made and projects completed. These reports reinforce ‘neo-colonial’ stereotyping more than that they provide any actual assessment of the situation across the many different African societies affected.

The little coherent information made available and a lack of academic research based on empirical evidence presents an obvious problem in assessing the real impacts all the so-called Chinese opportunities are having on various development regimes across the African continent. Lum et al. (2009) for example, conducted research on China’s Foreign Aid activities in Africa, Latin America, and Southeast Asia, “largely based upon news reports of Chinese foreign economic activity, PRC foreign assistance and government-supported economic projects” (2009: in the summary). News reports can only be used as sources for academic research when the objective is a discourse analysis. News paper articles cannot be used for extracting statistical facts. Investments are often presented in newspapers as statistical facts, while in reality based upon the comments of one person, as for example the news that China will soon invest 10 billion USD in Zimbabwe that spread rapidly all over the world, without being confirmed by a Chinese source (for example Reuters 2010). Statistics from official national statistical organizations also need to be treated with care, since the government in power has its own agenda and can make FDI amounts look either more or less than they actually are. Sanfilippo (2010) uses for example official data from MOFCOM in order to analyse empirically the determinants of Chinese OFDI to 41 African countries. However, we found during our research that the official amounts can differ between the national statistical organizations of different countries. For example, the total amount of FDI from China to South Africa that the Chinese Academy of International Trade and Economic Cooperation (2010) published is different from the total amount the South African government has recorded. Since this flaw is recognized by both countries, China and South Africa established a joint committee working on comparing the different amounts in order to acquire more accurate amounts of the FDI flows between the two countries.

These examples show that there is an urgent need for academic and scholarly research - baseline studies conducted by the many academic think tanks, institutions and organizations. As such, this research is not being done to the scale or depth that the real dynamics of Chinese engagement with different actors and regions in different African settings is fully understood. The gap is a real obstacle to understanding, and thus promoting best practice in foreign investment in Africa.

Contextual factors that might hinder or stimulate positive impacts of FDI on economic growth and poverty reduction are for example, appropriate host-country policies and a basic level of development. It must be stressed that FDI “will only lead to economic growth if FDI inflows are well managed and are used for investments that will encourage (further) growth,” emphasising how positive growth can only be obtained from sustainable and efficient investments. In addition, research undertaken by the Labour Resource and Research Institute (LaRRI) stressed that it is the responsibility of governments to ensure the appropriate political and macroeconomic conditions are in place so that FDI contributes to the country’s development aspirations, as

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opposed to solely generating profits for the foreign investor.\textsuperscript{27} Given this, this study seeks to provide a better understanding of how Chinese FDI fits in the bigger picture of a host country context. A key aspect under investigation is whether host countries engage with Chinese FDI in such a way that it is beneficial for both investor and host country. Policy advice will then – based on the findings – explore how host countries could improve their ability to reap the benefits of FDI inflows for their own national development and where external actors (like China) can be supportive in these policies with a view to contribute to poverty reduction.

The next section will provide an overview of the trends in FDI and serves as a background for the later analyses of the report.

2. Trends in FDI

2.1 Global FDI Trends

Both developing and developed countries are the recipients of FDI inflow; globally, developed countries account for the majority of FDI outflow. However, the share of global FDI inflow accounted for by developing countries is increasing, due to the reform and growth taking place in these economies. This is closely linked to increased openness to FDI and globally connected production chains.\textsuperscript{28} The financial crisis of 2008/09 appears to have resulted in a dent in the overall volumes of global FDI. FDI flow to Africa dropped by 18.9 per cent in 2009.\textsuperscript{29} In 2009, the total volume of FDI inflow across the world decreased by 37 per cent from 2008.\textsuperscript{30}

At the same time, the crisis has reinforced the pattern of developing countries gaining in importance as FDI destinations. The largest decline in FDI inflow was experienced by the US at 60 per cent, followed by the European Union (EU) by 32.6 per cent. This appears to be in line with the fact that the US and European countries faced the largest fallouts of the liquidity strains of 2008/9, which arose due to the increase in the practice of ‘securitisation’ within the financial industry and the respective business models followed by banks.\textsuperscript{31}


\textsuperscript{29} See Table 1 in Annex.

\textsuperscript{30} See Table 1 in Annex for details of FDI inflow per region.

is apparent that the effect of the financial and economic crisis on developed countries was more substantial than the subsequent impact on developing countries, unlike previous economic slumps. The shift in FDI inflow towards developing and transition economies is therefore expected to accelerate. Already in 2009, developing and transition economies together absorbed half of global FDI inflow.

Figure 1: Volume of FDI inflow per region from 2000-2009 (in USD million)\(^{32}\)

![Graph showing FDI inflow per region from 2000-2009](image)

### 2.2 FDI in Africa

Africa is gaining importance as a destination of global FDI, albeit from a lower basis than other regions. The year 2009 was somewhat unusual in this regard: On the continental level, Africa received lower levels of FDI inflow in 2009 than the past two consecutive years. However, Table 1 in the annex shows that the total volume of FDI inflow to Africa has increased by 595.82 per cent from 2000 to 2009. The overall percentage of Africa’s FDI inflow in comparison to the world total is increasing. It can be therefore argued that Africa is becoming a more popular destination for FDI, even if this might not yet be a consolidated long-term trend.

This growth in importance is linked to the increasing levels of FDI that African countries receive from emerging economies. While the FDI inflow into the region from developed as well as emerging countries dropped during 2009, FDI from emerging countries picked up again earlier and the increased investments from countries like China, India and SA compensated for the loss of FDI from developed countries.

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Yet, at present there is not a distinct regional composition of FDI inflow to Africa: instead, the countries with larger FDI inflow “tend to hold significant natural resource endowments, active privatisation programmes, liberalised FDI policies and vigorous investment promotion activities.” It can be seen that FDI inflows vary widely by region, sector and country. In 2009 it was West Africa which gained the fastest increase (63 per cent), over its 2007 figure. In 2009, North Africa continued to attract large FDI inflows and was the continent’s most diversified in terms of the allocation of FDI inflows. West Africa’s FDI inflow continues to be dominated by oil industry expansion demands, with approximately 80 per cent of the region’s FDI inflow obtained through the oil industry. In comparison, Central Africa saw the (resource-rich) Democratic Republic of Congo (DRC) attract 43 per cent of the region’s FDI inflow. East Africa maintained its status as the lowest recipient of FDI inflow on the continent in 2009, whereas Southern Africa’s FDI inflow level was boosted by Angola and SA, two of the top four FDI destinations on the continent. As can be seen from Table 4 FDI inflow to Southern Africa increased by 691.74 per cent over the ten-year period 2000-2009. There has, however, been little change in the proportion of FDI to Southern Africa going to Zambia: in 2000, Zambia accounted for 3.36 percent of Southern Africa's total FDI inflow, yet this percentage was remarkably similar at 3.82 percent in 2009. Zambia is ranking fourth in the list of SADC countries that receive the most FDI yearly. The number one FDI-receiving country is Angola, then South Africa and then the Seychelles. It can be concluded that although Zambia attracted much more FDI its attractiveness relative to its neighbouring countries has not changed significantly. This raises the question whether Zambia indeed became a more attractive FDI destination because of its economic reforms or if more general tendencies in the region mainly led to this increase of FDI inflows into Zambia.

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35 ‘Resource-rich’ is a contested concept (the potential strategic use of this is further explained in footnote 103). Finding a good empirical definition of resource-rich is therefore challenging. Michaels (2010) argues that “technology and demand affect the price of natural resources, changing the relative resource-abundance of different locations over time. Second, it is difficult to assess the physical quantity of economically extractable resources in many countries. Third, even if we could measure the price and quantity of natural resources, it is not clear whether we want to normalize our measure of resource abundance by gross domestic product (GDP) or by population” (2010:5).

According to the definition of a “resource-rich” country from the IMF’s “Guide on Resource Revenue Transparency” a country is classified as such on the basis of meeting either of the following criteria: (i) an average share of hydrocarbon and/or mineral fiscal revenues in total fiscal revenue of at least 25 percent during the period 2000-2005 or (ii) an average share of hydrocarbon and/or mineral export proceeds in total export proceeds of at least 25 percent during the period 2000-2005. See: [http://www.imf.org/external/np/pp/2007/eng/051507g.pdf] However, this rather narrow definition of the IMF does not take into account other non-mineral natural resources such as gum or timber. For the purpose of this report we therefore suggest to define resource-rich countries that export any materials in their native or natural state which when exploited has economic value and of which the average share of its revenues in total fiscal revenues is at least 25 per cent.


37 See also Annex.
Table 4: Volume of FDI inflow per country in the SADC region, 2000-2009 (in USD million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Country</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
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<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Angola</td>
<td>879</td>
<td>2145</td>
<td>3133</td>
<td>5685</td>
<td>5606</td>
<td>6794</td>
<td>9064</td>
<td>9796</td>
<td>16581</td>
<td>13101</td>
</tr>
<tr>
<td></td>
<td>Botswana</td>
<td>57</td>
<td>31</td>
<td>403</td>
<td>418</td>
<td>391</td>
<td>279</td>
<td>486</td>
<td>495</td>
<td>521</td>
<td>234</td>
</tr>
<tr>
<td></td>
<td>DRC</td>
<td>72</td>
<td>80</td>
<td>141</td>
<td>391</td>
<td>409</td>
<td>...</td>
<td>256</td>
<td>1808</td>
<td>1727</td>
<td>951</td>
</tr>
<tr>
<td></td>
<td>Lesotho</td>
<td>32</td>
<td>28</td>
<td>27</td>
<td>42</td>
<td>53</td>
<td>57</td>
<td>89</td>
<td>97</td>
<td>56</td>
<td>48</td>
</tr>
<tr>
<td></td>
<td>Madagascar</td>
<td>83</td>
<td>93</td>
<td>61</td>
<td>95</td>
<td>95</td>
<td>86</td>
<td>294</td>
<td>486</td>
<td>521</td>
<td>234</td>
</tr>
<tr>
<td></td>
<td>Malawi</td>
<td>40</td>
<td>60</td>
<td>17</td>
<td>66</td>
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<td>52</td>
<td>72</td>
<td>92</td>
<td>170</td>
<td>60</td>
</tr>
<tr>
<td></td>
<td>Mauritius</td>
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<td>-26</td>
<td>32</td>
<td>62</td>
<td>11</td>
<td>42</td>
<td>105</td>
<td>339</td>
<td>383</td>
<td>257</td>
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<tr>
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<td>337</td>
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<td>154</td>
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<td>Namibia</td>
<td>186</td>
<td>365</td>
<td>181</td>
<td>149</td>
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<td>387</td>
<td>733</td>
<td>720</td>
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<td></td>
<td>Seychelles</td>
<td>448</td>
<td>554</td>
<td>683</td>
<td>685</td>
<td>723</td>
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<td>856</td>
<td>557</td>
<td>1114</td>
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<td></td>
<td>South Africa</td>
<td>887</td>
<td>6784</td>
<td>1569</td>
<td>734</td>
<td>798</td>
<td>6647</td>
<td>-527</td>
<td>5695</td>
<td>9006</td>
<td>5696</td>
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<tr>
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<td>Swaziland</td>
<td>106</td>
<td>29</td>
<td>92</td>
<td>-61</td>
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<td>679</td>
<td>645</td>
</tr>
<tr>
<td></td>
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<td>122</td>
<td>72</td>
<td>303</td>
<td>347</td>
<td>364</td>
<td>357</td>
<td>616</td>
<td>1324</td>
<td>939</td>
<td>959</td>
</tr>
<tr>
<td></td>
<td>Zimbabwe</td>
<td>23</td>
<td>4</td>
<td>26</td>
<td>4</td>
<td>9</td>
<td>103</td>
<td>40</td>
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</tbody>
</table>


As indicated above, both the origins of FDI as well as the proportion of the global FDI inflows to the continent have changed. The proportion of FDI inflow to Africa from developing countries has increased from an average of 17.7 per cent (1995-1999) to 20.8 per cent (2000-2008) of the total FDI inflow to the continent.\(^{38}\) African intra-regional FDI tends to be smaller than that from overseas investors; notably African FDI is rarely directed to the main capital-intensive sectors, such as oil and extraction. In contrast, intra-African FDI has a stronger focus on services and manufacturing.\(^{39}\) At present, SA is the most important African source of intra-regional FDI for the continent, with countries in North Africa acting as other key investors from that region. The expansion of African financial institutions across the continent\(^{40}\), improving financial provision in Africa’s economies and facilitating

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40 By the end of 2009, there were at least 18 banks of SSA origin (from South Africa, Nigeria, Mali, Botswana, Kenya, Cameroon, Mauritius and Togo) that had cross border operations in four or more countries. The drivers of the cross border expansion are many and often inter-related, but the common ones are the declining opportunities in domestic markets and regulatory factors (Likonga & Chung 2010).
payment throughout the continent, contributes to the increase of African intra-regional FDI.

### 2.3 Reasons for investing in Africa

The last decade has seen a rise in interest from businesses, organisations and governments in systematic political risk analysis when embarking on foreign projects in Africa. This is to aid the necessary weighing up of opportunities against potential losses when deciding whether to proceed with such a venture in the region. This is because Africa does not appear an attractive destination for FDI for numerous reasons, as shall be outlined briefly. The amount of FDI inflows to the region is hampered by the traditional limitation of poor infrastructure in many African countries, combined with the relatively small size of Africa’s domestic markets, which hinders business growth and efficiency. A further limitation is the perception by prospective foreign investors that the region has a large unskilled labour force. “A high quality, productive, well-educated, skilled and disciplined labour force is what is required to help maintain the competitive edge of most MNCs in the global market place,”\(^4\) thus the overall low level of education and skilled workers across the region acts as a deterrent for FDI inflows.

Executives’ attitudes towards the safety and profitability of foreign investment climates can largely be shaped and influenced by their own subjective perception of political instability: “the possibility that political disequilibrium might result in governmental limitations on producing profits.”\(^5\) For example, when considering undertaking business within Africa, countries and occasionally the region as a whole, have been eliminated from a business’ investment consideration due to reasons based on political instability.

However, by focusing on risks when assessing the political environment in Africa, prospective foreign investors are in danger of missing a substantial business opportunity. Both the government and businesses in the PRC have minimised this, by using the tool of forecasting, “logically following an analysis of the identified variables in a risk model, determining their relationships and establishing their influence on a certain situation,”\(^6\) in order to ‘protect’ and ‘weigh up the outcome’ of their FDI in Africa. This follows along Howell and Chadwick’s\(^7\) contention that the identification and forecasting of potential losses are integral when exploring possible, and to maintain current, avenues of FDI. Decision-makers in the PRC recognise the importance of dismissing the notion that risk is solely a negative concept: risk may imply positive as well as negative variation, meaning that the risk can result in gains, even if there is a probability of losses. This idea is expressed in the Chinese character for ‘crisis’ which contains both the word ‘chaos’ and ‘opportunity’.

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For example, starting up a business in a country that is perceived as a high risk country for FDI and therefore left alone by other investors, has the benefit of less competition and thus offers an attractive opportunity. The majority of Chinese FDI in Africa is “concentrated in a few large, resource rich African countries characterised by high risk governance environments, and poor global competitiveness.” The PRC is often criticised for concentrating the bulk of its investments on resource-rich countries. However, instead of focusing only on the resources, the combination with high risk government environments and therefore often less competition, should be considered as well as an important trigger for these Chinese investors.

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3. FDI home countries’ profiles

The previous section focused on general trends in FDI in the world and in Africa more specifically. It was pointed out that FDI from developed countries to Africa decreased in lieu of the global financial crisis, while FDI from emerging countries is proportionally rising. This section will zoom in on the strategies and the main actors/institutions from the four main foreign investors to the SADC region in order get a better understanding of their different approaches and their subsequent different potential impacts on poverty reduction.

3.1 United States

3.1.1 Strategy and framework

The US has long been the largest global recipient and investor of FDI, and in 2009 the US maintained its status as the largest foreign investor abroad. US outward FDI is managed centrally within a specific framework under the Department of Commerce, with set government agencies overseeing the specificities concerning assisting and monitoring OFDI. In comparison, the US strategy for aid (USAID) is an independent federal government agency that receives overall policy guidance from the Secretary of State. Despite this separation in the US in outward FDI and ODA, there is the opportunity for US businesses to gain federal contracts and grants from USAID, which could lead to such businesses investing funding gained from USAID. Both OFDI and US ODA are heavily shaped by the foreign policy objectives of the US.


48 See flow diagram 1 in the Annex.


The US is a member of the Organisation for Economic Co-operation and Development (OECD) that sets specific rules and regulations concerning, *inter alia*, the provision of development assistance to other countries and support for sustainable economic growth. This regulates the statistical coverage of aid and business projects the US embark; endeavours are not filed as FDI or ODA if the outcomes appear unlikely to meet the necessary OECD standards.

Relative to the three other foreign direct investor countries focused on in this report, it can be stated that the US has by far the most comprehensive and up to date information and data available to the public concerning its outward FDI.

3.1.2 Strategies for OFDI

The broad strategy of the US concerning OFDI is to create new opportunities for US businesses in order to advance economic growth, jobs and opportunities for US citizens. Thus, US OFDI strives to be the most competitive and innovative in their particular field, whilst adhering to the international FDI rules and regulations of the multilateral (financial) institutions as mentioned.

From a global outlook, the early 2000s saw an increase in FDI outflows from the US, reflecting a trend of continuing strong interest among US companies in expanding operations overseas. However, FDI outflow from the US has predominantly been Europe-centred, and a strong trend has emerged showing that 70 per cent of US FDI is concentrated in high-income developed countries. In addition, the share of US FDI to developing countries overall has fallen in recent years. With regard to the actual amount of FDI outflow to the SADC region. OFDI by the US to the SADC region has increased by 263.26 per cent from 2000-2009. Looking specifically at Zambia, the US was home country of USD 95 million worth of FDI to Zambia in 2009, an increase of over 231.71 per cent from 2000; thus slightly behind the average FDI increase to the SADC region as a whole.

The US and the Southern African Customs Union (SACU) concluded a Trade, Investment and Development Cooperation Agreement (TIDCA) in July 2008, with the intention to “use TIDCA as a forum to conclude a range of agreements on various trade facilitation issues and other areas of cooperation.” However, there is no common US OFDI strategy towards the SADC region as such. Instead key focus is placed upon using the politically stable

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57 See table 5 and 6 in Annex.
SA and Mauritius as gateways to the rest of the region. SA is recognised to have “standards similar to those found in developed countries,” which has contributed to the US’s significant investment in the country; the US stands as the second largest source of OFDI in SA following the UK.\(^{58}\) Moreover, Mauritius appears as one of the most successful and competitive economies in Africa. This attractive quality was influential in the implementation of the Trade and Investment Framework Agreement which was signed between the US and Mauritius in 2006 further strengthening the bilateral relationship.\(^{59}\)

3.1.3 Institutions involved in US OFDI

Within the US Department of Commerce, the International Trade Administration (ITA) agency aims to “strengthen the competitiveness of US industry, promote trade and investment, and ensures fair trade through the rigorous enforcement of [US] trade laws and agreements.”\(^{60}\) This is the key institution that works to help US businesses that wish to invest abroad, primarily through the US and Foreign Commercial Service Business Unit. Within this sub-unit, commercial support for US business interests worldwide is provided to help start businesses abroad or to increase sales in new global markets. The US and Foreign Commercial Service Business Unit is seen to be the trade promotion arm of the ITA. Services and information offered includes market intelligence, trade counselling, business matchmaking and trade advocacy (in order to “level the international playing field for international procurement”).\(^{61}\) In addition, three other business units within the ITA assist US FDI, namely:
- Manufacturing and Services, which aims to strengthen US competitiveness abroad by helping shape industry trade policy;
- Market Access and Compliance, which assists US companies and helps to create trade opportunities through the removal of market access barriers; and
- Import Administration, which enforces US laws and agreements in order to safeguard the competitive strength of US businesses and to prevent unfairly traded imports.\(^{62}\)

Another important agency within the US Department of Commerce is the Economics and Statistics Administration (ESA), which produces analyses and disseminates economic and demographic data. One of the agencies overseen by the ESA is the Bureau for Economic Analysis (BEA), which is responsible for the US’s economic accounts; this is where information concerning US FDI is organised managed and can be accessed.\(^{63}\) Furthermore, the Bureau of Industry and Security (BIS\(^{64}\)) within the US Department of Commerce plays a role


concerning US FDI, as it works in partnership with the private sector in order to ensure that its security regulations "do not impose unreasonable restrictions on legitimate international commercial activity that is necessary for the health of US industry." The agency also aims to ensure that means to protect national security do not "compromise the international competitiveness of the US industry without an appreciable national security benefits."  

### 3.1.4 Strategies for Aid

With regard to foreign aid as another strand of US foreign financial flows, the US Congress passed the Foreign Assistance Act in September 1961, which mandated the creation of an agency to administer economic assistance programmes. Thus, the US Agency for International Development (USAID) was set up in November 1961 under overall direction of the US Secretary of State, in order to stand as a distinct, independent agency to undertake the US’s aid obligations. USAID was set up as “the first US foreign assistance organisation whose primary emphasis was on long-range economic and social development assistance efforts” and was not to be linked to political nor military functions. USAID was formed following a merger of various elements of the International Cooperation Agency, the Development Loan Fund, the Export-Import Bank and the Food for Peace programme of the Department of Agriculture, in order to combine economic, distribution and technical assistance of the prior dispersed US aid efforts.

The structure of undertaking strategies for aid remains the same today; USAID is “an independent agency that provides economic development and humanitarian assistance around the world in support of the foreign policy goals of the US.” However, despite being defined as independent, the strategies embarked on by USAID have the twofold purpose of furthering the US’s foreign policy interests, concerning promoting democracy and free markets, whilst simultaneously aiming to improve the lives of citizens of the developing world; priorities, and hence programmes, differ according to the need of the respective region or country. The purpose of furthering the US’s foreign policy interests is in sharp contrast to the US’s aid strategy that, as noted above, “was not to be linked to political nor military functions.” It indicates that ODA is a political and an economic tool for the US government.

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66 See flow diagram 1 in the Annex.


69 For example, a representative from the DBSA alleged that Wal-Mart was using American aid organisations such as USAID to offer African governments a package deal of aid together with their investment in order to open the market for their business.
Besides USAID, initiatives and programmes have multiplied over the last years. The President’s Malaria Initiative (PMI) is a key initiative led by USAID, and USAID plays a significant role in implementing the President’s Emergency Plan for AIDS Relief (PEPFAR) initiative. Although the US Millennium Challenge Corporation (MCC) is seen to be an independent US foreign aid agency focusing on aid cooperation with the world’s poorest countries, it is connected with USAID through the USAID Administrator serves on the MCC board.

Looking specifically to Africa, USAID currently operates 23 bilateral missions on the continent, yet provides assistance to 47 countries. There are three regional missions: USAID/East Africa, USAID/Southern Africa, and USAID/West Africa, with key focus being placed upon strengthening democracy (to reduce the risk of conflict in the regions), strengthening regional economic linkages, mitigating food insecurity and reducing the risk and impact of the HIV/AIDS crisis. These priorities are also in place in Zambia, in addition to raising the quality of basic education and assisting agriculture-led economic growth to reduce rural poverty.

### 3.2 United Kingdom

#### 3.2.1 Strategy and framework

The UK’s strategy and framework concerning their investments have been shaped by the UK’s history, most notably the colonial legacy left by the British Empire. The UK’s foreign ministry is called Foreign and Commonwealth Office (FCO) and was created in 1968. It is a merger of the Foreign Office with the Commonwealth Office, the latter in itself being a merger of the Colonial Office and the Commonwealth Relations Office (in 1966). The FCO is still highly influential in determining strategy and framework of British investments, with the key non-ministerial department, *UK Trade and Investment*, having to report back to the FCO.

The change in governmental departments illustrates the UK’s desire to move away from colonial practices. Since 1949 the UK has aimed to transform the colonial legacy of its member nations positively into strong economic and cultural partnerships based on nominal equality, choice and consensus. This quest has been embarked upon through the Commonwealth, previously known as the British Commonwealth, which strives to enhance the

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75 The name is somewhat misleading, however the FCO is only representing the UK and promoting British interests overseas, not the interests of the Common Wealth in general.

ability of member states to work together in the common interest of their citizens for development, democracy and peace. The Commonwealth is made up of 54 independent states; all former British colonies - bar Mozambique and Rwanda, who joined the Commonwealth later. It is a voluntary membership and within the SADC region there are eleven members of the Commonwealth; Mozambique joined and Zimbabwe, at present, has left the organisation. Zambia and the UK share a colonial history and Zambia is among the Commonwealth countries.

The UK’s strategy towards international financial flows (investment and aid) has shown to be dependent on the government in power. This can be illustrated by the clear move away from the previous Conservative government’s approach by the Labour government to distinguish British aid from trade in The International Development Act of 2002. In addition, the Labour Government put less emphasis on the visibility of UK aid and rarely put the name or logo of the Department for International Development (DFID) on the initiatives they helped with (while still striving to communicate the involvement to the UK taxpayers). In comparison, since the Conservative-Liberal Democrat Coalition government has come into power in 2010, they have linked the spending of UK aid more closely to its visibility. The UK aid logo has become more prominent, with the intention of making it easier for recipients as well as UK taxpayers to see where the UK’s aid budget is being spent and how it is being used to tackle global poverty. This potentially indicates a change in understanding of what ‘ownership’ by the partner government implies and thus might show a change in strategy.

3.2.2 Strategies for OFDI

In 2009, the UK experienced USD 1,651,727 million worth of OFDI in total, nearly doubling the amount recorded in 2000; indicating that British companies recognise a number of benefits from investing abroad. For example, investing abroad results in less dependency on the UK economy, and there is evidence that the companies that have diversified their export portfolio have most effectively endured the recession. In addition, “companies that trade internationally have more opportunities to increase their revenue and can charge a premium for their products and services,” whilst accessing a market with alternate niches from the UK's own.

Looking specifically to the SADC region, there is no common FDI strategy from the UK to this group of countries. In Angola, South Africa and Tanzania, there are specific United Kingdom Trade and Investment (UKTI) contacts

78 The territory of Northern Rhodesia was an administrative of the British South Africa Company from 1891 until 1923, when it was taken over by the UK (12a). In 1953 North and South Rhodesia were merged with Nyasaland, now Malawi, and formed the Federation of Rhodesia and Nyasaland; this was strongly opposed by Black Nationalist leaders who understood the Federation to be a vehicle for white domination. The Federation collapsed in 1963, and Zambia was granted independence from the UK in 1964; at which point the country’s name was changed to Zambia (1a).
79 Interview with DFID representative on 20 October 2010.
81 Table 3 in the Annex.
based in these countries to assist FDI from the UK; this is not the case for the remaining SADC states. The UK’s choice in country focus can be explained by the economic relevance of the bilateral relationship: the annual exchange between South Africa and the UK was over USD 12 billion; the UK was the second largest foreign direct investor in Angola, with annual investments of over USD 3 billion; and the UK regarded Tanzania as an economy with opportunities, resulting in a steady rise in FDI from the UK over the past decade.\(^83\)

At present, there are “no official services delivered on behalf of UKTI in [the Zambian] market to help British companies who wish to export or invest here,” which means that on a practical level no substantive commercial assistance is provided.\(^84\) Having said this, it is noted by UKTI that assistance can be granted to UK investors on a case-by-case basis, yet there are no channels set up to ease this process or to provide particular opportunities in Zambia. Despite there being no official services, the imports into the UK from Zambia in 2007 were worth USD 32 million, comprising primarily trade in copper. UK exports to Zambia were measured at USD 56 million, showing the strength (and imbalance) of the Zambia-UK economic relationship.\(^85\) It is likely that UK investors face more challenges than their foreign direct investor counterparts who are granted specific assistance when investing in Zambia. Less assistance is arguably needed, however, given the countries’ shared history. A strong cultural linkage exists, with many Zambians being Anglophiles. This linkage is further enhanced by most of the Zambian elite having gained their postgraduate education from the UK, acting as an advantage for UK companies to make and maintain good relations.\(^86\)

### 3.2.3 Institutions involved in UK OFDI

The UK is renowned for being a strong trading nation with the British government traditionally providing important support for overseas British companies. This section explains the current institutions involved in the support of FDI outflow from the UK.\(^87\) The mandate of the UKTI is to provide a framework of support in order to help British companies succeed in the global economy.\(^88\) Thus, the UKTI provides practical support alongside expert advice to UK-based companies that wish to grow their business abroad. This department was initially formed in 1999 and was named British Trade International, with sub-departments of Trade Partners UK (concerning British export needs) and Invest UK (concerning inward investment to the UK). In 2003 these sub-departments merged to become the UKTI, which was responsible for reporting jointly to the FCO and the Department for Trade and Industry (DTI). The DTI was replaced in 2007 by the creation of the Department for Business, Enterprise and Regulatory Reform and the Department for Innovation, Universities and Skills, yet in

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86 Interview with DFID representative on 20 October 2010.

87 See flow diagram 2 in the Annex.

June 2009 these two departments were merged to create the Department for Business, Innovation and Skills (BIS\textsuperscript{b}). Thus at present, the UKTI is responsible to the FCO and the BIS\textsuperscript{b}.

Knowledge of overseas regulations and key information concerning business practice is provided by UKTI, in order to help identify opportunities and possible partner-venture organisations for UK companies.\textsuperscript{89} Further commercial, economic and political information required by business ventures can also be accessed from country profiles on the website of the British FCO. In addition, the Overseas Security Information for Business (OSIB) has been set up as a joint initiative between the FCO and UKTI, in order to provide UK businesses with up-to-date information concerning security risks faced when conducting business operations overseas. Country-specific information is available for ninety countries and is free of charge to access.\textsuperscript{90} Similarly, the Defence and Security Organisation of the UK Trade and Investment department (UKTI-DSO) works closely with both the Ministry of Defence and the UKTI on matters concerning the export of defence and security equipment and services, acting as a “co-ordinating focal point for companies in the security industry.”\textsuperscript{91} The UKTI-DSO also engages closely with industry bodies, trade associations and UK regional International Trade Advisors (ITAs) to help ensure security for the business industry. More specifically, UK ITAs work alongside the UKTI-DSO to advise and guide UK companies on their route to export and help them to use the full range of UKTI-DSO services including in-country specialists.

### 3.2.4 Strategies for Aid

Following the Labour Party electoral victory in the UK’s 1997 General Election, the aid programme was fully separated from the FCO, where it had previously been managed under the Overseas Development Administration section. DFID was set up as a new department headed by a Cabinet Minister, thus marking a turning point for the UK’s aid programme. Fighting world poverty was DFID’s explicit top priority, as opposed to the key focus being placed upon economic development as had been the case up until 1997.\textsuperscript{92} DFID published its first white paper focused on eliminating world poverty in August 1997; this was followed up in 2000, 2006 and 2009 with the same message reinforced. The International Development Act of 2002 enshrined the sole purpose of aid spending as being poverty reduction, which arguably helped to place the link between aid and development higher on the national agenda. This Act also set the current aid strategy, ensuring British Aid cannot be linked to the provision of British goods and services (untying of aid).\textsuperscript{93} Among its key objectives, DFID


“set out to make global development a national priority and promote it to audiences in the UK and overseas, while fostering a new ‘aid relationship’ with governments of developing countries.”

DFID’s work and projects depend on the varying needs of the specific host country, with the key mission to enhance poverty alleviation. DFID provided approximately USD 8.8 billion of aid to poorer countries in 2008/09, and have stated their budget to increase to approximately USD 12.5 billion in 2010/11 (despite severe impact of the financial crisis in the UK specifically and drastic budget cuts in other policy areas).

Looking specifically to Zambia, the UK is claiming to be the largest bilateral donor to Zambia, providing an average of approximately USD 58 million per year from 2007 to 2009, mainly in the form of general budget support to the Zambian government. The UK was unfortunately unable to provide a further breakdown of their OFDI per sector within neither Zambia nor the SADC region.

### 3.3 China

#### 3.3.1 Strategy and framework

On the one hand, the approach by China is to offer an alternative to the traditional donor-recipient relationship between African countries and the West. China’s approach presents more scope for agency by African governments to play a larger role when negotiating investment deals, as deals with China are often struck between (or their implementation is subject to) government to government negotiations, as opposed to dealing with a multitude of private enterprises. On the other hand, Chinese companies are accused of not always meeting international requirements or standards, which can have a detrimental effect on poverty reduction if it reflects pay or working conditions for example. However, international requirements and regulations have been mainly influenced by institutions that were established by actors from the West, and it can be argued that with the rise of emerging countries and a tendency towards a multi-polar world order, some of these international requirements and regulations may need revision.

Chinese engagement is thereby often accused of undermining development strategies supported by Western countries to improve ‘governance’ on the African continent. These accusations are triggered by the approach

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97 Such as the Bretton Woods institutions for example.

98 This was discussed during the Second FOCAC Legal Forum held in Beijing in September 2010.

of China towards development cooperation that is in some important aspects different from the donor-recipient approach used by these traditional donors. In contrast to their British and American colleagues, Chinese government officials do not often use the word 'aid' for example. Chinese actors are rather referring to ‘economic cooperation’, ‘development cooperation’ or ‘investments’. These words are chosen carefully by the Chinese government in order to distance its relations with the African countries from neo-colonial accusations.

Chinese companies operating abroad have to apply to local law and regulations; however they also do have the risk to be taken accountable by the Chinese government. On 31 August 2006 the Chinese Ministry of Commerce released a set of policy guidelines that serve “to strengthen regulations in order to avoid conflicts.” These guidelines include six suggestions for Chinese overseas enterprises and organisations, and five suggestions for government agencies that authorise overseas projects (PRC-MC in Haglund 2008). Haglund states that “these may appear to be “soft-regulations, in the sense that they make no references to specific laws. However the Ministry of Commerce suggestions and President Hu Jintao’s subsequent pronouncements during his February 2007 African tour, although not binding, have real implications for Chinese managers.”

### 3.3.2 Strategies for OFDI

In 2009, USD 56.529 million of global FDI originated from China. China was the fifth largest FDI source country in the world, the majority of which was invested in commercial services, mining, and finance sector. This brought Chinese FDI total stock to USD 245.75 billion; which was invested mainly in the finance, mining and retail sectors. However, Chinese FDI is still in its infancy: to compare, China’s total FDI stock is only 1.3 per cent of the global FDI stock and far from the scale of investment of Western countries. A lack of international experience, management capacity and market share, combined with a lower proportion of overseas Chinese enterprises are mentioned as causing the gap between Chinese MNCs and those from the West.

The ‘Go Out’ or ‘Going Global’ strategy initiated in 1999 by the Chinese Government is a strategy to encourage Chinese enterprises to invest abroad. This is significant because most nations focus on attracting FDI and are rather passive about OFDI. China is actively promoting both inward and outward foreign investment. The Eleventh Five-Year Plan period (2006-2010) was clearly marked by strive to implement the ‘going out’ strategy in its full.

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102 Ibid.


104 Ibid.

During the launch of the *Foreign Investment and Cooperation Development Report 2010* on November 1\textsuperscript{st} 2010\textsuperscript{106} the Ministry of Commerce (MOFCOM) assured that there is no discrimination between SOEs and private enterprises in their policies. Explicitly, they denied that Chinese SOEs enjoy government subsidies. The role of Chinese SOEs is especially significant in Africa's extractive industries and Chinese private sector firms are now playing a substantial role in manufacturing.\textsuperscript{107}

China refers to ‘South-South cooperation’ and developing ‘world solidarity’ in its overseas engagements. Critics contest this by pointing to the fact that most of Chinese FDI is invested in ‘resource-rich’ countries.\textsuperscript{108} Indeed, most Chinese investment is found in countries in Africa with an abundance of mineral resources.\textsuperscript{109} Yet, this is the common economic structure of most African economies, which are mainly based on trading raw materials instead of manufactured goods. Economies of countries with a lack of resources in Africa have often been stagnant and therefore not particularly attractive for foreign investors in general. It has to be noted, however, that the term ‘resource-rich’ is subjective. Most often it is used to refer to countries with large oil reserves and mineral reserves such as gold, diamonds and copper. In this regard, Ethiopia cannot be regarded as resource rich. However, in the views of the Ethiopians themselves and the Chinese, Ethiopia is resource-rich because of the “rich resources of natural gum and incense” furthermore, the country it is considered to have the potential to become a sizeable market, due to its large population.\textsuperscript{110}

Unfortunately, sectoral data on China’s FDI flows to Africa at the aggregate level are only available for the period 1979-2000 (UNCTAD 2007).

### 3.3.3 Institutions involved in Chinese FDI

Under the State Council (China Council for the Promotion of International Trade (CCPIT)), the important axes of bureaucratic institutions involved in the management of outward FDI include:

- the National Development and Reform Commission (NDRC);


\textsuperscript{108} As explained in footnote 35 measuring ‘resource-rich’ is not straightforward. The application of the concept is subjective, since it depends on whether or not one values the available natural resources. The term ‘resource-rich’ can be used strategically to promote economic and political interests. On the one hand, by referring to themselves as being resource-rich, countries attempt to attract more FDI. On the other hand, Western countries, for example, are accusing China to mainly provide development aid to “resource-rich” countries in Africa. Thereby arguing that China is only pursuing its self-interests and that China is in that regard different from the West.

\textsuperscript{109} See table 10 in the Annex. The top three SADC member states that attracted Chinese FDI in 2009 are South-Africa, the DRC and Zambia.

● Ministry of Commerce (MOFCOM);
● Ministry of Foreign Affairs (MFA);
● the State-owned Assets Supervision and Administration Commission (SASAC);
● Ministry of Finance;
● the State Administration of Foreign Exchange (SAFE); and
● China’s commercial banks and policy banks.\(^\text{111}\)

MOFCOM is the central entity through which all types of outward investments are directed. The tasks of MOFCOM are: to formulate development strategies, guidelines and policies of domestic and foreign trade and international economic cooperation; to draft laws and regulations governing domestic and foreign trade, economic cooperation and foreign investment; and to devise implementation rules and regulations. MOFCOM approves Chinese companies to invest in and set up overseas establishments (excluding financial companies) and supervises their operation. MOFCOM thereby emphasises the need to integrate with the local community and build up good relationships and be respectful.\(^\text{112}\) They are responsible for China’s foreign economic cooperation efforts, to work out administrative measures and specific policies guiding China’s overseas investment.

Two departments within MOFCOM stand out in governing China’s OFDI. One is the Department of Foreign Economic Cooperation (DFEC), which is responsible for regulating all Chinese OFDI and Chinese overseas labour corporations. All Chinese enterprises with FDI exceeding USD 10 000 are required to register with DFEC before investing abroad. This unit in MOFCOM can impose fines on or revoke overseas investment licences of violators of Chinese laws and relevant regulations. The other department is the office of the Economic and Commercial Counsellor (ECC), which is usually stationed at and administratively subject to Chinese embassies or consulates abroad, delegated by MOFCOM to monitor Chinese firms’ foreign investment activities.

As part of its efforts to restructure SOEs, the Chinese government has established SASAC in April 2003, which develops China’s equity exchange market, while supporting Chinese foreign investments. It was established with the mandate of turning the country’s top SOEs under its control into 50 global MNCs that feature on the global Fortune 500 list. SASAC has the authority to manage overseas state-owned assets; to decide whether and what acquisitions and mergers they can pursue; and to whether and in what percentage they should pay dividends to the government.

Chinese firms have to apply to the State Administration of Foreign Exchange (SAFE) under the central bank, People’s Bank of China (PBC) for their foreign exchange. The PBC has been empowered to hold and manage the state’s foreign exchange and gold reserves; make payment and settlement rules in collaboration with relevant departments; monitor money-laundering related or suspicious fund movement; and participate in

\(^{111}\) See flow diagram 3 in the Annex.

\(^{112}\) Interview with a representative of MOFCOM Zambia on 21 October 2010.
international financial activities at the behest of the central bank. Under the central bank, the SAFE is responsible for promulgating regulatory measures governing foreign exchange transactions under current account, supervising and monitoring foreign exchange transactions under capital account, including inward and outward remittance and payments, and providing the PBC with propositions and references for the formulation of exchange rate policy.\textsuperscript{113}

Each company which wants to invest overseas must get regulatory approval, but in 2003 MOFCOM and SAFE introduced a programme that allowed overseas investments of less than USD 3 million to be approved at the provincial government level rather than through the lengthy and complicated process of applying to Beijing. As a result of making it easier to invest abroad, in the first 11 months of 2003, Chinese companies invested 92 per cent more in offshore acquisitions and mergers than in the same period in 2002, according to MOFCOM statistics. This figure only included deals registered through the ministry and thus the actual rise in investments to be much higher.\textsuperscript{114} It is thereby important to note that while the Chinese government encourages Chinese companies to invest, it does not provide tax breaks for those companies who invest abroad.\textsuperscript{115}

3.3.4 Strategies for Aid

As explained, Chinese government officials rarely distinguish between ‘aid’ and investments. The same central institution that organises all other kinds of foreign investments, namely MOFCOM, also supports and regulates the Chinese investments that would, following the OECD definition, fall under ODA. Chinese officials rarely do refer to ODA, yet the frequency appears to be increasing. According to the newly established \textit{China Africa Research Institute} of MOFCOM for example, the first example of Chinese ODA to Africa stems from 1963 to Algeria. During that year a Chinese medical team was sent to Algeria. Since then China has sent approximately 45 medical teams over the world.\textsuperscript{116} Other forms of Chinese ODA to Africa are grants and preferential loans.

China’s policy has stated to not interfere in a country’s domestic situation. What seems to be meant is that cooperation is conducted with all governments in Africa, irrespective of their ideological orientation or their governance record. This principle of ‘non-interference’ has been central to Chinese cooperation with African countries.


\textsuperscript{115} Interview with a representative of MOFCOM Zambia on 10 October 2010.

\textsuperscript{116} Interview with a representative of the newly established China Africa Research Centre of MOFCOM on 4 November 2010.
3.4 South Africa

3.4.1 Strategy and framework

South Africa has a special position in this research since it is both an FDI home country and a receiver of FDI and it also a member of SADC. It is therefore not really a ‘foreign’ investor to the SADC region, even though it is a foreign investor to Zambia. Prior to 1994, South Africa’s foreign policy within Africa focused primarily on the Southern African region - promoting a combination of economic interests, in the form of flows of South African exports and investments to the region, and military destabilisation as part of the aggressive defence of apartheid.\(^{117}\) The Southern African Development Coordination Conference (SADCC), the forerunner of SADC, was formed in 1980 with the explicit aim of reducing regional dependence on South Africa, and increasing the latter’s isolation. Thus, the main focus of SADCC was on developing transport and communications infrastructure networks, surpassing South Africa as the main actor within the region. With the end of the Apartheid regime in 1994 the South African policy towards the Southern African region altered in accordance with the new political realities of the country. At this point, South Africa prioritised its need to enhance domestic growth and employment creation, thus recognising the possible benefits to be gained from increased trade and investment flows from South Africa to SADC and the rest of Sub-Saharan Africa.\(^{118}\)

South Africa formally acceded to the SADC Treaty in August 1994 after Apartheid was abolished. In terms of strategy to the SADC region, South Africa aspires for closer collaboration and economic integration via the establishment of a free trade area in the region, the development of basic infrastructure and the development of human resources.\(^{119}\) This has taken place via a range of South African private and public actors investing relevant resources in the region.\(^{120}\) As a result of the country’s history and the need to address issues of economic and social development at both regional and continental level, South Africa’s engagement with other African countries can be found to centre on three pillars:

- strengthening Africa’s institutions;
- supporting implementation of Africa’s socioeconomic development programme, the New Partnership for Africa’s Development (NEPAD); and
- improving bilateral political and socioeconomic relations through dialogue and cooperation with other African countries.\(^{121}\)


\(^{118}\) Ibid, pp. 13.


\(^{120}\) See flow diagram 4 in the Annex.

South Africa’s FDI advancement into Africa has many different dimensions, covering large-scale corporate as well as parastatal projects. South African FDI also includes the engagement of South African small and medium enterprises (SMEs) across the border in neighbouring countries.\(^\text{122}\) While most South African OFDI is dominated by large private enterprises, SOEs and SMEs have also contributed to corporate internationalization. Historical ties, competition at home and from abroad, the ‘financial rand system’,\(^\text{123}\) attractiveness of overseas markets and liberalization played a key role in driving South African OFDI strategies to the region. Access to natural resources has also led South African companies (both large and SMEs) to invest abroad to secure supplies.\(^\text{124}\) South African parastatal organisations have also participated in South Africa’s cross-border investment activities such as the Industrial Development Corporation (IDC) and the Development Bank of South Africa (DBSA), providing finance to a variety of sectors and acting as levers for South African and international investment in host countries.\(^\text{125}\)

### 3.4.2 Strategies for OFDI

The South African financial rand system was abolished with effect from 13 March 1995.\(^\text{126}\) Since then one of the key strategies has been the selective easing of exchange controls that has been used to encourage outward investment first to Southern Africa, specifically the SADC countries, and then to the rest of Africa. In March 1997, the Government relaxed exchange controls and South African firms were allowed to invest up to USD 4.4 million abroad, with an additional USD 3 million for investment in SADC member countries.\(^\text{127}\) This was followed by further relaxation in subsequent years allowing South Africa-resident firms to invest up to USD 36.5 million per approved investment in the SADC region.\(^\text{128}\) This has given greater scope for South African investments in the region as well as the African continent. The flood of South African products to the region had both positive and negative impacts on the local economies of these neighbouring countries. On the one hand, South African companies created a revival of the retail market in Zambia for example; however, on the other hand it created an


\(^{123}\) The South African financial rand system was an attempt during the international sanctions period to protect the domestic economy from the adverse effects of large capital outflows at the time. The financial rand system provided for two exchange rates for the rand: one for current account transactions, and one for capital account transactions for non-residents. Investments made in South Africa by non-residents could only be sold for financial rand, and limitations were placed on the convertibility of financial rand into foreign currencies.


\(^{127}\) Exchange controls used to be common in most countries, particularly poorer ones, until the 1990s when free trade and globalization started a trend towards economic liberalization. Today, countries which still impose exchange controls are the exception rather than the rule. The UK and US do not have exchange controls in the form of quota’s in place. The annual quota in China is USD 50,000 (http://www.habibbankchina.com/business-customers-remittance.html).

\(^{128}\) Ibid: 16.
aggressive image of South African companies and locals complain that South African companies take away business from them.

Recently, challenges to investment in SADC have begun to include competition as there has been an increase in the saturation of market opportunities in the region. Because of the saturation of market opportunities in the region a substantial shift of South African FDI into the rest of sub-Saharan Africa, reflecting the change in OFDI strategy from South African institutions.129 Also, South African SMEs have faced constraints in going abroad because of the lack of access to finance and market information, and concern over the additional risk of operating in an unfamiliar environment, thus trade-supporting motives and market access have been on the increase in South African OFDI arrangements strategy.130 This has further come about due to the sizeable intra-Africa investments made by South African companies in recent years. The country has hence become concerned with investments being safeguarded, including questions surrounding the appropriate model for agreements, bilateral or regional, that contemplate South Africa’s OFDI.131

South Africa has five Bilateral Investment Treaties (BITs) with countries in the SADC region (Mozambique, Mauritius, Tanzania, Zimbabwe and the DRC). Typical clauses in South Africa’s BITs revolve around the scope of an investment, definition of investment and investor, geographic application of the agreement, duration and termination, standards of treatment (national treatment and Most Favoured Nation – MFN), expropriation, transfer of funds and dispute resolution. South African OFDI and trade with Southern African countries, and associated development of investment regulations, are further mirrored in development of regional trade agreements (RTAs) and deeper forms of integration. RTAs are important complements to investment since they allow goods to flow relatively freely to and from subsidiaries located in foreign locations that are part of the RTA, and as such promote a favourable investment climate. South African OFDI into Southern Africa has been aided by the two RTAs that South Africa is part of: the SACU and SADC. Unlike BITs which largely offer protection clauses, the SACU agreement and SADC’s Trade Protocol cover not only free movement of goods but also mooted competition policies, proposed liberalisation of FDI in services, proposed harmonisation of broader property rights and contract enforcement, provide access to a large market and stable and predictable trade policies. In 2006 the FIP was approved by SADC with the goal to establish the legal base for cooperation concerning macroeconomic, finance and investment policy. This will be explained in more depth in section 4. However, despite the protocol being certified in 2007, SADC has struggled to put a definite structure in place.


3.4.3 Institutions involved in South African FDI

The financing strategy of South African OFDI differs by types of institutional investor. The lion's share of the private non-banking sector's OFDI activities are financed through reinvested earnings, while the banking sector prefers using equity capital and the SOEs through other capital such as intra-company loans. The different financing strategies reflect the different degree of extensiveness and exposure of the different types of institutions to internationalisation and the influence of government regulations on raising corporate finance abroad.¹³² The private sector, particularly the banking sector, dominates South African OFDI flows. Given the large volume of portfolio inflows into South Africa from the rest of the world, it may be that those inflows are recycled into FDI outflow into the region; in other words it is possible that South Africa's sophisticated financial markets are being used to channel resources across Africa.¹³³

3.4.4 Strategies for Aid

Development assistance in South Africa prior to 2000 originated with the apartheid regime trying to support several African countries such as Lesotho, Gabon, Cote d'Ivoire, Equatorial Guinea, and Comoros. Development assistance fell largely under the Economic Co-operation Promotion Loan Fund Act, 1968 (as amended by the Economic Co-operation Promotion Loan Fund Amendment Act, 1986), and was also used to offer support to the so-called "Homelands" in South Africa.¹³⁴ Institutionally, this support was granted through the Development Assistance Programme, which was situated in a Chief Directorate in the Department of Foreign Affairs. The programme consisted of direct project-related development assistance, administered by the Development Bank of Southern Africa (DBSA). The Development Assistance Programme continued to operate after the first democratic elections of 1994, but no longer included assistance within South Africa, as the 'Homelands' were reincorporated into South Africa following the transition to democracy. As the foreign policy context in South Africa changed with the onset of democracy, the country no longer tied its development assistance.¹³⁵ Thus at the end of 2000, the programme was replaced by the current African Renaissance and International Co-operation Fund, also known as the African Renaissance Fund (ARF).¹³⁶ The fund is managed by the Department of Foreign Affairs (renamed the Department of International Relations and Cooperation in 2009) in cooperation with the National Treasury.¹³⁷ South Africa is committed to SADC and regional cooperation in Africa and is active

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¹³³ Ibid.

¹³⁴ Homelands was the official name of self-governing entities for black South Africans during Apartheid, intended to define black South Africans as foreigners in the white ruled country.


¹³⁶ See flow diagram 4 in the Annex.

in mobilising international development finance for the continent. South Africa is also active in providing development support to a range of countries in the region beyond the African Renaissance Fund. As an example, in the DRC a range of South African government departments and agencies – under the auspices of the bi-national commission between the two countries – are working together with their counterpart institutions on a range of development projects.\textsuperscript{138} South African aid is currently at an early stage in developing its own institution for delivering aid to other developing countries, envisaged to be called SADPA, South African Development Partnership Agency; the ARF is expected to be the core of a proposed new facility.

### 3.5 Similarities and differences between FDI source countries

The study has found a number of commonalities and differences in state management of FDI from China and other countries which are reflected in the flow diagrams in the Annex of this report. For example, the way investments from Chinese companies are supported by the well-organised Ministry of Commerce shows similarities with the support companies from the UK get from the British government. This however is quite different from the American companies who invest more on their own initiative with less support from their government. Although the ODA policy of the US actively promotes market reforms in developing countries and thereby create indirectly better investment opportunities for American companies. South African companies, for their part, receive shattered support from many different Ministries and Departments within their government.

Chinese and South African investors seem to share a long-term perspective on establishing and nurturing good relationships with the FDI host countries. For the South African companies a long-term strategy is seen as useful and necessary since they are operating within their own region and they do not want to lose opportunities in the nearest markets for them. A representative of the South African Department of Trade and Industry (DTI) mentioned in an interview: “we don’t see ourselves growing unless the rest of Africa is growing as well. Our destiny is intertwined.”\textsuperscript{139} However, South African companies still have to work on their negative image in the region since Apartheid and the flood of African products into the regional markets right afterwards. The Chinese approach towards long-term business relations is mainly based upon norms and values within Chinese business culture, especially the principle of Guanxi. Another difference is that South African investors seem to connect more on the level of the local community\textsuperscript{140} while Chinese investors typically focus on their relations with the host government.\textsuperscript{141}


\textsuperscript{139} Interview with a representative of DTI on 18 June 2010.

\textsuperscript{140} For example, the involvement of PnP in community social programs mentioned by a representative of PnP in an interview on 21 October 2010.

\textsuperscript{141} A good example is the establishment of the Programme Sino-Congolais within l’Agence Congolaise des Grands Travaux in the DRC in which Chinese companies work together with Congolese government departments and companies.
An important distinction among the four chief investors in the region is the way in which FDI is differentiated from other international financial flows, such as Official Development Assistance (ODA). Generally speaking, the first priority of FDI from the private sector from any home country is to generate a benefit for the investor, while official aid has a range of motivations (inter alia: international solidarity, global public goods, foreign policy concerns). In ODA, the international consensus is that poverty reduction should be the paramount aim. The UK, for instance, differentiates between ODA and FDI; the former is regulated via a separate central entity, the Department for International Development (DFID), whilst in China, no sharp distinction is made between ODA and FDI, and both are regulated by the same Ministry, the Ministry of Commerce (MOFCOM). According to Chinese business culture, business deals are meant to be beneficial for all parties involved in order to ensure that all parties involved are committed.

Following the financial crisis of 2008/9, Chinese FDI to the SADC region has gained more significance. The effects of the overall dip in FDI flows to the region was overcome more quickly by the increasing volumes of Chinese FDI, which grew eighteen-fold from 2003 to 2009.\textsuperscript{142} Indeed, the relative importance of Chinese FDI to countries in SADC is rising.

In short, there are obvious endeavours with all actors to support their companies to invest abroad, with the minimum effort being provision of information. There are, too, obvious linkages to the foreign policy agenda in all countries. Yet, there exist important differences between the main foreign investors as well. Chinese state enterprises are a different story to private companies and the distinction of ODA and FDI makes the institutional setting difficult to compare. Having assessed the differing procedures and factors in place concerning the outward FDI of these home countries, this report shall now proceed to explore the domestic strategies and regulations of SADC and Zambia.

\textsuperscript{142} See Annex Table 9.
4. Strategies and regulations to attract and manage FDI inflows

4.1 SADC

The Southern African Development Community states as its main goal the aspiration “to form common political interests and support greater trade and investment flows between members.” At present, SADC has 15 member states. The SADC Treaty provides the legal basis for the SADC as an international organisation, in addition to certifying the key objectives, aspirations, and cooperation areas of its member states. SADC is illustrative of a bottom-up approach to governance, whereby the SADC member states play the key role in the region with the SADC Secretariat playing a ‘higher’, but more advisory role.

Throughout the 1990s and early 2000s, the SADC region performed relatively poorly with regard to attracting FDI. One of the reasons, for example, was that most current SADC member-states had a double-digit inflation rate in the 1990s, which was not favourable to investors. Numerous other reasons can be attributed to this state of affairs, including the small size of domestic markets, political instability and socio-economic issues, such as high levels of crime and corruption. In the face of increasing globalisation, SADC member-states have moved towards liberalising their economies and loosening the regulations concerning FDI, such as the move to

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144 Angola, Botswana, the DRC, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, SA, Swaziland, Tanzania, Zambia and Zimbabwe are member states of the SADC. The Southern African Development Coordination Conference (SADCC) was formed on 1 April 1980, in Lusaka, Zambia, fuelled by the desire for independence, security, regional security and the struggle against Apartheid. This preliminary grouping evolved into the Southern African Development Community (SADC) following the Declaration and signing of the SADC Treaty by future member states Heads of Government or State on 17 August 1992, in Windhoek, Namibia. With the change, the key aims of the SADC were also reshaped.
enable foreign investors to repatriate profits as shown presently in Zambia. SADC officially aspires to create one model whereby the movement and distribution of FDI would be seen as a harmonised investment regime by potential investors. In recent years various targets to increase the FDI attractiveness of the region have been set (see below).

### 4.1.1 Strategies to attract FDI

SADC’s key document on attracting FDI is the FIP of 18 August 2006 acts “as the tool for achieving regional integration through the harmonisation of financial and investment policies in the 15 member states.” Moreover, it establishes the legal base for cooperation concerning macroeconomic, finance and investment policy. The FIP is of key significance as it commits member-states to:

- Coordinate their investment regimes and to cooperate to create a favourable investment climate throughout the SADC.
- Reduce divergences in macroeconomic aggregates among member states and commit them to converge on stability oriented economic policies.
- Cooperate in taxation and related matters in order to facilitate trade and improve the investment climate, whilst strengthening tax administration to defer fraud and smuggling.

The FIP appears highly advantageous to both host region and foreign investor, providing a stabilising influence on SADC economies through cooperation in addition to making it easier for FDI to enter the region. A representative from SADC FIP stressed such measures would result in moving towards convergence, as opposed to overarching control. This would promote effectiveness with all countries reaching the minimum standards concerning FDI inflows; thus different member states achieving this through different rules is not considered a problem by SADC.

Furthermore, the RISDP was passed during the SADC Summit in 2003, setting the following targets for SADC’s regional integration:

1) By 2008: An FTA whereby at least 85 per cent of goods are tariff free.
2) By 2010: Completion of the negotiations of the Customs Union.
3) By 2015: Completion of the negotiations of the SADC Common Market.
4) By 2016: Implementation of a SADC Monetary Union and a SADC Central Bank.
5) By 2018: Launching a regional currency.

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151 Interview with SADC FIP representative on 19 October 2010.
These targets are of significance for foreign investors, as elements of the RISDP incorporate strategies to attract FDI, as shall be shown in the analysis below.

The FTA was officially launched in August 2008. At this point 85 per cent of import tariffs were removed from FTA member-states and it was attempted to reduce red tape and paperwork at borders. The overall aim of the FTA is to create a more advantageous environment for investment and trade. Twelve of the 15 member-states are currently members of the FTA, with Angola, the DRC and Seychelles set to join in the near future. The liberalisation of tariffs has taken place at differing rates over the past decade at the choice of the individual countries, providing that at least 85 per cent of trade in goods was free by 2008. This target was met and in 2009 the FTA covered USD 380 billion in total GDP, which could potentially increase to USD 465 billion if the latter three countries do decide to join.

The day-to-day monitoring of the FTA at a regional level is carried out by the Trade, Industry, Finance and Investment Directorate of the SADC Secretariat. The actual implementation, however, is primarily dependent on member-states themselves and the domestic structures that they have in place. Moreover, the rules of origin are rather broad and consequently, unlike most regional treaties, the FTA's benefits are not limited to the protocol's signatories; the majority of goods that originate in a SADC member-state qualify for duty free access to the SADC market. Thus, as long as the goods are “produced or manufactured in a member state using materials from within the region,” businesses “use only the imported inputs to rear or grow agricultural products,” and/or the “working of a product into a new one that is significantly different” from the imported original occurs, the goods will account as originating within a SADC FTA member-state. This is a significant strategy by SADC that does not discriminate against local or foreign investors in the region, potentially including also investments from European and Chinese enterprises in Southern Africa.

SADC has recognised its need to become a more visible investment destination, contributing to the September 2009 launch of its ‘SADC 2010’ investment promotion program, which aims to raise the visibility of SADC both regionally and internationally. This is reflective of SADC’s strategy to place their key focus on attracting measurable sustainable FDI as a region, as opposed to individual member-states attracting FDI separately. The 2010 CAF African Cup of Nations and the 2010 FIFA World Cup hosted in 2010 by two SADC member-states, Angola and SA respectively, were in lieu of the ‘One Team, 15 Nations’ theme granted to this program. Within this promotion program, SADC projects itself as “an invaluable investment partner” before asserting its

157 Interview with SADC representative on 19 October 2010.
current targets in the form of identifying projects that need public-private sector investments. The vast opportunities spanning the sectors of tourism, infrastructural development and services, trade and industry are highlighted, alongside the “natural endowments in minerals, oil, abundant raw materials and value addition.”

Within this program, SADC has identified investment opportunities concerning a range of topics: Spatial Development Initiatives and Transport Corridors; Regional Strategic Water Infrastructure; Energy Infrastructure, Boundless Southern Africa; and Information and Communications Technology.

4.1.2 Perceived attractiveness of the investment climate in SADC

The IMF has identified that “one of the least noticed aspects of the global economic downturn has been the resilience of the sub-Saharan Africa region,” noting its brief slowdown in comparison with other regions of the world. However, Africa does not appear an attractive destination for FDI due to an amalgamation of socio-economic and political aspects. This is also true for the SADC region. Cultural aspects have also been found to play a role, but on an individual member-state level rather than the SADC as a whole.

Focusing first on socio-economic aspects, the volume of FDI inflows to the SADC region is hampered by the relatively small size of Africa’s domestic markets, combined with the traditional limitation of poor infrastructure and high communication costs in many African countries. This hinders business growth and efficiency, whilst also substantially increasing the costs of doing business in the region. A further limitation is the perception by prospective foreign investors that the SADC region has a large unskilled labour force. “A high quality, productive, well-educated, skilled and disciplined labour force is what is required to help maintain the competitive edge of most MNCs in the global market place,” thus the overall low level of education and skilled workers across the SADC region acts as a deterrent for FDI inflows.

Assessing the potentially obstructive political aspects of SADC’s business environment, executives’ attitudes towards the safety and profitability of foreign investment climates are also shaped and influenced by their perception of the region’s wider political (in)stability. When considering undertaking business in the SADC, the region may be eliminated from a business investment consideration due to reasons based on political instability in one or more of the member-states. For example, policy uncertainty, policy contradictions, high crime levels and corruption have been highlighted as areas of significant constraint to attracting FDI in SADC.

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161  Ibid: 6-16.
4.1.3 The role of FDI in the economy of SADC

Despite the large number of member-states, the SADC market is still relatively small by international standards due to, amongst other factors, the overall comparatively small population size, standing at 257 million in 2009. This means there is substantial room for foreign investors.\(^{167}\) Further regional economic integration in the SADC “is geared towards creating larger markets with a favourable business and investment climate aimed at achieving economic growth and, ultimately, improving the lives of the citizens in the region.”\(^{168}\) Thus, the important link between a favourable investment climate that can attract increased FDI and the subsequent improvements in living standards for SADC citizens is recognised by the SADC.

At present, there is very little information concerning whether FDI has actually contributed to poverty reduction in the SADC region as it has not been monitored at this regional level.\(^{169}\) Moreover, the policies implemented over the past few years, such as the FIP, FTA and SADC 2010, are relatively young and their impacts are hard to conclude to date. Ultimately, the FDI in the region should spark economic growth, which in turn the SADC Secretary believes will lead to “higher real incomes for SADC citizens, and a convergence in living standards whereby citizens enjoy the benefits of an economy that propels them towards higher income levels,” showing their positive outlook.\(^{170}\)

Looking specifically to the FTA as an example, one of the objectives is the “ultimate benefit of the citizens and residents of the SADC region and those with whom they conduct trade, business and investment outside of the region,” showing recognition of the benefits for citizens of the region in addition to domestic and FDI.\(^{171}\) This report recognises that although comparatively small by international standards, as of 2009 the breadth of the SADC FTA encompasses 170 million people that can benefit from this policy.\(^{172}\) The most prominent benefit for the region as a result of increased FDI attracted by the FTA is expected to be a more competitive and vibrant private sector in SADC. In turn, this will create more employment in the region as a result of the new FDI and the expansion of current foreign investor products, and lower prices for businesses and households.\(^{173}\) As a result of lower barriers to trade the FTA could increase FDI competition in the region. This is expected to help reduce poverty in the region through key consumption goods becoming more affordable, attributed to enhanced competitiveness, which will see SADC citizens being able to gain better value for money concerning goods and


\(^{169}\) Interview with SADC FIP representative on 19 October 2010.


services.\textsuperscript{174} In conclusion, it is expected that the knock-on effects of lower tariffs and increased intra-regional competition introduced by the FIP, FTA and SADC 2010 have a positive effect on poverty reduction, yet it appears too early to conclude on their impact to date other than to note their full benefits have not yet been felt.

4.1.4 Regulations to manage FDI and reap the benefits

As noted, SADC follows a bottom-up approach to governance, whereby member-states play the key role in the region with the SADC Secretariat fulfilling more advisory and facilitative tasks. Looking at the strategies agreed by SADC to attract FDI, it can be seen that the implementation of the FIP has also taken on this bottom-up approach, with much work being undertaken prior to its official approval, due to the need for agreement among member-states over a series of Memoranda of Understandings (MOUs) related to economic integration. This bottom-up approach was highlighted to be beneficial on the grounds that it enabled consensus-building and saw to the MOUs starting to be implemented even before it was finalised, with them consequently being incorporated into the Annexes to the FIP.\textsuperscript{175}

However, a member of SADC FIP stated his belief that the ‘bottom-up’ structure of the SADC can be seen to limit SADC’s management of FDI and its benefits, as FDI levels are determined by individual member-state countries. Despite the FIP being finalised and signed by member-states in August 2006, in reality there is no common strategy concerning managing FDI at present. As of October 2010, SADC has not collated or analysed any data on SADC’s FDI, and this task is still solely being carried out by member-states individually. Instead, SADC is in the process of collating data identifying different member-states’ investment regimes and trying to find out what the status quo of the region is with regard to FDI. SADC concedes that despite the protocol being certified in 2006, the organisation has struggled to put a definite structure in place for FDI inflows in order to reap the benefits.\textsuperscript{176} Thus, this advantageous environment for foreign investors and member-states alike presented in the FIP is not apparent at present.

Similarly, this report concludes that a key weakness concerning the management of FDI through the FTA is the subsequent reliance on member states to implement the strategy, without effective enforcement recourse by the regional organisation. A key informant at the ZDA noted that they still receive many complaints from foreign investors in the region who do qualify for the regional FTA benefits, yet still experience a high cost of doing business in SADC. High tariffs and border controls concerning goods were stated to be problematic, which should not be the case with the FTA being in place. This suggests that the possible benefits from FDI are not being maximised due to the lack of management of the FIP and FTA at a member-state level causing the region to appear less attractive an FDI destination.


\textsuperscript{175} SADC. 2010. “Finance and Investment Protocol: Information Brochure” in SADC Report:

\textsuperscript{176} Interview with SADC FIP representative on 19 October 2010.
SADC has implemented a form of regulation for projects to ensure that projects are bankable and attractive to all stakeholders. Thus, the Project Preparation and Development Facility has recently been introduced, under the guidance of the SADC Regional Development Fund. The latter provides the funds and technical assistance necessary for project identification and selection and for the carrying out of feasibility studies. This appears to be an initiative which will help SADC manage and reap the rewards from FDI, yet the facility only became operational during the middle of 2010, and thus its effectiveness is yet to be evaluated.

4.1.5 Key points by stakeholders for improvement of FDI climate

There is recognition that in the SADC region member countries can learn from one another for the benefit of making the region more attractive for FDI. The SADC Secretariat can learn lessons from the increasing FDI inflows in some member-states and, using this knowledge, suggest adaptations to other member-states in order to make them more attractive for FDI.¹⁷⁷ Mauritius can be used as a good example of maximising its FDI potential. As a small island state, it has limited investment possibilities to offer.¹⁷⁸ However, the government of Mauritius made the education system a key focus in their domestic policy. Mauritius established a well-educated and skilful workforce with strong language skills in both French and English. Based on this, Mauritius attracts FDI by promoting itself as an ideal hub from which foreign investors can branch into SADC. This approach aims to attract FDI to the SADC region as a whole, with the Mauritian expertise, high education levels and cultural linkages with the region, put forward to attract consultancy positions in FDI projects in the SADC region.¹⁷⁹ It is of course implausible for all countries in the region to aspire to become hubs. However, a representative of the Embassy of Mauritius to South Africa made a comparison with South-East Asia and explained that Indonesia needed the rest of the region to grow in order to develop its own economy. Therefore, he claimed that the aspiration of Mauritius to create a favourable environment to attract FDI and to educate and specialise the workforce in order to increase the attractiveness of the region.

Currently, eight of the 15 SADC member-states are also member states of Common Market for Eastern and Southern Africa (COMESA), which raises questions and concerns over the enforceability of SADC’s FTA. It can also limit the benefits accessible by foreign investors. Ultimately, SADC is integrating the economies of its member-states with those of COMESA and the EAC, into a single large market, yet the specific amalgamation of rules and regulations which will be applied to this larger region have yet to be considered.¹⁸⁰ SADC needs to issue an official stand on whether the CRIAs or the SADC’s FTA rules should be adhered to by the eight SADC member-states that are members of both agreements.

¹⁷⁷ Interview with SADC FIP representative on 19 October 2010.
¹⁷⁹ Interview with Mauritian Embassy representative on 14 October 2010.
In terms of FDI policy, substantial improvements have been made over the past twenty years, yet stakeholders on the ground argue there is still much to be achieved as the FIP and FTA are not being fully implemented in member-states.\textsuperscript{181} Recommendations for how SADC can better attract FDI remain focused on the need to reduce the costs of doing business.\textsuperscript{182} Despite the FTA being underway, it is not being managed effectively by either SADC or the individual member-states, resulting in the benefits not being experienced by investors. It has been suggested that SADC is limited in its capabilities to manage FDI due to its bottom-up approach;\textsuperscript{183} it has even been put forward that a move to grant SADC more power as an overarching body similar to the European Union (EU) may be preferential.\textsuperscript{184}

Despite the FIP being in place, there is still the call for a coordinated market approach to attract FDI\textsuperscript{185} and for the movement and distribution of FDI to be undertaken as a harmonised investment regime,\textsuperscript{186} indicating that despite the promising strategy, the current framework in place is not strong enough. Thus, this report concludes that although the FIP is a laudable development, at present it suffers from institutional weakness that threatens its efficacy as a vehicle for integration of financial services in the region. In theory the FIP and timeline for regional economic integration in the SADC does increase the attractiveness of the investment climate of SADC, yet these strategies are not being fully implemented due to the limited capacity of SADC which further hinders the ability of SADC to attract and manage FDI.

4.2 Zambia

Zambia is a landlocked country in Southern Africa that covers a total area of 752,618km², making it the 39\textsuperscript{th} largest country in the world. Considering its size, Zambia is comparatively sparsely populated: it has the 69\textsuperscript{th} highest population figure in the world; in July 2010, Zambia’s population stood at approximately 13.5 million.\textsuperscript{187} The country’s wealth in mineral resources, including copper and cobalt, combined with major investments in infrastructure and manufacturing from 1964-1971 by the government, resulted in a successful economy following independence. During this period, in April 1968, the Zambian government started the Mulungushi Economic Reforms: a process of nationalisation across the country which picked up pace in the early 1970s. However, the significant global rise in oil prices in 1973 followed by the slump in copper prices in 1975 had a detrimental

\textsuperscript{181} Interview with Mauritian Embassy representative on 14 October 2010.

\textsuperscript{182} Interview with ZDA representative on 22 October 2010 and Interview with DBSA representative on 15 October 2010.

\textsuperscript{183} Interview with SADC representative on 19 October 2010.

\textsuperscript{184} Interview with DBSA representative on 15 October 2010.

\textsuperscript{185} Ibid.

\textsuperscript{186} Interview with SADC FIP representative on 19 October 2010.

impact on the Zambian economy. In 1973 the price of copper had accounted for 95 per cent of Zambia’s export earnings, yet the worldwide crisis in 1975 saw copper’s value halve, resulting in Zambia experiencing a balance of payments crisis and becoming increasingly in debt to the IMF. Being heavily indebted, the Zambian Government had no other choice than to seriously reform the economy.

During the 1990s, Zambia’s economic growth was well below the SADC average of one percent and the Sub-Saharan African average of 2.4 percent, even following the Zambian Government’s attempts to stabilise the country’s economy. Under close guidance from the IMF and World Bank further reforms were made: price controls were removed; the exchange rate was unified and became market-determined; capital controls were abolished; interest rates on loans were liberalised; and regular auctions of treasury bills were initiated. Agriculture input and output markets were also opened up to private sector entry, and import controls were abolished with very few exceptions. The reforms were drastic and the privatisation process moved fast. By 2002, almost all the parastatal companies were privatised.

4.2.1 Strategies to attract FDI

Since the mid-2000s, Zambia has enacted a number of reforms meant to foster economic development and impacting on the investment climate of the country. On 31st December 2006, five Zambian authorities merged into a new institution that was meant to induce economic development - the ZDA. This institution has been set up to further economic development by formally promoting efficiency, investment and competitiveness in business. The ZDA compiles data on investment commitments from investors who obtain investment licences from the ZDA. Mining investors however do not invest through the ZDA, but instead work with the Ministry of Mines and Mineral Development. The ZDA’s data is therefore incomplete, as it does not show the total FDI flows or stocks and should not be considered a complete measure of investment.

The ZDA is mandated to promote exports in order to create wealth, jobs and enhance economic development. In addition, the ZDA Act 11 of 2006 provides for the encouragement of investment in Zambia by way of special tax incentives, which are valid for a period of five years. In order to qualify for such an incentive, a firm or investor must invest a minimum of USD 500,000 in one of Zambia’s key sectors. These key sectors are agriculture;


192 The institutions were: the Zambia Privatisation Agency; the Zambia Investment Centre; Export Board of Zambia; Zambia Export Processing Zones Authority; and Small Enterprises Development Board.

manufacturing; infrastructure; education; health; water and sanitation; and public order and safety. These focus areas are utilised in many settings to guide the planning and development of the country in line with the diversification policy, in order to reduce dependency on the mining sector as Zambia’s only economic foundation.

Zambia is a member of the Multilateral Investment Guarantee Agency (MIGA), which guarantees foreign investment protection in cases of war, disasters, strife, disturbances, or expropriation. Furthermore, Articles 16(1) of the Constitution and 35(1) and (2) of the ZDA Investment Act provide protection of investment projects. In accordance with the above, no property or interest in right over property can be compulsorily acquired, except for public purposes, under an Act of Parliament and against prompt compensation payment. The Investment Act also guarantees investors the right to transfer funds abroad. These are positive steps towards establishing investor confidence and improving Zambia’s attractiveness as an investment destination in SADC.

4.2.2 Perceived attractiveness of the investment climate

Another international dimension that affects FDI inflow to Zambia are reports issued by multilateral organisations, such as the World Bank, and their rankings concerning the investment climate of the respective country or region. Potential investors, especially from the West, can be expected to consider these rankings when making a decision about whether or not to invest in a sector of the Zambian economy if investment could also be made elsewhere in the region. Therefore, it could be argued that reports of these multinational organisations are not just reporting on, but – to some extent – are also influencing FDI inflows. The ranking in investment climate has overall improved for Zambia in the past years, which could be expected to result in increased investors’ interest. Zambia climbed up eight positions from last year’s ranking, now appearing 76th out of 183 economies in the world for ease of undertaking business in the country. This improvement will be noted by possible investors when weighing up options for where next to invest overseas – or at least when considering choices on where to base investment in the region.

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199 This concerns, for instance, retailers or services. Investments in mining could also counted here if directly compared to, say, DRC, where similar metals can be found. The rankings are of limited value when considering investment in rare raw materials.

200 For more information, see Annex 1: Table 1 and 2.
From a socio-economic perspective, Zambia appears to be an attractive FDI destination: the economic reforms, tax incentives and other regulations put in place to attract FDI opened up the Zambian market and made it a more attractive FDI destination. This is visible in the increase of FDI inflows: from 2000-2004 FDI inflows increased by 274 percent to USD 334 million. Due to a change in regulation investors can now take 100 percent of their profits out of the country back to their home country. In addition, the Bank of Zambia (the country’s central bank) maintains a “non-interference” approach, resulting in there being little, if any, intervention in investment matters by this institution. Despite attracting more FDI, these regulations do not necessarily increase the potential impacts of FDI on economic growth and poverty reduction in Zambia. In paragraph 5.4 of this report the efforts of the Zambian government to get more benefits from the FDI inflows will be further explained.

Cultural and language differences between foreign investors and host countries can lead to substantial problems. The fact that Zambia is an Anglophone country makes it an attractive FDI destination for investors from the US, UK and SA; for Chinese investors it is more challenging. Both investors from the UK and China recognise the importance of respecting cultural subtleties in order to succeed in Zambia as became apparent during our interviews with foreign investors in Zambia. Zambians are seen as being “very friendly” as was commented by an interlocutor from ZDA, this in turn creates a more pleasant investment environment. Yet, according to our interlocutor from the ZDA, Zambia is still a country with rich customs and traditions that, for instance, can impact the ease of “doing business” in Zambia.

Focusing on political factors, the majority of interviewees noted that although bureaucracy does hinder FDI into Zambia, it has improved drastically from its position in the 1970s. The cost of setting up a business in Zambia has reduced significantly, with now 200 licences needed to begin trading, as opposed to the 500 which were needed at the beginning of this century (however the formalisation of this by Parliament is still underway). The ZDA argues thereby that corruption has lowered over the past three years due to incentives provided by the Millennium Challenge Account (MCA), a US-sponsored initiative. However, the current government is said to be less focused on fighting corruption than the previous government.

Despite the weak transport infrastructure and relatively high levels of bureaucracy evident in the country, the stable political environment, abundance of resources and certain tax benefits for locals and foreign investors alike make Zambia an attractive FDI destination. Besides attracting FDI to the country itself, the good business

202 Interview with ZDA representative on 22 October 2010.
203 Ibid.
204 Interview with ZDA representative on 22 October 2010.
205 Ibid.
206 Ibid.
climate also made Zambia attractive as a hub for investment in the region. For example, one of our interviewees from the SADC Secretariat noted that Zambia “is increasingly being used as a launch pad for conducting business in the DRC,” as meetings are facilitated with foreign direct investors in Zambia.

4.2.3 The role of FDI in the economy of Zambia

In the previous section it was explained how the economic liberalisation in Zambia since 1991 had a positive impact on FDI inflow into Zambia. In this section it will be analysed whether and how the increased FDI inflows in the country have impacted positively on poverty reduction. As explained in the section on the conceptualisation of FDI, the concepts poverty and development have subjective elements which make it important to take the specific context (time and place) into account and to study the concepts from different perspectives. The Centre for Chinese Studies’ (CCS) research team therefore interviewed government officials, investors and members of the civil society in order to get as broad as possible a picture of how FDI can contribute to poverty reduction in Zambia.

The Zambian government puts a lot of effort into attracting FDI. From the perspective of an interlocutor at the ZDA, the increased FDI inflows in the country have created employment and thus impacted positively on poverty reduction. According to an interviewee from the ZDA, FDI inflows to the agricultural sector are especially important as it is the largest sector of employment in Zambia. Within this sector there is a considerable volume of FDI from the UK. According to this representative of ZDA, the FDI from the UK in the agricultural sector is of key significance in creating jobs and the benefits arising from it directly lift people out of poverty in rural areas. The interviewee from MOFCOM elaborated more on these benefits and argued that the implementation of irrigation and building wells by foreign investors can be seen as a positive impact on the local community. Due to the climate of Zambia there can be no rain in the country for six months at a time, meaning irrigation is essential. However, the question is how long-term the benefits of these investments are for the local community. For example, according to the Civil Society for Poverty Reduction (CSPR) and the Jesuit Centre for Theological Reflection (JCTR) as non-governmental organisations, few techniques and skills are shared when foreign investors undertake work in Zambia. This means that the benefits for the local community only last as long as the irrigation installations and wells, for example, last. Another important factor that was raised in the conceptualisation section and that needs further research is whether there is a difference between techniques used by investors from developing countries (SA and China in this research) and developed countries (the UK and US in this research) and the ease of which it can be applied to the Zambian context. This requires more in-depth research of specific projects and interviews with locals on a big scale.

Another important distinction that was made in the conceptualisation section of this report is the distinction between greenfield and brownfield FDI. A good example of greenfield FDI are the investments of South African retailers in Zambia. In the 1990s a number of SA retail investors, such as Shoprite, entered the Zambian market, creating a revival of the retail market following the socialist period in Zambia. At the moment, South African

207 Interview with ZDA representative on 22 October 2010.
investors dominate the retail sector in Zambia. In theory, greenfield investments are expected to create new long-term jobs in the foreign country by hiring new employees. However, in the case of this example of the South African retailers labour and produce were brought into the country and these businesses were thereby accustomed to leave relatively soon after setting up.\textsuperscript{208} This created negative sentiment and distrust among Zambians by the lack of positive benefits for the country itself.

4.2.4 Regulations to manage FDI and reap the benefits

Attracting FDI is not enough for economic growth; the host country needs to have policies in place in order to reap the benefits of this FDI. So far, this report has shown how the Zambian Government’s monetary policy is geared to make the environment for starting business in Zambia as conducive as possible. Yet, the rising pressure from the Zambian civil society created awareness amongst both the Zambian government and foreign investors about the need to change their strategies and policies.

For example, the Zambian government is putting rules and regulations in place ensuring that predominantly local labour and produce are used in stores.\textsuperscript{209} For the establishment of Special Economic Zones (SEZs)\textsuperscript{210} in Zambia, for example, Chinese investors were asked to give priority to local suppliers for goods and services, before procured from somewhere else, to avoid “adversely affecting the growth of local industries.”\textsuperscript{211} In addition, the Zambian Government has frequently pronounced import and export bans on agricultural staples as a means to ensure the prominence of domestic supply across the country.\textsuperscript{212} This policy is now more widely applied to other foreign investors, as for example the SA retailer Pick ‘n Pay mentioned before.\textsuperscript{213}

The South African retailer Pick ‘n Pay decided to aim for selling even higher percentages of local products than is required by the Zambian government.\textsuperscript{214} These new regulations and strategies are meant to increase the positive impacts of FDI inflows on poverty reduction in Zambia, by providing jobs and access to the formalised economy for small farmers in Zambia. In addition, the construction of stores and shopping malls can be seen to be positive for local development, as it requires a significant amount of local labour.\textsuperscript{215} Furthermore, the availability of higher quality goods at a lower price has significantly impacted the lives of middle-class Zambians.

\textsuperscript{208} Interview with PnP CEO on 21 October 2010.

\textsuperscript{209} Interview with DBSA representative on 15 October 2010.

\textsuperscript{210} Interview with PnP CEO on 21 October 2010.


\textsuperscript{214} It is Pick n Pay's aim to source 50 percent of its fruit and vegetables from local supporters within a year of the store being open and 50 percent of the volume of total sales after five years. Interview with PnP CEO on 21 October 2010.

\textsuperscript{215} Interview with ZDA representative on 22 October 2010.
Recognition is granted to the fact that there are benefits to be gained through enriching the community, in the hope of it being channelled back to the retail sector. These developments show the important balance between opening up the market for foreign investors on the one hand, and protecting the local market in order to benefit from the FDI inflow on the other hand.

When speaking with members of the civil society, they raised the view that the Zambian government is not in a strong enough position to set terms for FDI in favour of its national interest.\textsuperscript{216} This is of importance, as the Zambian government has made the country attractive for investors, as previously shown, yet there are few examples of the government managing the FDI inflows in such a way that it actually benefits the Zambian population. The interviewee from the CSRP stated that management is needed in the form of positive employment practice being enforced by the government; including higher, fairer remuneration for employees and a form of punishment for foreign investors when violent reactions to labour unrest takes place. The Zambian government relaxed the rules and regulations for foreign investors because FDI was needed to "kick start the development process," as local developers did not have access to the required amount of capital alone, and thus FDI could help to improve the production base of the country through generating revenue, taxes and employment opportunities for locals.\textsuperscript{217} According to a representative of the JCTR, Zambia has always welcomed FDI with open arms and this eagerness to attract investment means that Zambia allows investment in without fully considering the impact it has on local markets and local labour, poverty reduction, development and the environment.\textsuperscript{218}

Despite attempts from foreign investors to create a kind of win-win situation in which both the investors and the local community of the host country benefit from the investments, it is in the end the responsibility of governments to ensure that the appropriate political and macroeconomic conditions are in place so that FDI contributes to the country's development aspirations, as has been argued in section one of this report. The key point here is the ability and willingness to exercise sovereignty. According to the definition of the UN, a sovereign state should have an effective and independent government within a defined territory. Therefore, it can be suggested that if a country wants to be a sovereign nation state, the government needs to be able to regulate FDI inflows. However, on the other hand, if a country wants to be a sovereign nation state it should also take responsibility for its national companies operating abroad as well. In other words, exercising sovereignty comes with responsibility and evading responsibility decreases a country's ability to exercise sovereignty.

The next section will provide an overview of recommendations from stakeholders involved in FDI inflows to Zambia for the Zambian government to increase the positive impacts of FDI to poverty reduction.

\textsuperscript{216} Interview with CSPR representative on 28 October 2010 and interview with JCTR representative on 3 December 2010.

\textsuperscript{217} Interview with CSPR representative on 28 October 2010.

\textsuperscript{218} Interview with JCTR representative on 3 December 2010.
4.2.5  Key points by stakeholders for improvement of FDI climate

Civil society groups in Zambia agree with the Zambian government that inflows are necessary for Zambia’s development since local entrepreneurs do not have the resources to bring up the required investment to “kick start the development process”. Attracting foreign capital, according to the interviewee from CSPR, helps to improve the productive base of the country. It thereby generates revenue, taxes and it creates employment opportunities for locals. However, as both he and a representative from the JCTR pointed out, these potential positive impacts of FDI are minimized by the fact that massive tax incentives are offered to investors. This means that companies do not make significant contributions to the national revenue through taxes and only really contribute through income tax. Tax holidays and minimal company tax further compound the lack of contribution by companies. The CSPR has been lobbying for the restoration of the windfall tax, i.e. profit revenues are taxed and budgeted for redistribution.

The Zambian government needs thereby to ensure that the local people living off the land wanted by investors are compensated for any loss of land. The interviewee from the ZDA stated that this practice was in place, which was challenged by a representative from the CSPR, who noted that this was an ideal which has not been met.

Our interviewee from the CSPR in Zambia further pointed out that “promised effects of FDI have not been visible.” Little information is provided by the government on the results or benefits to the electorate on the real development as a result of FDI, such as better labour rates, improved services, or the actual correlation between growth and poverty reduction. According to our interviewee from the JCTR in Zambia, the impact of FDI on poverty reduction in Zambia is especially difficult to trace in the private sector. According to her, it is easier to gauge impacts when companies are state-owned because then companies have certain obligations which they have to meet with regard to contributing to the education and health sectors for example.

Most of the foreign investors interviewed stressed that the establishment of the ZDA was a much needed improvement in the support from the Zambian government towards foreign investors. However, they also had some suggestions for the improvement of the services of the ZDA. Despite the ZDA enhancing clarity surrounding the many rules and regulations necessary to conduct FDI in Zambia, it was suggested that having such information in a number of languages would be beneficial; for example a Chinese version could provide a more clear understanding for Chinese investors who have limited English language skills. In addition, interviewees stressed the integral work of the ZDA but noted that it would be very useful to have the website updated more frequently.

In conclusion, the Zambian government puts a lot of effort in attracting FDI and improving its business

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219 CSPR and JCTR.

220 Interview with JCTR representative on 3 December 2010.

221 Interview with MOFCOM representative on 21 October 2010.
environment. Despite the improvements in the business environment of Zambia, there is still much room for improvement according to the foreign investors interviewed.

5. Conclusion

The aim of this report is to provide a better understanding of the specificities of Chinese FDI and its role in the economic development in Southern Africa by examining Chinese FDI in the broader context of FDI inflows to Africa and in comparison with the FDI from other main investing countries. This concluding section is divided into four separate paragraphs in order to structurally answer the main research question:

How does Chinese Outward Foreign Direct Investment (OFDI) compare to OFDI from the three other main FDI source countries to the SADC region, and Zambia more specifically, and how are SADC and Zambia managing the Chinese FDI inflow and its potential impacts on poverty reduction?

To conclude this section with reflections on the limitations of this study and our recommendations:

5.1 Similarities and differences between the major investors in the region

With regard to the management of FDI, China has commonalities with both the UK and SA. The centralised structure with a central entity at state level to support and regulate OFDI in China shows similarities with how OFDI is supported and regulated by the government of the UK and the more long-term perspective of China’s FDI strategy shows similarities with SA. An important difference however, is that the UK manages ODA in a separate central entity, namely DFID, while in China it is regulated by the same Ministry as FDI (MOFCOM). The main conclusion of this report is that China should not be treated as different to other investor countries by the CSOs and Zambian government. It bears little fruit to single out Chinese investments while FDI from other major investors carry equal positive and negative consequences. Instead, a greater degree of agency (or leverage) is needed by African stakeholders (government and civil society) over the direction, modalities and targeting of FDI, regardless of the investment home country.
5.2 Are SADC and Zambia ready for Chinese FDI?

Both the SADC and Zambia have made substantial improvements in creating a more attractive business environment and in attracting FDI over the past twenty years. Despite these changes, foreign investors see much room for improvement. Recommendations from stakeholders for how SADC can better attract FDI remain focused on the need to reduce the costs of doing business. In theory the FIP and the planned regional economic integration in the SADC does increase the attractiveness of the investment climate of SADC, yet these strategies are not being fully implemented due to the limited capacity of SADC due to its bottom-up approach.

The lack of good infrastructure in both Zambia and the SADC was raised by the majority of our interviewees. Thus, the roads and other forms of transport need to be improved in order to bring down the comparatively high investment costs for investors.

Attracting FDI is not enough for economic growth; the host country needs to have policies in place in order to reap the benefits of this FDI. It has been suggested that SADC is limited in its capabilities to manage FDI due to its bottom-up approach. In Zambia civil society members argue that the Zambian government is not in a strong enough position to set terms for FDI in favour of its national interest. The Zambian government has made the country attractive for investors, yet there are few examples of the government managing the FDI inflows in such a way that it actually benefits the Zambian population.

Good examples of how the Zambian government tries to better manage FDI are the fairly new rules and regulations stating that stores have to predominantly use local labour and produce. In addition, the Zambian government has frequently pronounced import and export bans on agricultural staples, as a means to ensure the prominence of domestic supply across the country. However, civil society groups in Zambia complain about the visibility of the positive impacts of FDI towards poverty reduction in the country and ask the Zambian government to release results of the impacts of FDI on the local population to make the link between FDI and development better visible.

5.3 Reflection on limitations of this study

This research project initiated with a broad scope, yet there was limited time available to conduct the research: thus, it became apparent that the focus of the project needed to be tapered. In order to gain the necessary focus within the set timeframe, the decision was made to focus on a specific region in Africa, namely the SADC region, and to explore the perspectives of the potential impacts of FDI towards poverty reduction, as opposed to examining the actual impacts. Despite this narrowed focus, the time schedule nonetheless proved to be an issue and collecting the necessary data was challenging.
A number of precincts were experienced when gathering detailed information concerning investments in the SADC region from all four of the FDI source countries researched within this study. Firstly, employees of the respective government departments of the FDI source countries were unable to provide comprehensive information on investments in the SADC region originating from their country due to “commercial interests,” as was the highly limiting factor when collecting UK related data. Secondly, issues related to the protection of intellectual property were granted as reason for SA not being able to provide further data. The third key hurdle encountered was that the various government departments could not find the information we requested; both the UK and SA government department representatives appeared surprised that they did not have the required data concerning FDI outflow from their country. As previously noted, the US was able to provide the most comprehensive data of the four FDI source countries, with the UK, SA and China unable to provide an overview of their OFDI to the separate SADC countries, nor a further breakdown of their OFDI per sector within the SADC region. Thus, the critique on China that their activities on the African continent are not transparent, or that they do not specifically disclose information on OFDI or ODA, appears to unfortunately also apply in the case of OFDI from other main FDI source countries researched.

Another challenge experienced when comparing information was that the data from the FDI home countries sometimes differed from the data recorded by the receiving countries. For example, there is a huge difference between what UNCTAD reported for Chinese OFDI and what MOFCOM put forward. Furthermore, representatives of the South African embassy in Beijing recognised that they had different data than the figures published in the first report from the China Africa Research Centre at MOFCOM. This South African embassy approached MOFCOM about the matter and it was decided to set up a joint committee together in order to clear up the confusion surrounding this discrepancy. To illustrate, some of the factors identified that can result in differences between the figures are: what is meant by Chinese FDI (mainland and to which degree are exports via Macau and Hong Kong included; is Taiwan accounted for separately?), from which harbour do you record figures (the Chinese or African harbours?), and how big needs the percentage of ownership to be in order for the investment to be counted as FDI?

As explained briefly before, for the scope of this research it was not possible to study the actual impacts of FDI, as this would require more detailed and more long-term research with a baseline study; however the benefit of analysing the potential impacts and perceptions of the key stakeholders became increasingly apparent whilst conducting this research.

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222 We expected that this information was public information; however this appears not exactly to be the case for the investigated countries.
5.4 Recommendations

Following the general finding of this report on the importance of regulation in FDI “host” countries (which receive the FDI), the main recommendations are directed towards the organisation of SADC and the Zambian Government.

- SADC should improve its investment climate for foreign investors by reducing the costs of doing business in the region. One way of achieving this is by speeding up set targets for political and economic integration; improving interconnectivity and thereby enlarging the market size and attractiveness.

- As a landlocked country, Zambia should put more effort into improving its infrastructure (e.g. through better linking ODA and FDI in a coherent step-by-step plan) in order to attract more FDI. More and better regulated FDI is a precondition to have more gains in poverty reduction.

- A lack of transparency within the Zambian government regarding deals with foreign investors was named as concern by Zambian CSOs. More disclosure on details of the deals by the Zambian government would be demanded from these actors.

- Zambia’s decision-makers need to consistently ask about protection of its citizens, future generations and the environment. Regulation of these aspects is arguably a key task for government when engaging with multinationals.

- In order to better regulate FDI, the Zambian government should make information better available to investors about rules and regulations in Zambia. One measure to do so would be a more frequent update of the website of the Zambian Development Agency (ZDA). Another measure would be to make Zambian business law available in Mandarin for Chinese investors, which could make Zambia a more attractive destination for Chinese FDI. Another positive consequence could be to improve law enforcement: Chinese companies who operate abroad have to comply with local laws and regulations. The first step to compliance is to understand the legislation.

- In order to make an informed decision on how best to regulate FDI, the Zambian government should consider conducting a study on the reasons why foreign investors choose to invest in the country. If the reason is to be found in country-specific factors (e.g. raw materials), the Zambian government could better protect its citizens and the environment with stricter regulation without running the immediate risk of losing foreign investors.

- NGOs can assist both CSOs and governments of the SADC countries with conducting such a study by providing detailed information on the motivations for Chinese investors to invest in the specific countries within the SADC region.
- FDI home countries have limited legal responsibility for how their national companies are operating abroad since that would question the right of sovereignty. However, CSO's can use the technique of naming and shaming: publication of bad practices of companies from a certain nationality can lead to stricter control by their home government. CSO's could instead also focus on the consuming countries and make information available about bad practices of companies in their country for the consumers abroad.

- The findings of this study show that the bottom-up approach to governance of SADC is restricting the role of the SADC secretariat regulating and controlling FDI inflows to the region. The member states have a lot of clout and autonomy over their FDI inflows and SADC appears more as a facilitating authority. At present there is no common strategy concerning FDI in SADC. The first task for SADC is therefore to extract and promote lessons for the rest of the region. The regional body should study especially best practice examples in attracting FDI, not least so from Mauritius. While the first and foremost aim of SADC countries might be to attract FDI, disseminating knowledge on how to manage FDI in such a way that it benefits the development of the region should also be a key focus of SADC.

- To the four FDI source countries researched in this report, we recommend the need to ensure a more comprehensive recording of data concerning their country's FDI outflow, in addition to making the information available for public access in the near future. As previously noted, the importance of African countries as a destination for global FDI is increasing despite their relatively small market sizes; hence it is crucial for FDI source countries to maintain records of their FDI outflows to them. At present there appears to be significantly limited collection of data concerning the SADC region. A more thorough and transparent recording could serve to benefit both FDI source and host countries: it could contribute to decreasing speculation of neo-colonialism of FDI source countries, in addition to the possibility of attracting further FDI for host countries due to heightened recognition of the possibilities of investing in the country.

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223 See p.53 of this report for an explanation about how Mauritius made itself an attractive FDI destination.
### Annex

#### Table 1: Volume of FDI inflow per region, 2000-2009 (in USD million)

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Africa’s% of World’s total FDI:

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<td>2.56%</td>
<td>3.61%</td>
<td>2.97%</td>
<td>3.87%</td>
<td>3.80%</td>
<td>3.00%</td>
<td>4.08%</td>
<td>5.24%</td>
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#### Table 2: The World Bank Rankings for Ease of Doing Business in Zambia (out of 183 economies)

<table>
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<td>57</td>
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<tr>
<td>Procedures (number)</td>
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<td>6</td>
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<td>6</td>
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<td>Time (days)</td>
<td>33</td>
<td>18</td>
<td>18</td>
<td>18</td>
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<tr>
<td>Cost (percentage of income per capita)</td>
<td>30.5</td>
<td>26.8</td>
<td>28.4</td>
<td>27.9</td>
</tr>
<tr>
<td>Min. capital (percentage of income per capita)</td>
<td>2.2</td>
<td>1.5</td>
<td>1.3</td>
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### Table 3: The World Bank Rankings for Ease of Doing Business: Starting a Business in Zambia

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<th>Change in Rank</th>
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<tr>
<td>Overall Ease of Doing Business Rank</td>
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<tr>
<td>Starting a Business</td>
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<td>Dealing with Construction Permits</td>
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<td>158</td>
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<tr>
<td>Registering Property</td>
<td>93</td>
<td>83</td>
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<tr>
<td>Getting Credit</td>
<td>14</td>
<td>6</td>
<td>+8</td>
</tr>
<tr>
<td>Protecting Investors</td>
<td>73</td>
<td>74</td>
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</tr>
<tr>
<td>Paying Taxes</td>
<td>36</td>
<td>37</td>
<td>-1</td>
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<tr>
<td>Trading Across Borders</td>
<td>157</td>
<td>150</td>
<td>+7</td>
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<tr>
<td>Enforcing Contracts</td>
<td>87</td>
<td>86</td>
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<tr>
<td>Closing a Business</td>
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<td>97</td>
<td>-13</td>
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### Table 4: Volume of FDI inflow per country in the SADC region, 2000-2009 (in USD million)

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### Table 5: Total US FDI Africa, SADC, and Zambia from 2000-2009 (in USD million)

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<td>12228</td>
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<td>76</td>
<td>79</td>
<td>95</td>
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</table>


### Table 6: Total US FDI to SADC per country, 2000-2009 (in USD million)

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<td>9942</td>
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**Key:**
- (D) Suppressed to avoid disclosure of data of individual companies.
- (*) A nonzero value between – USD 500,000 and USD 500,000.

**Table 7: Total UK FDI to Africa, SADC, and Zambia from 2000-2009 (in USD million)**

<table>
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<th>Year</th>
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<th>2004</th>
<th>2005</th>
<th>2006</th>
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<th>2009</th>
</tr>
</thead>
<tbody>
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<td>Total UK FDI to Africa</td>
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<td>994136*</td>
<td>1187046***</td>
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<td>1454904***</td>
<td>1835639***</td>
<td>1531128***</td>
<td>1651727***</td>
</tr>
<tr>
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<td>UK FDI to Zambia</td>
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</table>

**Key:**

* Approximate figure as converted using rate of day as of 24th November 2010 of GBP 1 is equal to USD 1.59027 – used [http://www.oanda.com/currency/converter/](http://www.oanda.com/currency/converter/).

* Data provided by contact at the Office for National Statistics, cited as “ONSONS MA4”.

** Statistics not made available by source.

*** Statistics obtained from United Nations Conference on Trade and Development.

**Source:** Data provided by contact at the Office for National Statistics, cited as “ONSONS MA4”.


---

224 Limitations of data – UK

The UK data tables were compiled using data granted by the UK ONS and UNCTAD. In both the above and below table, data for the whole table was requested and searched for using UNCTAD, the FCO, the UKTI, and the ONS. There appeared to be little knowledge of whether this specified data was available or where it could be obtained from. Research concluded the ONS should have the fullest record of the data, yet contact with the ONS only resulted in gaining the data presented in these tables, despite asking for data to cover the breadth of the tables. The ONS clarified that they were the key source for FDI outflow figures concerning the UK, and noted that this was the only information they had regarding UK FDI to the respective countries and region, in addition to not being willing to disclose elements of it.
Table 8: Total UK FDI to SADC per country, 2000-2009 (in USD million)

<table>
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<th>Year</th>
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</table>

Key:

(D) Suppressed to avoid disclosure of data of individual companies.

* Approximate figure as converted using rate of day as of 24th November 2010 of GBP 1 is equal to USD 1.59027 – used http://www.oanda.com/currency/converter/.

* Data provided by contact at the Office for National Statistics, cited as “ONS MA4

** Statistics not made available by source.

Source: Data provided by contact at the Office for National Statistics, cited as “ONS MA4”.
Table 9: Total Chinese FDI to Africa, SADC, and Zambia from 2000-2009 (in USD million)

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
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<th>2004</th>
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<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
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<tr>
<td>Total Chinese FDI *</td>
<td><em>(915.777</em>*)*</td>
<td><em>(6885.398</em>*)*</td>
<td><em>(2518.407</em>*)*</td>
<td>2854.65</td>
<td>5497.99</td>
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<td>17633.9</td>
<td>26506.0</td>
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<td>*</td>
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<td>317.43</td>
<td>391.68</td>
<td>519.86</td>
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<td>5490.55</td>
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<td>Chinese FDI to SADC *</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>27.04</td>
<td>49.5</td>
<td>75.11</td>
<td>224.69</td>
<td>722.88</td>
<td>5182.96</td>
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<tr>
<td>Chinese FDI to Zambia *</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>5.53</td>
<td>2.23</td>
<td>10.09</td>
<td>87.44</td>
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<td>213.97</td>
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</table>

Key:
* statistics not presented by MOFCOM
** statistics obtained from United Nations Conference on Trade and Development

Sources:


Limitations of data - China
China’s MOFCOM provided the majority of data for these tables concerning China’s FDI. However, the years 2000-2002 were not made available by MOFCOM, or that concerning the amount of FDI to specific sectors within the SADC countries. The total amount of FDI outflow from China globally has been provided from UNCTAD to show both the data from the years not provided by MOFCOM and the apparent discrepancies and similarities between the data sources.
Table 10: Total Chinese FDI to SADC per country, 2000-2009 (in USD million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Country</th>
<th>2000</th>
<th>2001</th>
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<th>2003</th>
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<td>0.18</td>
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<td>41.19</td>
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<td>0.27</td>
<td>3.69</td>
<td>2.76</td>
<td>1.87</td>
<td>14.06</td>
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<td>**</td>
<td>0.06</td>
<td>11.91</td>
<td>5.07</td>
<td>36.73</td>
<td>57.27</td>
<td>23.99</td>
<td>227.16</td>
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<td>0.6</td>
<td>*</td>
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</tr>
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</table>

Key:
* statistics not available
** statistics not presented by MOFCOM

Table 11: Total SA FDI to Africa, SADC, and Zambia from 2000-2009 (in USD million)

<table>
<thead>
<tr>
<th>Year</th>
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<td>32.325***</td>
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<td>21.980***</td>
<td>24.185***</td>
<td>39.083***</td>
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<td>50.826***</td>
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<td>49.788***</td>
<td>64.309***</td>
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<td>SA FDI to SADC</td>
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<td>2395.7</td>
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<td>2880.9</td>
<td>3012.7</td>
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<td>SA FDI to Zambia</td>
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<td>160.4</td>
<td>233.3</td>
<td>278.8</td>
<td>346.9</td>
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Key:
* Approximate figure as converted using rate of day as of 24th November 2010 of R 1 is equal to USD 0.14174 – used http://www.oanda.com/currency/converter/
** statistics not presented by South African Reserve Bank
*** statistics obtained from United Nations Conference on Trade and Development

Sources:


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Limitations of data – South Africa

The data and figures obtained for Table 7 on the total South African FDI, 2002–2008 was obtained from the South African Reserve Bank, Quarterly Bulletin, and September 2010. Because data was difficult to obtain regarding total South African FDI to SADC per country, 2003-2007 (Table 8) data was obtained from a Discussion Paper, “The Role of South African FDI in Southern Africa” by Draper, P. Kiratu, S. and Samuel, C. In the process of gathering statistical data for the South African country profile, many limitations were found. Numerous South African financial institutions (South African Reserve Bank, South African Revenue Service etc.), government departments (Department of Trade and Industry, National Treasury etc.) and South African financial and economic experts were contacted; however little data was made available from these relevant sources.
<table>
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<tr>
<th>Year</th>
<th>Country</th>
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<th>2002</th>
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<td>Botswana</td>
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</tr>
</tbody>
</table>

** statistics not presented by Draper et al

** Sources:**

SAIIA's calculations from SARB data

Flow diagram 1: OFDI in the American context

Organogram: OFDI in the American context
Flow diagram 2: OFDI in the United Kingdom context

UK Government

- The Ministry of Defence (MOD)
  - The MOD is the highest level military headquarters in the UK, providing political control of all military operations, in addition to being responsible for all policy-making concerning British defence issues.

- The Department for Business, Innovation and Skills (BIS)
  - This relatively young department was created in June 2008 through the merger of the Department for Business, Enterprise and Regulatory Reform (BERR) and the Department for Innovation, Universities and Skills (DUIS).

- Foreign and Commonwealth Office (FCO)
  - This is the British government department responsible for promoting the UK’s interests abroad. It was created following the merger of the Foreign Office and the Commonwealth Office in 1968.

- The UK Trade & Investment (UKTI)
  - This department was formed in 1996 as the British Trade International, with sub-departments of Trade Partners UK (concerning British export needs) and Invest UK (concerning inward investment to the UK). In 2003, these inner departments merged to become the UKTI, which is responsible for reporting policy to the FCO and BIS.

Export

- The Overseas Security Information for Business (OSIB)
  - The Overseas Security Information for Business (OSIB) has been set up as a joint initiative between the FCO and UKTI. In order to provide UK businesses with up-to-date information concerning security threats faced when conducting business operations overseas. Country specific information is available for 60 countries and is free of charge to access.

Organogram: OFDI in the United Kingdom context

Private Sector Enterprise

Industry Bodies
- UK regional International Trade Advisors
- Trade Associations

Governments Ministries

Department for International Development (DFID)
- This is the ministerial department responsible for managing the UK’s aid to poor countries and works to eliminate world poverty.

Other donor countries, such as members of the Development Assistance Committee (DAC)

- Global Financial Institutions, such as the World Bank
- Global Political Organisations, such as the UN
- Regional Organisations, such as the EU or regional development banks
- Charities and non-Governmental Organisations (NGOs), such as Oxfam

A change in government in 1997 led to a change in FDI strategy shifting aid disbursement from domestic goods and services.

KEY:
- Government:
- State Agency:
- Enterprises:
- Cooperates with:
Flow diagram 4: OFDI in the South African context

Organogram: OFDI in the South African context
Bibliography


Profile of the Centre for Chinese Studies at Stellenbosch University

Our Vision: The Centre for Chinese Studies (CCS) at Stellenbosch University is the leading African research institution for innovative & policy relevant analysis of the relations between China and Africa.

The Centre for Chinese Studies (CCS) is the first institution devoted to the study of China in Sub-Saharan Africa. The Centre promotes the exchange of knowledge, ideas and experiences between China and Africa. As Africa’s interaction with China increases, the need for greater analysis and understanding between our two regions and peoples grows.

This involves evaluating China’s developmental role in Africa that is felt in various capacities ranging from trade and investment to humanitarian assistance. The Centre seeks to fulfill this role. The Centre conducts analysis of China-related research to stakeholders in Government, business, academia and NGO communities.

The Centre also delivers lectures to academic and business audiences at the Stellenbosch University and other local universities. The CCS hosts visiting academics within the China Forum that provides a platform for discussion and debate on China-Africa related subjects. China Forum events are most often organised in collaboration with other institutions.

The CCS has co-operative linkages with key Chinese universities and institutions pursuing both research collaboration and exchange undertakings. The CCS has exchange agreements in place with Xiamen University, the Institute of West Asian & African Studies within the Chinese Academy of Social Sciences, the Shanghai Institute for International Studies and Development Research Council.

The Centre for Chinese Studies also maintains close ties to the Confucius Institute at Stellenbosch University, the first of its kind in South Africa, housed in the Postgraduate and International Office.