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SADC Investment Perspectives in a Changing International Investment Landscape

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EXECUTIVE SUMMARY

The global arena for foreign direct investment (FDI) has become much more fluid and complex in the five years from 2010 to 2015. The Southern African Development Community (SADC) as a region has shown exceptional growth but relatively lacklustre FDI inflows. Investment protocols might be revised, as SADC needs to re-envisage itself as an investment destination. It currently receives mostly resource-based investment in subsequent supporting service industries. The end of 2014 saw sharp declines in commodity prices, especially oil, and forecasts show a sluggish return to previous levels. This requires SADC policymakers to take a new look at current investment policies and attitudes. Global value chains and spatial factors show that dated ideological policymaking will need to be replaced with proven, growth-orientated developmental strategies.

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The current global investment climate and investment agreement environment provide SADC with a unique opportunity to set the stage for shifting FDI into future growth and development

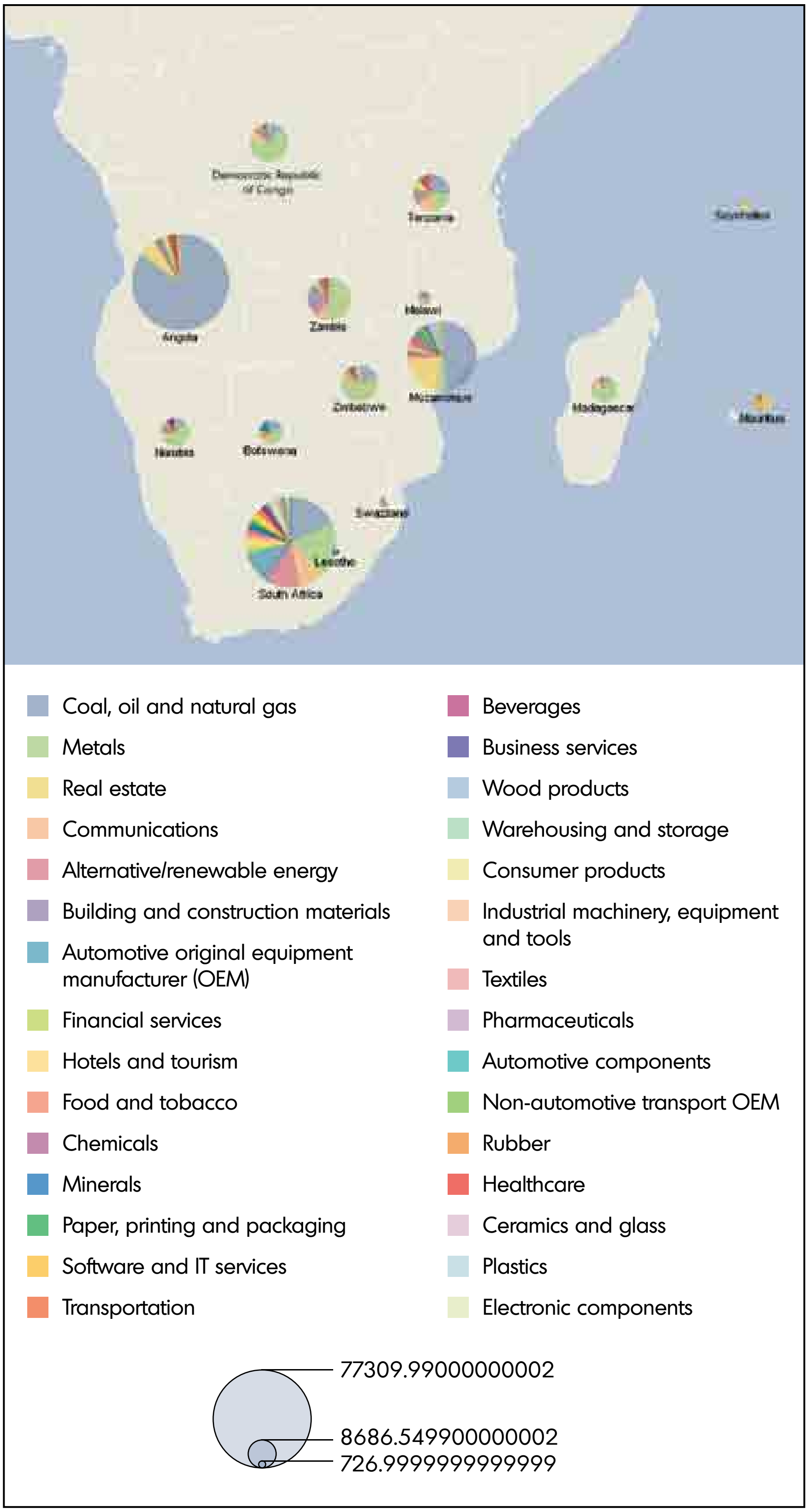
BACKGROUND

SADC is currently involved in the revision of the policy framework for investment adopted by the Organization for Economic Cooperation and Development (OECD) after 2002.[1] SADC co-operated with the OECD to develop a regional investment dialogue. The aim of this process which takes place against a global backdrop, is regional policy harmonisation and peer learning. Globally there is a move towards harmonised investment policies and a substantial increase in bilateral investment treaties (BITs), and even mega-regional agreements.[2] Although a SADC Protocol on Investment was adopted in 2006,[3] the region's policies are far from harmonised. To complicate matters further, South Africa has also chosen not to renew its BITs with many of its traditional investment partners,[4] giving rise to investor uncertainty. The current global investment climate and investment agreement environment provide SADC with a unique opportunity to set the stage for shifting FDI into future growth and development.

FOREIGN DIRECT INVESTMENT INFLOWS INTO SADC

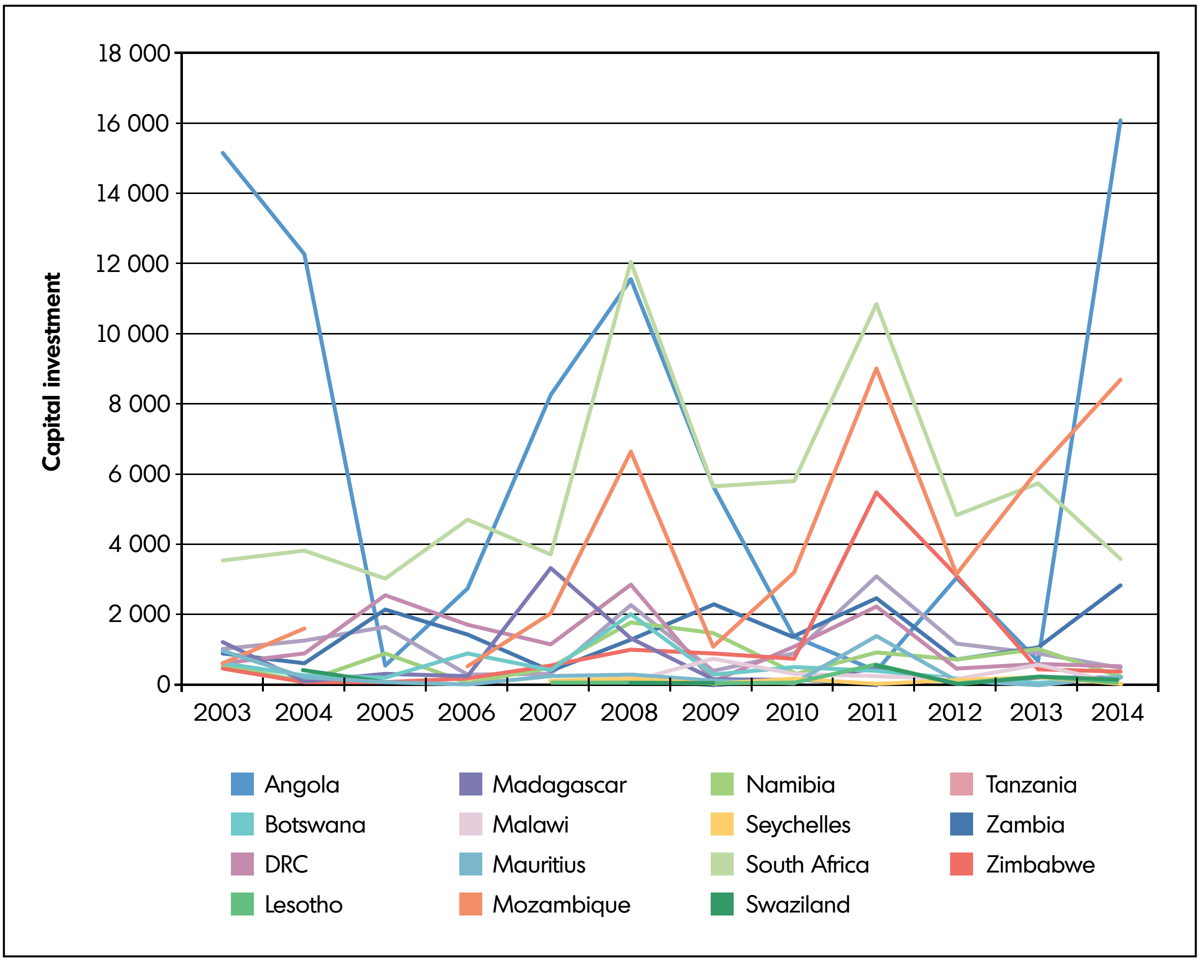
In order to consider policy on FDI, a brief overview of investment in the region confirms many investor concerns but also provides some insights into possible opportunities. Figure 1 shows the Greenfields FDI inflows into SADC from 2003 to 2014, broken up into sectors. South Africa, Angola and Mozambique are the major recipients of FDI, with the Democratic Republic of the Congo (DRC), Tanzania, Zambia and Zimbabwe forming a second tier. South Africa and Tanzania receive the most diversified investments. Angola and Mozambique are dominated by coal, oil and gas, and nearly all the rest are dominated by investments in metals. The exceptions are Mauritius and the Seychelles, which are dominated by real estate investments.

Figure 1: Scale and diversity of FDI inflows into SADC, 2003–2014



Source: Author's own rendering based on *Financial Times*, fDi Intelligence data, *Financial Times*, fDi Markets.com, 2015, http://www.fdimarkets.com/, accessed 15 January 2015

Figure 2: FDI inflows into SADC by country, 2003–2014



Source: Author's own rendering based on *Financial Times*, fDi Intelligence data, *Financial Times*, fDi Markets.com, 2015, http://www.fdimarkets.com/, accessed 15 January 2015

Figure 2 shows the individual SADC countries' FDI inflows from 2003 to 2014. Almost all follow a similar pattern that fluctuates around a low mean. Angola shows highly erratic, large fluctuations and no clear long-term trend. South Africa, although also highly erratic,[5] shows a slow long-term growth trend and Mozambique long-term strong growth.

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When the source countries are investigated in Table 1, the dominance of the 'traditional' OECD investors in the region is clearly visible. There is, however, a marked difference when only the last five years are considered. The scale of Indian investment in the region is shown to be the largest from the developing world and on the increase, while South Africa itself is a prominent investor in SADC. Chinese investment falls short of media attention and Brazilian investment lags even more.

Table 1: FDI inflows into SADC by source country ($ million)

2003–2014		2010–2014	
Source country	**Capital sum**	**Source country**	**Capital sum**
US	45,155.0	France	17,796.2
UK	35,592.6	India	16,969.5
France	27,512.2	UK	13,012.9
India	25,237.8	US	12,313.7
Australia	19,610.8	South Africa	11,542.2
South Africa	17,180.5	Australia	5,505.1
China	14,455.7	Belgium	5,495.6
Canada	13,377.9	Germany	3,853.7
Germany	7,423.7	China	3,477.5
Belgium	6,815.8	Portugal	3,302.9
Portugal	6,526.4	Italy	2,891.6
Brazil	6,461.6	Canada	2,301.9
Japan	6,447.7	Switzerland	2,102.3
Italy	5,603.1	Finland	1,975.0
Switzerland	3,503.8	Japan	1,747.5

Source: Author's own rendering based on *Financial Times*, fDi Intelligence data, *Financial Times*, fDi Markets.com, 2015, http://www.fdimarkets.com/, accessed 15 January 2015

Table 2 provides a breakdown of FDI flows into SADC by sector. This sectorial dispersion influences the policy considerations of this policy insight. Primary sector and tertiary investments do follow the global trend, as will be discussed later. It does, however, raise the question whether the services investments are the consequences of primary sector investment or due to increases in domestic markets resulting from economic growth.

Table 2: FDI inflows into SADC by sector ($ million)

Sector	Capital
Coal, oil and natural gas	109,178.9
Metals	59,087.0
Real estate	18,027.5
Communications	12,976.3
Alternative/renewable energy	11,309.8
Building and construction materials	8,994.3
Automotive original equipment manufacturer	7,313.3
Financial services	5,446.4

Sector	Capital
Hotels and tourism	5,219.6
Food and tobacco	4,433.8
Chemicals	4,350.6
Minerals	4,010.0
Paper, printing and packaging	3,401.0
Software and information technology services	3,061.3
Transportation	2,590.1

Source: Author's own rendering based on *Financial Times*, fDi Intelligence data, *Financial Times*, fDi Markets.com, 2015, http://www.fdimarkets.com/, accessed 15 January 2015

Table 3: FDI inflows into SADC by company

Company	Capital $ million	Company	Projects
Total	21,213.9	Banco BPI	69
Chevron Corporation	14,721.9	Ecobank Transnational	27
ExxonMobil	12,168.6	Old Mutual Plc	24
British Petroleum (BP)	8,933.0	FirstRand	22
Essar Group	7,030.9	Banco Comercial Português	22
Jindal Organisation (OP Jindal)	6,258.2	Lonrho	19
Pylos	5,189.4	SABMiller	18
Anglo American	4,801.8	Standard Bank Group	18
Eni SpA (Eni)	4,639.0	Tata Group	17
Tata Group	3,730.6	Caixa Geral de Depositos	17
Atterbury Property Developments	3,600.2	Anglo American	17
CITIC Group	3,535.0	Vodafone	15
Sumitomo Group	3,419.5	Volkswagen	14
SASOL	3,355.3	Nestlé	14
Vale (Companhia Vale do Rio Doce)	3,228.9	General Motors (GM)	13
Roc Oil	2,500.2	ABC Holdings (BancABC)	13
Petrobras	2,500.2	Coca-Cola	12
China Petroleum and Chemical (Sinopec)	2,500.2	Walmart	11
Portucel Soporcel Group	2,354.9	Standard Chartered Bank	11
Rio Tinto Group	2,189.8	Finibanco	11

Source: Author's own rendering based on *Financial Times*, fDi Intelligence data, *Financial Times*, fDi Markets.com, 2015, http://www.fdimarkets.com/, accessed 15 January 2015

Table 3 looks at the top 20 companies investing in SADC, split between the amount invested and the number of projects. The natural resources sector dominates the total amount of FDI stock invested, with the exception of the Tata Group. In terms of projects, there is a strong trend towards financial services companies, some food and tobacco, and automotives.

In conclusion, there is a strong tendency in the SADC region towards investment in natural resources and supporting services. A clear policy shift will be needed to diversify investment portfolios and grow domestic markets.

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THE CURRENT GLOBAL ENVIRONMENT

Although the International Monetary Fund (IMF) predicts sustained high short-term growth in all of sub-Saharan Africa, the dependence of SADC countries on resource-orientated exports has exposed them to the biggest slump in commodity prices in the period from 2010 to 2015.[6] During the latter half of 2014, oil prices declined by up to 60% and metals followed suit. Copper dropped to 2009 values and iron declined by more than 30%. SADC growth estimates have been revised down and African currencies have come under severe pressure. Governments in the region will find it hard to meet growth expectations with the lower incomes from resource extraction, as the growing consumer class will continue to fuel demand for new products and services.

The decline in resource prices is estimated to be a long-term structural shift based on the decline in Chinese demand for resources and continued low growth in developed markets.[7]

Amid this upheaval in commodity prices, a marked shift is occurring in growth and investment patterns in Africa. This directly affects SADC. Tanzania and Mozambique have outstripped other African countries not only in growth but also in growing investments in increasingly diverse industries.[8] According to the *Financial Times*,[9] Mozambique has become a preferred investment destination for banking groups seeking to expand their African operations.

From the investigation into FDI inflows into SADC, the skewed picture of resource investments and supporting services gives a bleak view of FDI inflows into SADC for the foreseeable future. SADC's exceptional growth over the past decade (2005–2015) was fuelled by commodities and it is not clear whether growth benefits were inclusive. If commodity prices remain low for the next decade, as the IMF predicts,[10] redressing growth policies and strategies will become the single most important economic debate in the SADC region. Countries that are resource driven should use the current situation as an opportunity to diversify into new, sustainable industries.[11]

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GLOBAL VALUE CHAINS AND BENEFICIATION

Many African governments tout beneficiation as a direct FDI policy for economic expansion and growth.[12] The focus is usually on forcing foreign-owned firms to allocate a certain amount of their investment to the beneficiation of natural resources. Obsession with resources and the perceived competitiveness these should bring, blind resource-rich countries to alternative opportunities for true growth through value addition.[13] Few, if any, examples exist of resource endowments that are successfully converted into competitive advantages through beneficiation without local demand.[14]

Attempts to legislate sectors into competitiveness are steeped in ideology, and indicate an inadequate understanding of multinational behaviour and development issues.[15] Whether it is the Zimbabwean beneficiation policy[16] or the strong focus of the South African government on the mining sector and beneficiation,[17] it is clear that this issue continues to dominate and hamper development in the SADC region due to the high opportunity cost of not pursuing alternatives.

Alternative solutions lie in the current shift of looking at global trade through global value chains (GVCs).[18] The rise of the GVC approach reveals that, globally, industrialisation is declining, adds increasingly lower value and is extremely competitive.[19] Value addition has shifted to mostly low-skilled renewable resources and high-skilled post-fabrication services. Firms that are trading across borders are not shifting goods, but tasks. Therefore, the only resources that matter are renewable resources. Trade, and therefore investment patterns, becomes more regionally focused and barriers to trade are increasingly detrimental to competitiveness.[20] To achieve higher levels of development, a shift in incentive focus needs to take place in the direction of competitive value addition rather than production, and to infrastructure and skills development.[21]

FIXING THE SPATIAL FIX

SADC investment policy can also learn a great deal from international geographical economics. Intra-regional trade remains low[22] when compared to more developed regions, and moving production factors around in the SADC spatial fix[23] remains problematic due to a lack of market connectedness and high internal transportation costs. Primary trade connections are dominated by the US, EU, China and India,[24] as opposed to with one another. Although many infrastructure projects are planned in the region, few – if any – serve to connect the local markets, and efforts to remove non-tariff barriers to trade (such as corruption and customs procedures) are stuck in political stalemate.

In order to attract FDI inflows with long-term growth, skills development and positive spillovers, the spatial fix needs to be addressed urgently.

POLICY CONSIDERATIONS

In the current global environment, multinational enterprises are spoilt for choice. Resources are viewed as abundant and capital has become more mobile. Efforts to force them into specific behaviour will only lead to investment in friendlier regions and disinvestment locally. BITs are on the rise as developing countries seek to provide security for investors who are risk averse. Governments need to decide on their long-term developmental strategies and which types of FDI would suit this best. Current messages being conveyed surrounding BITs and land distribution in the region do not bode well for growth-orientated FDI.

CONCLUSION

Governments in SADC should strive towards clear and transparent policies on the protection of investors' capital and subsequent returns on investment. Investment in renewable resources and value-added service investments and exports should be encouraged. SADC member states should adopt policies based on proven developmental strategies that focus on enabling and growing capital rather than dated ideological policies such as beneficiation and other forms of rent extraction. Investment should be made in a skilled labour force and in hard infrastructure that connects SADC markets. Trade facilitation should also be improved within SADC through the removal of tariff and non-tariff trade barriers between, and among, member countries to allow for a unified market.

ENDNOTES

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