Chapter 3

Recent Trends in Foreign Direct Investment in Sub-Saharan Africa

Kazuyo IDEUE

Introduction

Theoretically, capital formation and technological improvement have been considered the "engine of economic growth." According to Todaro and Smith (2011: 688–690), Foreign Direct Investment (FDI) for developing countries has four main roles. The first and most often cited contribution is making up for a lack of domestic savings. This situation is especially crucial for sub-Saharan African (SSA) countries owing to the low levels of income and domestic savings in the region. Therefore, external capital is considered necessary to supplement domestic savings. The second contribution of FDI is to fill the foreign exchange gap; most developing countries lack sufficient foreign exchange that would be used to finance goods and services imports. The third contribution is to fill the gap between targeted governmental tax revenues and locally raised taxes. The fourth contribution is to fill gaps in management, entrepreneurship, technology, and skills, as most developing countries lack new technology, knowledge, or skills.

Many SSA countries have made efforts to attract FDI by creating special investment zones and Export Processing Zones (EPZs) by providing investment incentives such as tax holidays that allow for duty-free imports of capital goods, production materials, and equipment; however, despite these efforts, SSA did not benefit from FDI from the 1980s to the 1990s. For example, it received only $256 million in 1980 and $9 billion in 1999, whereas the other developing countries attracted FDI inflows of $7 billion in 1980 and $216 billion in 1999. The situation was described as follows: "there are worrying signs that the whole of the African continent being marginalized in the global competition for FDI" (Ancharaz, 2003).

Nevertheless, as we will subsequently observe, FDI inflows to SSA have apparently changed in the 2000s. Africa has undergone the most prolonged period of sustained growth in its history. Based on these trends, this chapter aims to capture the characteristics and recent changes in FDI inflows and examines the background of these trends. In this chapter, we will focus on the southeast SSA countries, particularly Ethiopia, Kenya, Tanzania, Mozambique, Madagascar, and Mauritius.

The remainder of this paper is organized as follows. In Section 1, we describe the characteristics of FDI in SSA by focusing on new investment partners. In Section 2, we explore FDI inflows to the specific SSA countries previously mentioned. Finally, in Section 3, we present the conclusion.

1. Characteristics of FDI in Sub-Saharan Africa

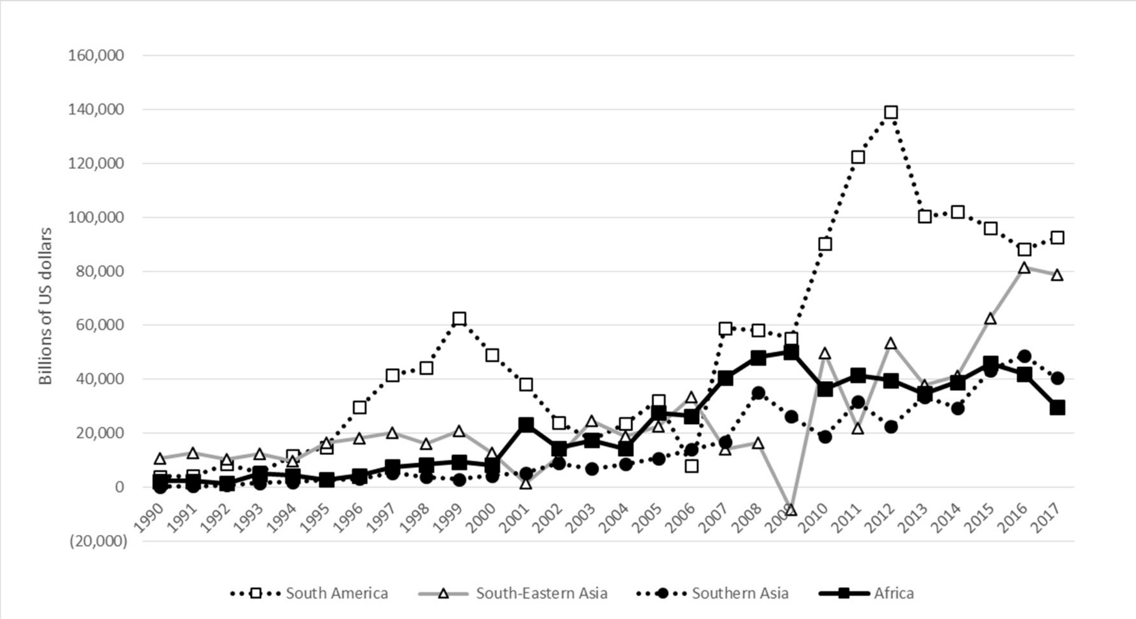
1.1. **FDI inflows**

Figure 1 shows the net FDI inflows to developing economies during 1990–2017. As Figure 1 indicates, net FDI inflow was concentrated in Asian and Latin American countries, and Africa appears not to have benefited from FDI by 2000 despite its efforts to attract such investments.[1] For example, during 1980–1999, the average percentage share of the FDI inflow to SSA out of the total world FDI represented only 2.3%.

However, the trend of FDI to SSA seems to have experienced a turning point since the 2000s. FDI inflows to SSA have increased during the past two decades. During the 1970s, inflows to the SSA averaged only $942 million per year, but $1.3 billion yearly went to SSA in the 1980s. The flows quintupled to an average of $4.7 billion in the 1990s and then twentyfold to an average of $20.2 billion during 2000–2010. With respect to 2010–2017, SSA attracted $38.7 billion in FDI inflows, a fortyfold increase from the 1970s (Figure 2). Although SSA's share is still small considering the total world FDI inflows, its share as a recipient increased from 1.3% during the 1990s, to 1.9% during the 2000s, and to 2.5% during 2000–2017.

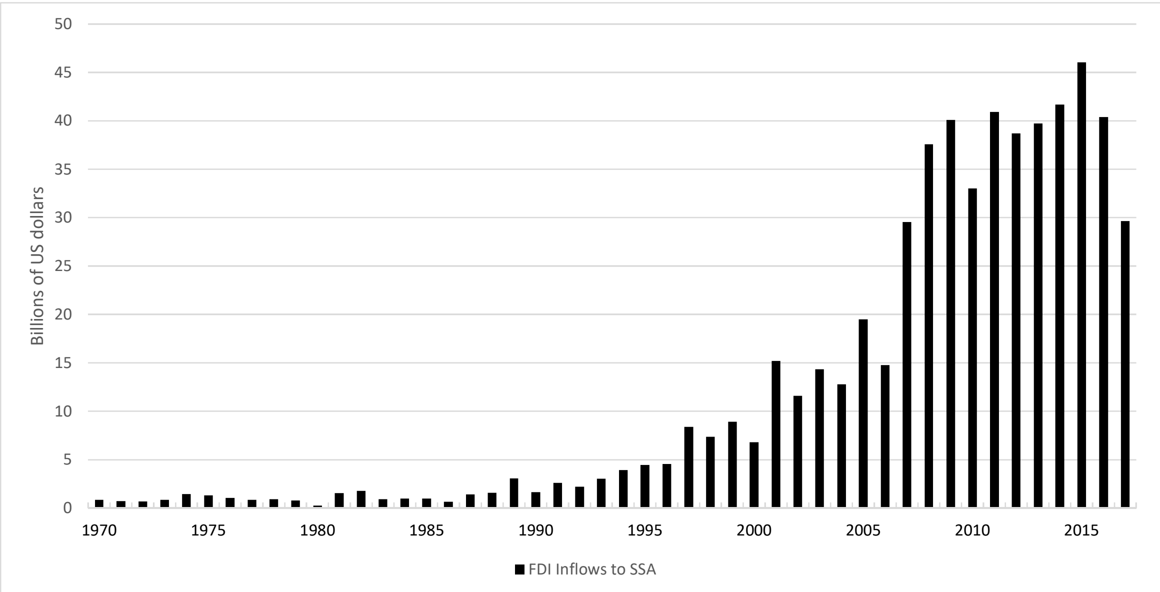
[1] From the 1970s to the 1990s, most SSA countries set up Export Processing Zones or the other free trade zones to attract FDI. For example, EPZs were set up in Mauritius, Senegal, Liberia, and Ghana in the 1970s, Zaire in 1981, Togo in 1989, Madagascar in 1989, Cameroon and Kenya in 1990, and Zanzibar and Zimbabwe in the 1990s (Kinunda-Rutashobya, 2003). However, among the EPZs in SSA, only a few have been successful besides Mauritius.

Figure 1. FDI Net Inflows, 1990–2017



Source: UNCTAD statistics for various years.

Figure 2. FDI Inflows to SSA, 1970–2017 ($ at current prices)

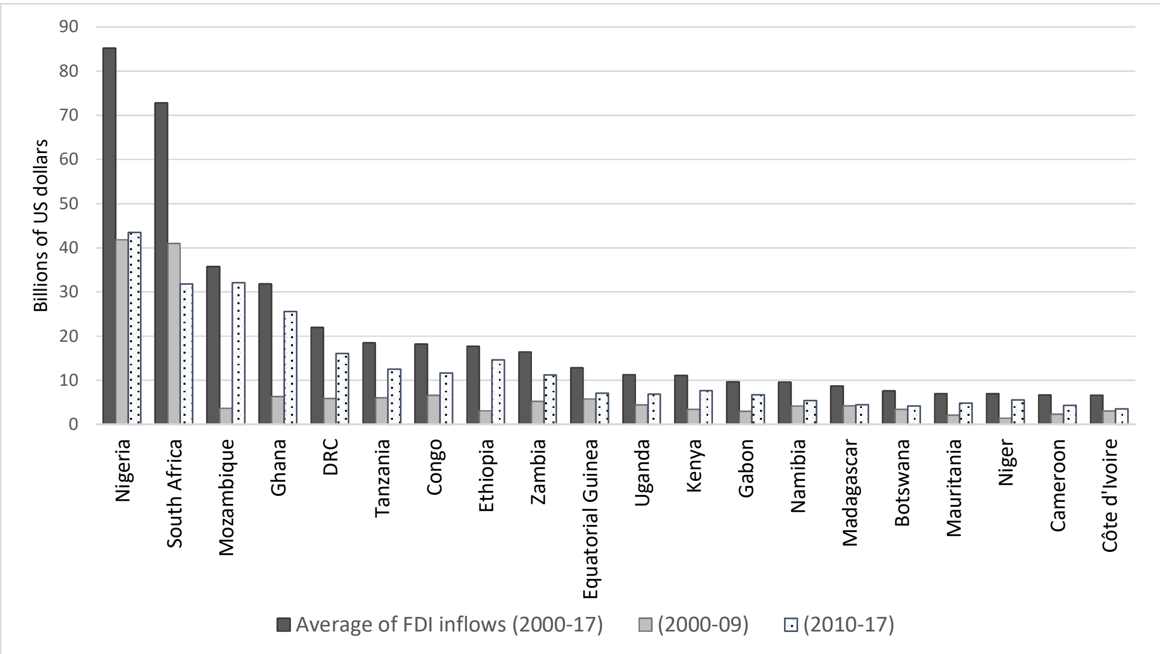


Source: UNCTAD statistics for various years.

In contrast, FDI inflows have been predominantly concentrated in two countries—Nigeria and South Africa—during all of 2000–2017 (Figure 3). These two countries received an average of 32.5% of the total FDI inflows to SSA during the same period. Moreover, top 10 recipient countries comprise 68% of total FDI. Notably, nine of the top 10 heavily rely on natural resources. Therefore, FDI inflow to SSA seems to have been influenced by commodity prices and macroeconomic fundamentals. For example, FDI flows to Angola—the largest FDI recipient in 2015—declined by 11% in 2016, reflecting the impact of low commodity prices. The country was unseated in this ranking. Moreover, FDI inflows to SSA continued to slide in 2017, reaching $29.6 billion—down 27% from 2016. The decline was concentrated in larger commodity exporters such as Mozambique, the Congo, Nigeria, and Angola (UNCTAD, 2018).

The contribution of FDI inflows to the primary commodity sector apparently remains unclear because enclave investments are less likely to create new jobs, and spillovers and linkages for local enterprises are quite limited. Although Sharma and Abekah (2007) pointed out a positive effect of FDI on GDP growth in SSA, Alfaro (2003) found little support for FDI spillovers in the primary sector. For example, a previous study pointed out that FDI has little direct impact on employment and few linkages to the local economy in Mozambique (Krause and Kaufmann, 2011). For SSA to reap benefits from FDI and to foster linkages and diversify inflows rather than attract FDI might be a challenge.

Figure 3. FDI Inflows of Top 20 SSA Countries, 2000–2017, 2000–2009, 2010–2017 ($ millions)



Source: UNCTAD statistics for various years.

1.2. FDI from new partners in SSA

When the sources of FDI to SSA are mostly the United States (U.S.), the United Kingdom (UK), and France, FDI from new partners such as China and India play an essential role for SSA and leads to diversification of the source countries. For example, China's outbound FDI to Africa doubled from $144 million in 2009 to $317 million in 2011 and significantly increased to $410 million in 2017. However, the 2017 China Statistical Report on Foreign Direct Investment reported that investment in Africa reached $4.1 billion, accounting for only 2.6% of total FDI flows for that year.

Table 1 shows the Chinese FDI inflows to SSA during 2009-2017. The main SSA countries that received FDI were Zambia, the Democratic Republic of Congo, Nigeria, Kenya, Zimbabwe, Ghana, Angola, Ethiopia, Republic of Congo, and Tanzania. Contrary to the conventional wisdom that China's investment in Africa is largely targeting only to resource-rich countries, for some non-resource-rich countries, such as Ethiopia and Kenya had attracted massive investment from China.

Table 1 Chinese FDI Inflows to SSA, 2009–2017 ($ million)

Country	2009	2010	2011	2012	2013	2014	2015	2016	2017	Average
Zambia	11,180	7,505	29,178	29,155	29,286	42,485	9,655	21,841	30,580	**23,429**
Democratic Republic of the Congo	22,716	23,619	7,518	34,417	12,127	15,756	21,371	-7,892	34,024	**18,184**
Nigeria	17,186	18,489	19,742	33,305	20,913	19,977	5,058	10,850	13,795	**17,702**
Kenya	2,812	10,122	6,817	7,873	23,054	27,839	28,181	2,967	41,010	**16,742**
Zimbabwe	1,124	3,380	44,003	28,747	51,753	10,118	4,675	4,295	-10,788	**15,256**
Ghana	4,935	5,598	4,007	20,849	12,251	7,290	28,322	49,061	4,420	**15,193**
Angola	831	10,111	7,272	39,208	22,405	-44,857	5,774	16,449	63,755	**13,439**
Ethiopia	7,429	5,853	7,230	12,156	10,246	11,959	17,529	28,214	18,108	**13,192**
Republic of Congo	2,807	3,438	681	9,880	10,994	23,860	15,008	4,913	28,417	**11,111**
Tanzania	2,158	2,572	5,312	11,970	15,064	16,661	22,632	9,457	13,246	**11,008**

Source: Statistical Bulletin of China's Outward Foreign Direct Investment 2017.

According to the UNCTAD 2018 report, greenfield FDI in textiles, clothing, and leather has been relatively stable over the past few years, reaching $4 billion in 2017 or 20 times that in 2008 (UNCTAD, 2018: 9). Notably, investments in the manufacturing sector are important for SSA to diversify its economy because the manufacturing sector in SSA still represents a small part of total GDP[2]. Therefore, FDI is not only expected to sustain high investment rates but is also essential for knowledge and technology transfers in developing the manufacturing industry. Besides, in SSA, the informal sector contributed an estimated 55% of GDP and employed 80% of the workforce.[3] The development of manufacturing sector leads to provide new jobs for unemployed (skilled) workers and to transform from informal to formal enterprises.

Table 2 shows the 2017 top five industries for China's FDI to SSA. Investments in construction (29.8%), mining (22.5%), and manufacturing (14.0%) accounted for approximately 66% of total FDI in 2017. As Bräutigam (2009) has noted, the conventional wisdom about China's pessimistic impact on Africa's manufacturing sector may not capture the full reality of China's role in African manufacturing sector. A survey of 150 Chinese firms with overseas projects conducted by Bräutigam (2009) found that Africa accounted for nearly 20 percent of the projects; almost half of those were in manufacturing. Although the impact of competition with Chinese textile exports has been severe for African textile factories, at least until the global financial crisis hit in 2008, there was a silver lining in the rebound of some African garment exporters (Bräutigam, 2009: 190). Besides, in some regions, contacts between Chinese and African entrepreneurs have helped to catalyze and industrial transition.

Table 2 Top Five Industries for China's FDI in SSA, 2017

Industry	%
Construction	29.8%
Mining	22.5%
Manufacturing	14.0%
Finance	13.2%
Leasing and Business Services	5.3%
Others	15.2%
Total	**100.0%**

Source: Statistical Bulletin of China's Outward Foreign Direct Investment 2017.

2 The share of manufacturing sector (included South Africa) in total GDP in SSA was only 11.8% in 2011.

3 https://www.afdb.org/en/blogs/afdb-championing-inclusive-growth-across-africa/post/recognizing-africas-informal-sector-11645/ (cited 2019-02-20)

Investments from India are also significant. An analysis of the investment compositions of different African countries indicates that Mauritius, Liberia, Sudan, Libya, and South Africa have received the maximum FDI from India during the last seven years. Interestingly, the majority of Indian investments in Africa is directed to Mauritius, which accounts for approximately 19% of Indian FDI flows to the world (Chakrabarty, 2018).[4] Moreover, Mauritius alone has accounted for 86% of total Indian FDI to Africa during the last three years (Paul, 2014).

Importantly, Mauritius is also the largest investor in India and accounted for 33% of total FDI to India between 2000 and 2018.[5] Reportedly, India uses Mauritius as a transit point for FDI to other countries. In other words, India routes FDI through Mauritius because of the tax treaty between the two countries. In fact, the Mauritian government has signed tax treaties, such as Double Taxation Avoidance Agreements (DTAAs), with many countries to establish the investment platform as "the gateway" for investments in Africa. Till date, Mauritius has signed and ratified 49 agreements of which 18 are with African countries.[6]

In addition, Mauritius offers full protection of foreign investments to African countries through the Investment Promotion and Protection Agreements (IPPAs) network.[7] The IPPAs may have contributed to increasing the inflow of FDI into Mauritius and represent another tax treaty that Mauritius promotes. IPPAs are bilateral agreements between countries designed to promote and protect investors' interests from one country in the territory of the country from which the investment is being made. The IPPAs guarantee investments concerning expropriation and social unrest (Board of Investment Mauritius, 2014). They are expected to play a role in increasing investor confidence and the equitable protection of investments by minimizing the possibility of deprivation of investments. Mauritius has signed IPPAs with various African countries.

---

4 The total Indian FDI outflows to Africa accounted for about 21% of the total Indian investment outflows during the same period of time.

5 Ministry of Finance, India.

6 African countries and dates of signature of DTAAs in 2018: Botswana (1995), Gabon (2013), Kenya (2012), Lesotho (1997), Madagascar (1994), Mozambique (1997), Namibia (1995), Nigeria (2012), Republic of Congo (2010), Republic of Ghana (2017), Rwanda (2013), Senegal (2002), Seychelles (2005), South Africa (2013), Swaziland (1994), Uganda (2003), Zambia (2011), and Zimbabwe (1992). African countries and dates of signature of IPPAs in 2018: Burundi (2001), Madagascar (2004), Mozambique (1997), Sénégal (2002), South Africa (1998), Tanzania (2009), and Zambia (2015). Data were obtained from the Board of Investment, Mauritius, by the author.

7 African countries and dates of signature of IPPAs in 2018: Burundi (2001), Madagascar (2004), Mozambique (1997), Sénégal (2002), South Africa (1998), Tanzania (2009), and Zambia (2015).

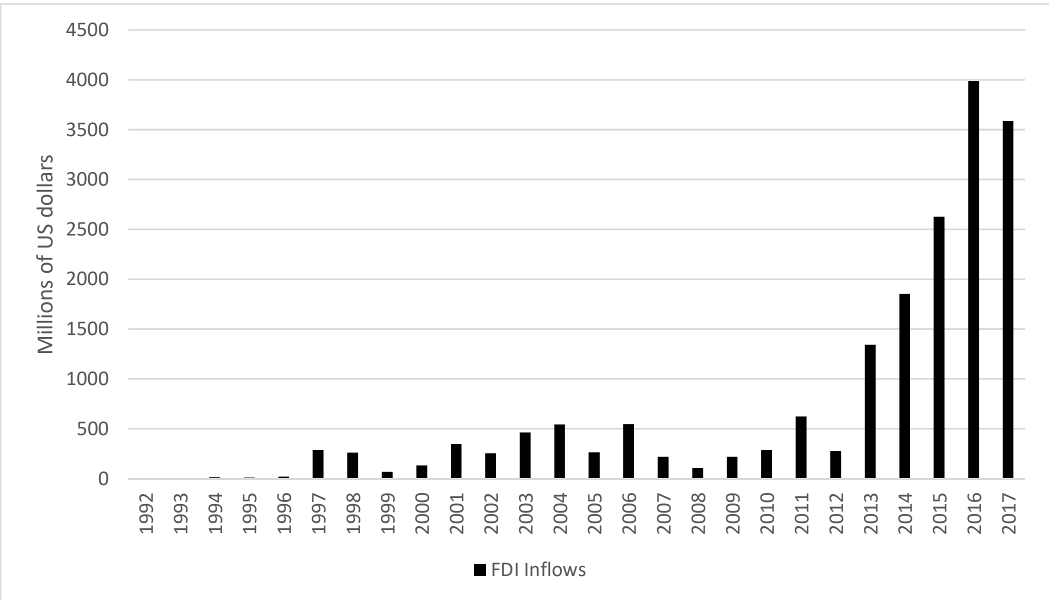
2. FDI flows by country

Although the inflows to SSA are concentrated in resource-rich countries, for some non-resource-rich countries, such as Ethiopia, Kenya, and Madagascar, FDI inflows increased in the past as we will see below.

2.1. FDI in Ethiopia

Ethiopia witnessed a dramatic increase in FDI from $278 million in 2012 to $3.5 billion in 2017, which is approximately 13 times in five years (Figure 4). After Egypt, Ethiopia is now the second largest recipient of FDI in the African continent (UNCTAD, 2018). Since Ethiopia issued its first investment proclamation in 1992, the country has attracted FDI inflows that reached $18 billion in 2017. Of the total investment in Ethiopia, 76% has been absorbed in the manufacturing sector during the last nine years. The textile and clothing, leather and footwear, food and beverages, paper, printing, and packaging subsectors have seen rapidly increasing FDI.

Figure 4. FDI Inflows to Ethiopia, 1992–2017 ($ million)



Source: UNCTAD, various years.

The top four countries that were the main investors and accounted for 91% of total FDI values in Ethiopia were as follows: 39.1% came from China, 27.6% from Saudi Arabia, 15.3% from Turkey, and 8.5% from India (Table 3). Numerous previous studies examined the determinants of FDI inflows to Ethiopia. In particular, Ethiopia's cheap and abundant labor, privileged access to high-income markets, and growing domestic and regional markets have been considered as the main determinants of attracting FDI (UNCTAD, 2018). Additionally, market size and potential, investment incentives, and political and social stability are important determinants for foreign investors when investing in Ethiopia (Teka, 2014).

Among these investors, China has been the main FDI partner. Compared with the number of projects, Chinese investment had 261 projects during 1992-2018. FDI inflows from China have been facilitated by strong political support from both governments. Whereas China has been seeking access to a supply of commodities in Ethiopia, the government has been very keen on learning from the East Asian development model and expects to learn much from China's experience during the past three decades to further its economic development (World Bank, 2012). According to a survey conducted by the World Bank, the main reasons Chinese investors to invest in Ethiopia are the low cost of labor and the local market obtained through social networking. Therefore, Chinese investors' better understanding of the Ethiopian investment climate and local situation might be crucially important.

Table 3 FDI Projects in Ethiopia by Country of Origin, 1992–2018

Rank	Country of Origin	Number of Projects	Capital ($US million)
1	China	261	1,871
2	Saudi Arabia	20	1,318
3	Turkey	24	729
4	India	66	407
5	USA	41	125
6	Sudan	114	86
7	Kuwait	4	72
8	Mauritius	2	58
9	Netherlands	15	55
10	Italy	17	54

Source: Ethiopia Investment Commission, Summary of Licensed Foreign Direct Investment Projects.

2.2. FDI in Kenya

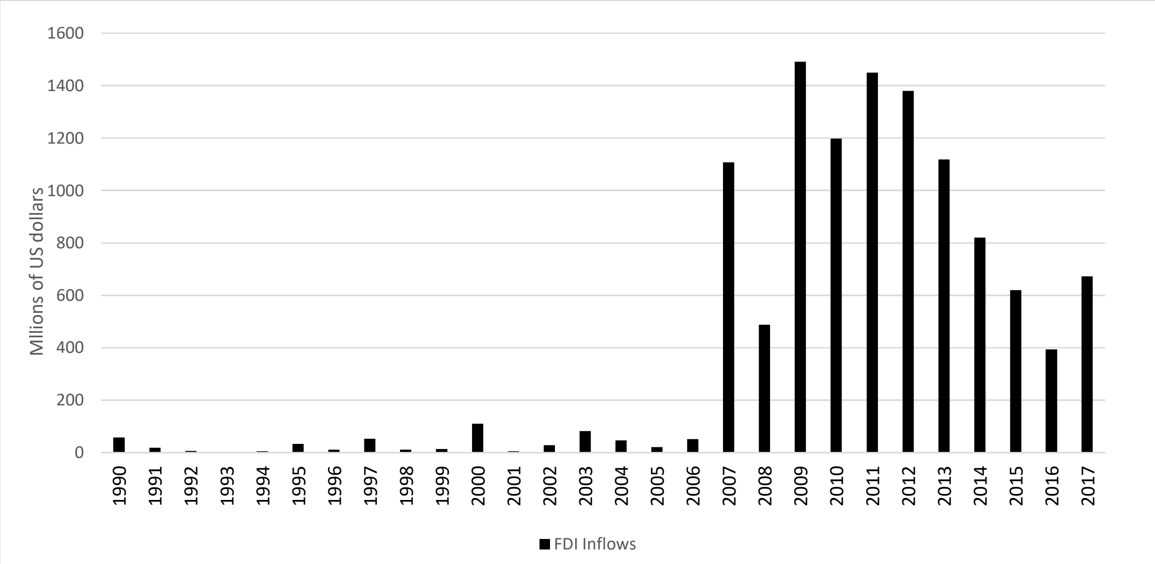
Kenya has attracted FDI since 2007 when a large privatization sales in the telecommunications industry and investments in railways implemented. Figure 5 shows the FDI inflows to Kenya from 1990 to 2017. As evidenced in this figure, FDI inflows to Kenya increased twentyfold—from $51 million to $1.1 billion between 2006 and 2017—but have decreased since 2009. According to Kinyanjui (2014), relatively low FDI in the Kenyan economy was attributed to the following: (1) infrastructure bottlenecks in both energy and roads have significantly constrained FDI; (2) Kenya's labor productivity has been declining in the recent past, whereas labor costs have been rising rapidly at the same time, relative to labor productivity; and (3) the regulatory environment in Kenya has been hostile to and has impeded FDI.

In contrast to Ethiopia, FDI inflows to Kenya have mainly been invested in the services sector and have far exceeded the manufacturing sector (in 2011, wholesale and retail trade: 19%, manufacturing: 14%, finance and insurance: 12%, electricity and gas: 10%, transportation and storage: 2%) (World Bank, 2012). The Kenyan government provided additional tax incentives to foreign investors to attract FDI inflows for a wide range of activities. Kenya received $671 million in FDI in 2017—an increase of 71% —especially inflows into ICT industries. According to UNCTAD, South African ICT investors continued to expand its markets share to Kenya (UNCTAD, 2017).

In contrast, according to the World Bank, FDI in the manufacturing sector has created jobs in low-skill sectors (during 2013–2014, food and beverages: 29%, motor vehicles and others: 21%, non-metallic mineral products: 17%, consumer products: 14%, electrical and electronic equipment: 8%, others: 10%) (World Bank, 2012).

Table 4 represents the top 10 FDI investment countries from 2012 to 2015. The findings indicate that China, UK, India, France, U.S., Japan, Mauritius, South Africa, United Arab Emirates, and Germany are the primary sources of FDI in Kenya. More importantly, the average investment inflows from China represented 17% of total FDI and far exceeded that from UK, the former colonial power.

Figure 5. FDI Inflows to Kenya, 1990–2017 ($ millions)



Source: UNCTAD, various years.

Table 4 FDI in Kenya by Country of Origin, 2012–2015

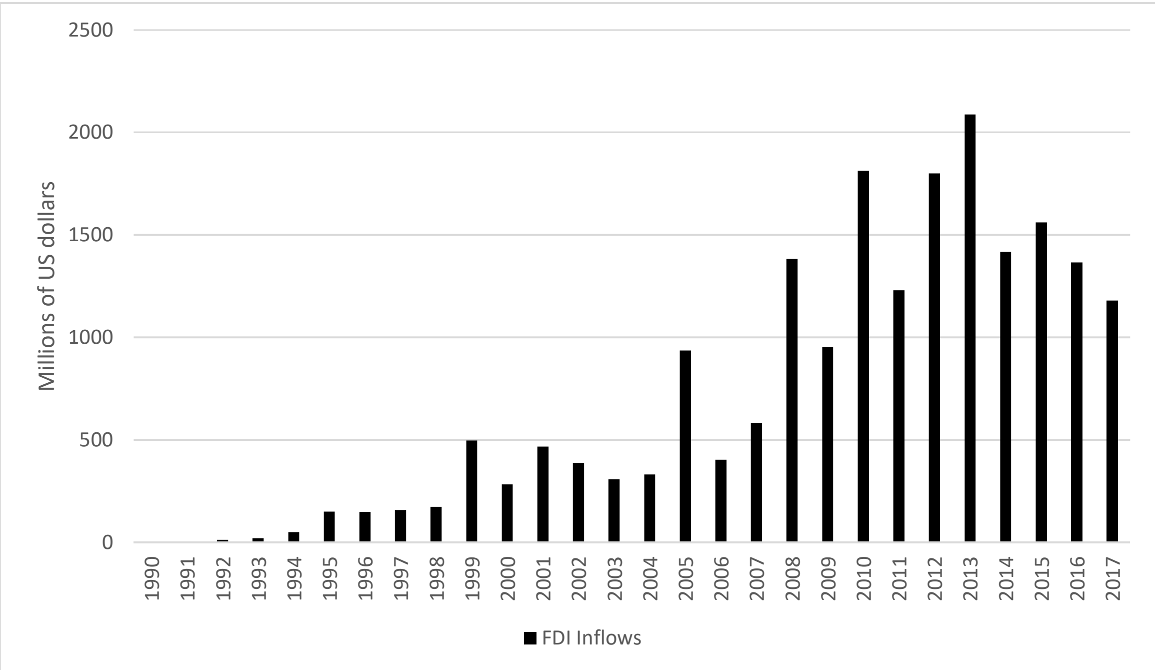
Rank	Country of Origin	Capital ($US million)	Share (%)
1	China	26,706	17%
2	United Kingdom	17,424	11%
3	India	14,635	9%
4	France	13,369	8%
5	United States	13,125	8%
6	Japan	10,757	7%
7	Mauritius	10,722	7%
8	South Africa	9,142	6%
9	United Arab Emirates	6,103	4%
10	Germany	5,167	3%

Source: Foreign Investment Survey 2015.
Note: Data represent average FDI inflows to Kenya from 2012 to 2015.

2.3. FDI in Tanzania

Tanzania has also attracted FDI since the late 2000s. During the past decade, FDI into Tanzania has been the highest on average within east Africa. The share of FDI to GDP was 6.3% during 2010–2013 (e.g., Uganda 5.18%, Ethiopia 1.39%, Rwanda 1.52%, and Kenya 0.67% in the same period). The mining sector has been the most significant investment sector in Tanzania, with a maximum FDI of $2.1 billion in 2013. However, since then, FDI inflows have declined. According to the UNCTAD report in 2018, foreign investors held back their investments because of policy changes in tax administration and mining royalties. The country adopted new mining laws, requiring—among other elements—that the government obtain at least a 16% stake in mining and energy projects.

Figure 6. FDI Inflows to Tanzania, 1990–2017 ($ million)



Source: UNCTAD, various years.

Table 5 shows the average FDI inflows from 2009 to 2013 to Tanzania by country of origin. The table indicates that a large share of FDI inflows to Tanzania is still concentrated from a few countries, such as Canada (23%), South Africa (22%), and UK (21%). At the same time, investments from SSA countries (South Africa, Kenya, Mauritius, and Botswana) were significant capital resources that represented 30% of total FDI inflows.

In Tanzania, although manufacturing is not always the largest sector for capital investments, it has generated the largest number of jobs in the non-resource sector. According to the most recent FDI data (2013–2014), the manufacturing sector in Tanzania accounted for 43% of total jobs created, three times more than the jobs created in agriculture (World Bank, 2018). In particular, investors from SSA, such as Kenya and South Africa, contributed to investments in the non-resource sector. Investments from Kenya were mainly in manufacturing (55.4%) and finance and insurance (26.6%). South Africa was more focused on information and communication.[8] However, the World Bank (2018) reported that formal training remains insufficient in manufacturing firms.

Furthermore, investment climate factors appear to relate to infrastructure. For example, foreign manufacturing firms identified electricity as the major constraint for its operations. During the past five years, several Chinese textile companies in Tanzania were forced to shut down owing to electricity issues, thereby resulting into the loss of 7.3% of annual sales of the textile and garment industries in the country. An enterprise survey conducted in 2015 in east African countries (Ethiopia, Kenya, Rwanda, Tanzania, and Uganda) showed that Tanzania ranked worst in the number of electrical outages in a typical month (World Bank, 2018).

Table 5 Average FDI Inflows to Tanzania by Country of Origin, 2009–2013

Rank	Country of Origin	Capital ($US million)	Share (%)
1	Canada	357	23%
2	South Africa	347	22%
3	United Kingdom	340	21%
4	Kenya	105	7%
5	Netherlands	98	6%
6	Switzerland	89	6%
7	US	77	5%
8	Mauritius	57	4%
9	France	27	2%
10	Botsuwana	16	1%

Source: Tanzania Investment Report 2014 Foreign Private Investment.

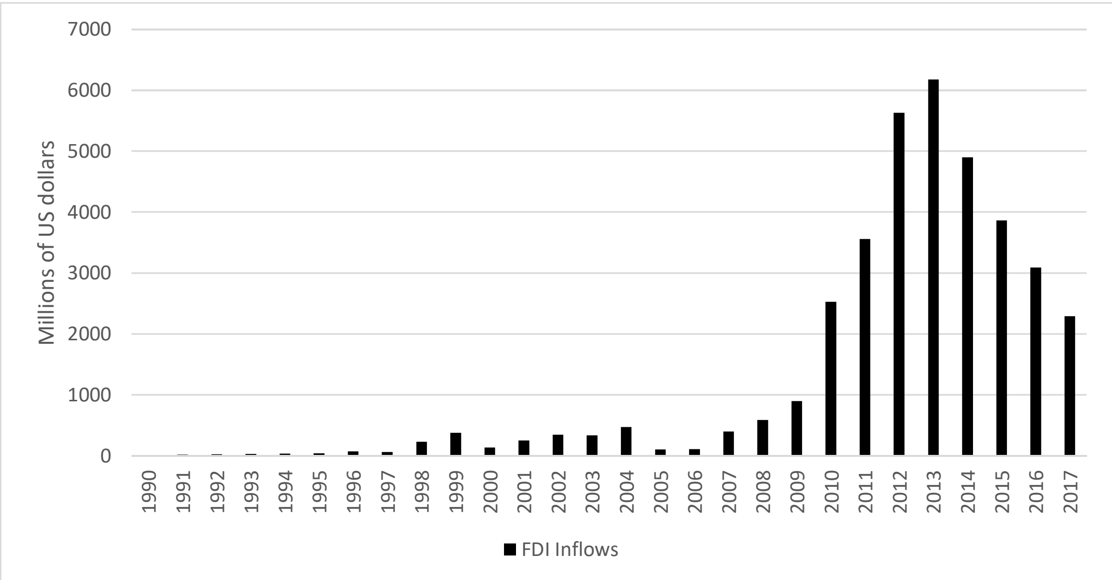
8 Tanzania Investment Report 2014 Foreign Private Investment.

2.4. FDI in Mozambique

The Mozambican government has focused on FDI with a strategic role in maintaining high economic growth. The leading investors in Mozambique were Brazil (25.2%), U.S. (17.8%), Australia (12.5%), Italy (12.4%), Mauritius (9.2%), and India (8%); they seemed to be associated with the entry of FDI into Rovuma natural gas exploration and the exploration of Tete mineral coal operated by multinationals. In 2014, 62% of FDI inflows to Mozambique were absorbed into extractive industries such as coal, oil, gas, and minerals (Mucanze, 2016). However, some criticism was that, despite high economic growth, the massive FDI flows had not generated new jobs, and the wealth generated within the enclave extractive sector was repatriated with many tax incentives (Mucanze, 2016).

Alarmingly, UNCTAD reported that FDI in Mozambique severely contracted by 26% to \$2.3 billion in 2018 amid austerity and debt defaults (UNCTAD, 2018). Thus, high dependence on one or a few export commodities leaves Mozambique's economy extremely vulnerable and less resilient. This situation implies that, although primary commodity exports provide governments with a relatively easy source of tax revenues—unless the profits are reinvested to advance domestic development—massive FDI flows seem unable to generate wealth for the recipient country.

Figure 7. FDI Inflows to Mozambique, 1990–2017 (\$ million)



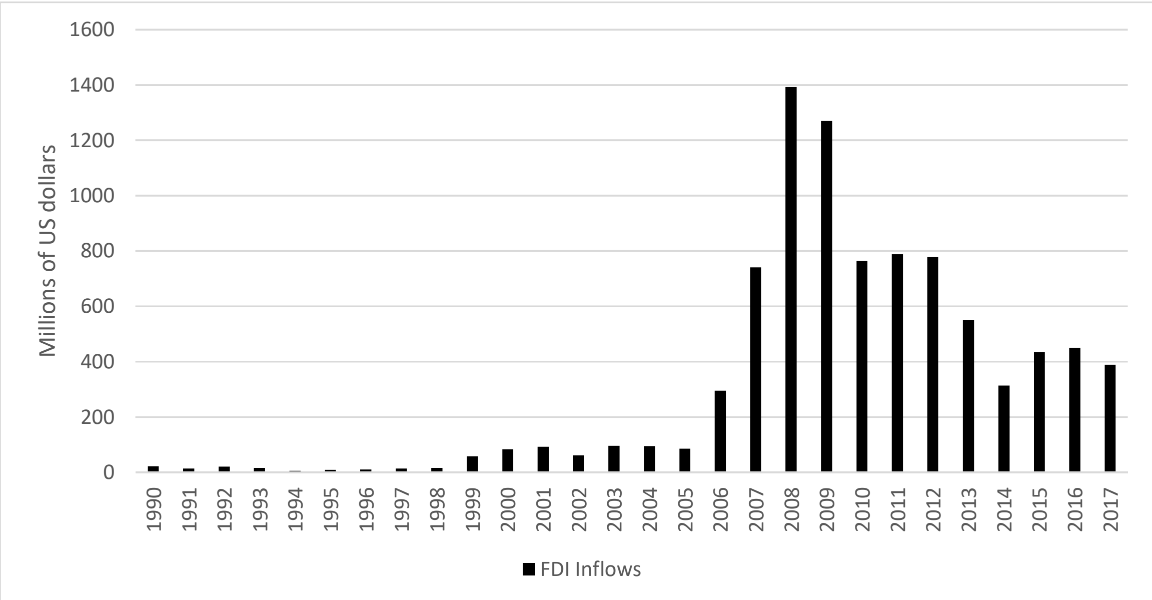
Source: UNCTAD, various years.

2.5. FDI in Madagascar

The FDI inflows into Madagascar have decreased sharply since the global financial crisis in 2008 (Figure 8); the share in SSA represented only 1.3% in 2017. Between 2009 and 2013, Madagascar experienced a major political crisis that crossed the country, resulting in extreme diplomatic isolation and a politically uncertain situation. Thus, in addition to the poor quality and the high infrastructure cost, political instability is a significant obstacle that has caused public investments to be blocked and a large number of investors to leave.[9]

In Madagascar, the EPZ was established in 1989 to provide various incentives to investors, such as tax holidays for 2–10 years following the initial investment and to establish customs duties exemptions for all exports and imports as well as the free transfer of funds abroad, depending on the firm type. Following the setup of the EPZ, the *Espace des Promotions des Investissements* was established in 1999 to provide free assistance to investors with advice on investment conditions, market potential, prospective local partners, and legal and financial issues.

Figure 8. FDI Inflows to Madagascar, 1990–2017 ($ million)



Source: UNCTAD, various years.

9 According to the World Bank's Doing Business 2018 ranking, Madagascar ranks 162 of 190.

Madagascar has attracted investments in the clothing and textile industries from garment firms in Mauritius, France, and Asian countries under the multi-fiber agreement and in the U.S. market under the African Growth and Opportunity Act (AGOA) preferential scheme. This preferential access was crucial to substantial FDI flows into the Madagascar EPZ. The majority of capital invested in EPZ is related to the garment industry (Fukunishi and Ramiarison, 2010). According to a survey by Fukunishi and Ramiarison (2012) regarding the origin of foreign firms, Mauritius accounted for the largest share, followed by France. Thus, these two countries dominated the scene with approximately 56% of foreign firms. Moreover, Madagascar became the second largest garment exporter in SSA, closely following Mauritius (Fukunishi and Ramiarison, 2012). In addition to the availability of low-cost labor, the provision of preferential access to the U.S. market by the AGOA and the proximity to Mauritius further accelerated the shifting of factories to Madagascar by garment firms in Mauritius since the 1990s (Fukunishi and Ramiarison, 2010; 2014).

It is noteworthy that the intraregional FDI by Mauritius is in the manufacturing sector rather than in extractive industries, which suggests that intraregional FDI are more likely to be driven by market- and efficiency-seeking intents rather than natural, resource-led intents. This suggestion is reflected in the pattern of these investments, which are attracted by large markets, proximity markets, or neighboring countries (Dunne and Kargbo, 2015).

Table 6 represents the average FDI inflows to Madagascar by country of origin from 2007 to 2012. During the year, the top five investor countries were Canada, U.S., Japan, Mauritius, and France. According to a 2012 report, these countries operate in large mining projects, financial activities, telecommunications, and manufacturing activities for 13 main investment projects in the extractive sector. Moreover, the second investment destination was telecommunications, which represented 41% of FDI flows. Next, transportation (5%) and real estate, rent, and business services (4%) were subsequent destinations for Mauritian investors. Thus, almost all of Canada's direct investment flows to Madagascar were concentrated in extractive activities.

Although the average share of Chinese FDI to Madagascar was only 1% of total FDI inflows, the inflows are noted as having virtually increased since 2010 and were 7.6% in 2010, 7.9% in 2011, and 4.4% in 2012. In 2012, FDI inflows from China were concentrated in the "manufacturing activities," "extractive activities," and "trade" divisions.

Table 6 Average FDI Inflows to Madagascar by Country of Origin, 2007–2012

Rank	Country of Origin	Capital ($US million)	Share (%)
1	Canada	602	22.0%
2	United Kingdom	421	4.6%
3	Japan	313	3.4%
4	Mauritius	268	2.9%
5	France	258	2.8%
6	South Korea	255	2.8%
7	China	82	0.9%
8	United States	77	0.8%
9	Italy	75	0.8%
10	Hong Kong	35	0.1%

Source: Etude sur les Investissements Directs Etrangers à Madagascar, various years.

2.6. FDI in Mauritius

Since the 1970s and after setting up an EPZ in 1970, Mauritius has attracted FDI using many investment incentives. In the 1960s, the economy was hugely dependent on sugar exports, with sugar export value comprising more than 90% of total export value. At the time of the country's independence in 1968, the unemployment rate was high, and creating new jobs only through the sugar industry was challenging. The Mauritian government implemented an export-oriented strategy to diversify its economy by setting up an EPZ in 1970 to attract FDI. After the EPZ was set up, the availability of cheap, literate, and skilled labor, fiscal and financial incentives, and infrastructure facilities all led to a massive flow of FDI (Durbarry, 2001). FDI increased substantially from Rs.19 million in 1983 to Rs.68 million in 1984. After Mauritius achieved full employment in 1985, FDI reached Rs.298 million in 1989.

In particular, textile apparel was the main industry in the EPZ. Thus, Mauritius changed its economic structure from a mono-export economy based on sugar to an industrializing economy and was recognized as a "miracle" (World Bank, 1989). Interestingly, according to a survey by the author on the sources and ownership of local capital in the early stages of industrialization, more than 40% of the total capital in the EPZ came from local investors[10]. This fact is quite remarkable when compared with local investor participation in the EPZ in other late-starting industrialization economies. Since the 1990s, however, nominal wages labor unit costs have increased considerably. Textile firms have started to relocate their factories in neighboring countries, such as Madagascar and Mozambique, which have lower labor costs, as was observed in Madagascar.

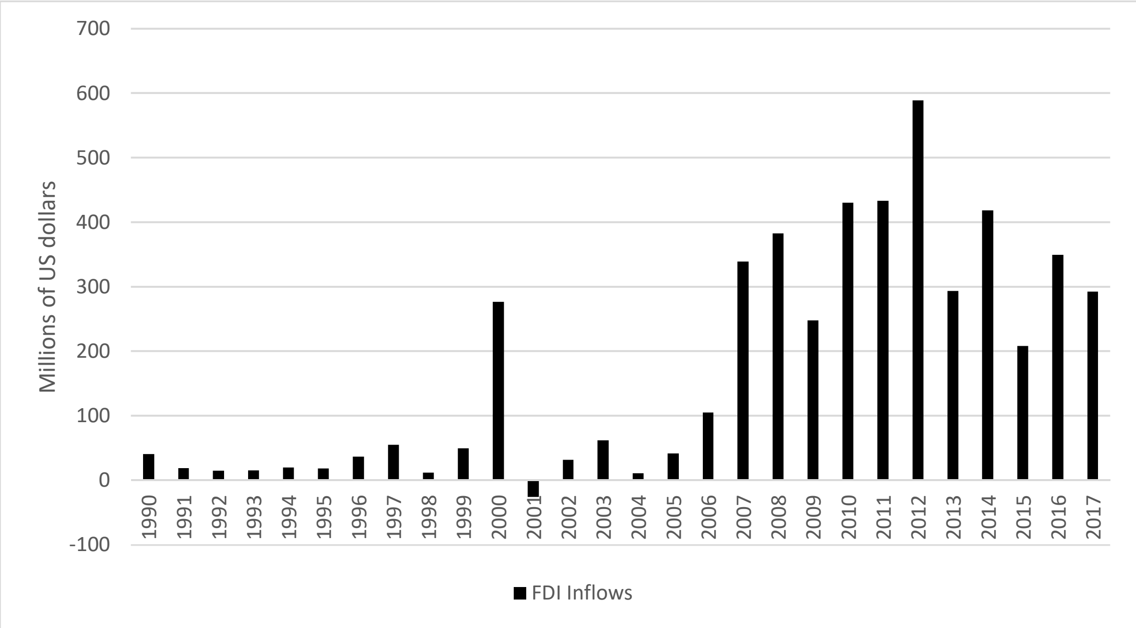
After Mauritius achieved its industrialization, the country transformed its economy into a regional center with sectors as the "fourth pillar" of economic development after sugar, tourism, and the EPZ. Therefore, Mauritius has attracted the majority of services and financial FDI projects. As previously discussed, Mauritius has also been a primary investor among SSA countries, possibly attributed to the fact that Mauritius has signed tax treaties with other SSA countries with some preferential access to the African region, including COMESA and SADC. Also discussed was that Mauritius hosts most holding companies even though the ultimate controlling companies are not based in the country. For example, Indian FDI tends to be channeled through Mauritius (World Bank, 2012: 31).

In contrast, recent FDI flows to Mauritius—the largest FDI host in the region—declined to 16% given the slowdown in integrated resort and property development projects (Figure 9). Figure 10 shows FDI inflows to Mauritius from 1990 to 2017.[11] Historically, European countries, such as UK and France, have been the principal investors in the country. Those two countries were former colonial powers. The next largest geographical origin investors are Asia and the Oceanian countries; in particular, China and India are the main investor countries. Among African countries, South Africa is the leading investor in Mauritius.

[10] The data used here was gathered as part of author's doctoral study which explored Mauritian economic history focusing on the early stage of its industrialization.

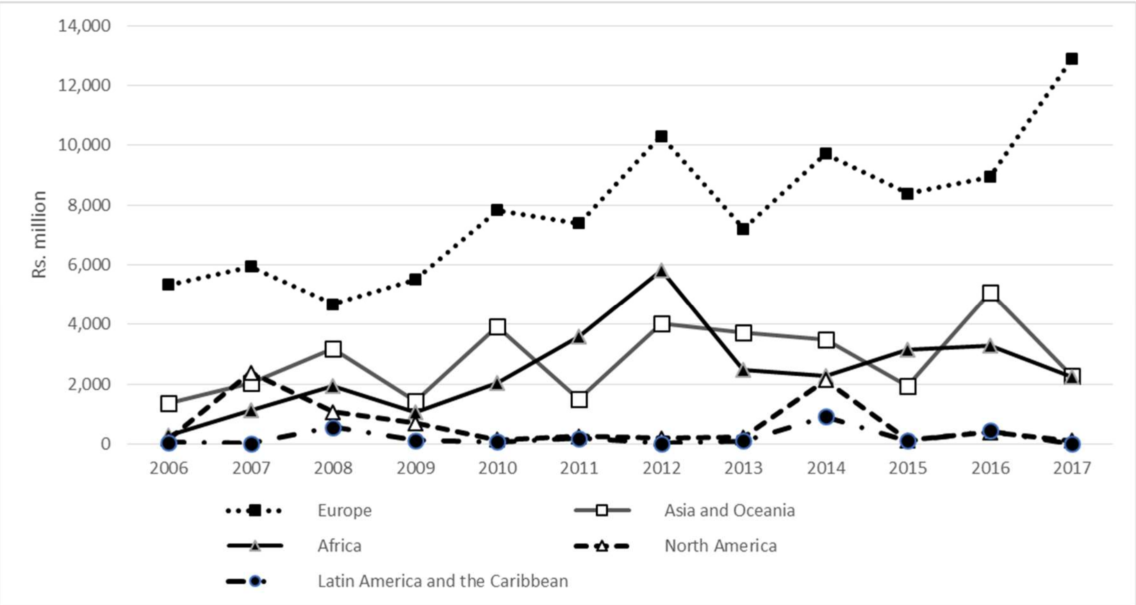
[11] For Mauritius, no data exist regarding FDI inflows categorized by country of origin.

Figure 9. FDI Inflows to Mauritius, 1990–2017 ($ million)



Source: UNCTAD, various years.

Figure 10. FDI in Mauritius by Geographical Origin, 2006–2017



Source: Bank of Mauritius, Monthly Statistical Bulletin, various years.

3. Conclusion

As has been observed, although SSA countries have attracted massive FDI inflows during the past two decades, these inflows have been mainly concentrated on resource-rich countries. Moreover, investments in SSA seem to have been shrinking because of recent weak oil prices and lingering effects from the commodity bust. Therefore, excessive dependence on external capital will lead to greater vulnerability to external sources of uncertainty. Therefore, resource-rich countries need to reap benefits from FDI and foster linkages to diversify their economies. To address this issue, the development of the financial sector is also crucial to control capital flight, mobilize local capital, and allocate capital to growth sectors, such as manufacturing.

In contrast, FDI inflows to non-resource exporters such as Ethiopia, Kenya, Madagascar, and Mauritius were relatively more resilient. Although these countries are exceptional cases in SSA, they successfully reaped benefits from FDI. The FDI to these countries has contributed to the economy and has created formal employment opportunities. Other characteristic feature of these countries is the relatively significant development of local capital and enterprises.

As discussed above, in SSA the informal sector is still large and its contribution to the economy is even growing because of the high youth unemployment, rapidly growing labor force etc. Despite the critical role played by the informal sector, it is challenging for employers in informal sector to absorb the new skills, technology, and knowledge with numerous constraints that include unfavorable policy. Therefore, unless the informal sector develops, the technology gap and or the other caps discussed in the Introduction will not shrink and domestic firms will not easily absorb the knowledge available from multinational companies. Many African countries have attracted FDI inflows since the 2000s. Meanwhile, fostering local firms and human resources to reap the benefits from FDI will probably be the next challenge for many SSA countries.

Reference

Adjasi, Charles. K. D., Joshua Abor, Kofi A. Osei, and Ernestine E. Nyavor-Foli. 2012. "FDI and economic activity in Africa: The role of local financial markets." *Thunderbird International Business Review.* 54 (4): 429-439.

Alfaro, Laura. 2003. "Foreign Direct Investment and Growth: Does the Sector Matter?." *Working Paper*, Harvard Business School.

Ancharaz, Vinaye D. 2003. "Determinants of Trade Policy Reform in Sub-Saharan

Africa.” *Journal of African Economies.* 12 (3): 417-443.

Banque Centrale de Madagascar. 2014. *Etude sur les Investissements Directs Etrangers à Madagascar*.

Board of Investment Mauritius. 2014. *Mauritius: International Financial Centre*. Board of Investment Mauritius.

Brautigam, Deborah. 2009. *The dragon's gift: the real story of China in Africa*, Oxford University Press.

Chakrabarty, Malancha. 2018. *Indian Investments in Africa: Scale, Trends, and Policy Recommendations*. Observer Research Foundation.

Dunne, J. P., & Kargbo, S. M. 2015. Intraregional and Interregional FDI in Africa: Market-driven, Natural Resources or Efficiency-Seeking?

Durbarry, R. 2001. The export processing zone. *2001), The Mauritian Economy: A Reader,* Palgrave, London, 105-130.

Fukunishi, T., & Ramiarison, H. A. 2010. "Linkages between Foreign and Local Firms in the Malagasy Garment Industry: Overview of the industry and analytical framework.” *African Producers in the New Trend of Globalization: An Interim Report, Chosakenyu Hokokusho:* Institute of Developing Economies.

Fukunishi, T., & Ramiarison, H. A. 2012. "Madagascar’s garment industry: Success of Africa’s garment exports?.” *Dynamics of the Garment Industry in Low-Income Countries: Experience of Asia and Africa (Interim Report)*.

Fukunishi, T., & Ramiarison, H. A. 2014. "The Export-Oriented Garment Industry in Madagascar: Implications of Foreign Direct Investment for the Local Economy." In: *Delivering Sustainable Growth in Africa.* pp. 135-173. Palgrave Macmillan, London.

Kinunda-Rutashobya, Lettice. 2003. "Exploring the potentialities of export processing free zones (EPZs) for economic development in Africa: lessons from Mauritius." *Management Decision.* 41 (3): 226-232.

Kinyanjui, Solomon. 2014. "The impact of terrorism on foreign direct investment in Kenya." *International Journal of Business Administration* 5.3: 148-157.

Krause, Matthias, and Friedrich Kaufmann. 2011. *Industrial policy in Mozambique*. Bonn: German Development Institute.

Mucanze, A.Nelson. 2016. *INVESTIMENTO DIRETO ESTRANGEIRO EM MOÇAMBIQUE: ASPECTOS POSITIVOS E NEGATIVOS,* ARARAQUARA–S.P.

Paul, A. 2014. Indian Foreign direct investment: A way to Africa. *Procedia-Social and Behavioral Sciences*, *157*, 183-195.

Sharma, Basu, and Joe Abekah. 2007. "Foreign Direct Investment and Economic Growth of Selected African and South American Countries." *International Trade and Finance Association Conference Papers*.

Shen, Xiaofang. 2013. *Private Chinese Investment in Africa: Myths and Realities*. Washington, D.C.: The World Bank.

Teka, Henok Gebremedhin. 2012. "Determinants and Impediments of Foreign Direct Investment (FDI) inflows in Ethiopia: A Firm Level Investigation." *SSRN Electronic Journal.*

Todaro, Michael P., and Stephen C. Smith. 2011. *Economic development*. Harlow: Pearson Educational Ltd.

United Nations Conference on Trade and Development. 2017. *World investment report 2017: investment and the digital economy*. New York: United Nations.

United Nations Conference on Trade and Development. 2018. *World investment report 2018: investment and the digital economy*. New York: United Nations.

World Bank (1989) Mauritius, Managing Success, The World Bank.

World Bank. 2012. *Chinese FDI in Ethiopia A World Bank Survey*. Washington, D.C.: The World Bank.

World Bank. 2018. *Manufacturing FDI in sub-Saharan Africa: Trends, Determinants, and Impact*. Washington, D.C.: The World Bank.