International Trade with Special Emphasis to FDI Issues in Africa

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Abstract--- *International trade results in an increase in efficiency and also allow countries to participate in a global economy, encouraging the opportunity of foreign direct investment (FDI). FDI plays an important role in bringing growth opportunities such as technology transfer, export development, job and skill creation in host countries. There are a number of factors come into play to determine the growth and development effect of FDI.*

In Africa FDI flow has grown dramatically as a major form of international capital transfer over the past three decades. However, there is a big difference among sub-regions of Africa on the pace of growth and investment share. Due to these, this study was necessary to assess some of the reputed practices of selected African countries FDI policies and their strategies. The study focused on members of Common Market for Eastern and South Africa (COMESA) Countries were selected. From which Ethiopia from Horn of Africa, Egypt from North Africa, Madagascar from Indian Ocean, Uganda from African Great Lakes, Zambia from Southern Africa and South Sudan from Central Africa were selected for discussion due to their high share in FDI inflow.

Secondary data had been employed. The study found that Northern and Western sub-region of Africa exhibited the highest FDI inflow against the rest of African sub-regions. Majority of successful African countries in FDI inflow is mainly because, their focus is targeted on addressing on the major constraints of their county and providing priority and incentives to foreign investors to come up with solution to the existing economic, technological and managerial scenario. Accordingly, in order to exhibit substantial improvement in the share of FDI flow to Africa, recommendations and policy implications have been drown.

Key Words--- *Africa, COMESA, FDI, Foreign Investor, International Trade*

I. Introduction

COUNTRIES involved in international trade particularly in FDI, would gain several advantages like international specialisation and geographical division of labour which will lead to optimum allocation of world resources. It also helps to increase in the exchangeable value of possessions, means of enjoyment, wealth of each country involved in the FDI transaction and widens the size of market and reduce the risks involved in huge investments undertaken for the growth of home industries. It also enlarges the scope for large-scale production. FDI refers to investment in a foreign country where the investors retain control over the investment. It plays an important role in bringing growth opportunities such as technology transfer, export development, job and skill creation in host countries. A number of factors come in to play to determine the growth and development effect of FDI. FDI refers to investment in a foreign country where the investors retain control over the investment [2].

FDI provides a means for creating direct, stable and long-lasting links between economies. Under the right policy environment, it can serve as an important vehicle for local enterprise development and it may also help to improve the competitive position of both the recipient and the investing economy. In particular, FDI encourages the transfer of technology and know-how between economies. It also provides an opportunity for the host economy to promote its products more widely in international markets. FDI, in addition to its positive effect on the development of International trade is an important source of capital for a range of host and home economies [7].

According to the reference number, as in [18], the top ten best overall ranked African countries in FDI attraction on the basis of Infrastructure, Economic potential, Business Friendliness, quality of life, FDI strategy, Human resource and best Effectiveness) are Morocco, South Africa, Mauritius, Egypt, Ghana, Seychelles, Tunisia, Namibia, Ethiopia and Kenya. Even though, there are a number of positive but little-known facts about Africa, such as the considerable improvement by African countries of their FDI policy frameworks and strategies. As much as it is true that some African countries have been characterized by economic depression, military conflicts, unstable political regimes and mounting social and health problems, it is also true that there have been some positive developments in Africa that are highly relevant for foreign direct investors but that are seldom reported and not widely known [12].

Like any other region in the world, Africa deserves to be looked at in a differentiated way. Africa, a continent consisting of over 50 countries around a quarter of the nation States of the world having their own different political systems, economic and human development and, last but not least, their attractiveness as locations for FDI. There is, then, a need to take a closer and differentiated look at the conditions and opportunities for FDI in Africa. A number of African countries have initiated economic reforms aimed at increasing the role of the private sector, for example by privatizing State-

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owned enterprises. In addition, they have taken steps to restore and maintain macroeconomic stability through the devaluation of overvalued national currencies and the reduction of inflation rates and budget deficits [11]. As part of these reforms, most African countries implemented economic reforms aimed at increasing the role of the private sector and also improved their regulatory frameworks for FDI, making them far more open, permitting profit repatriation and providing tax and other incentives to attract investment. It is worthy to mention that, the least known fact about FDI in Africa is that the profitability of foreign affiliates of transnational companies in Africa has been high, and also it has been consistently higher than in most other host regions of the world [12].

In order to exhibit a remarkable increase in the share of FDI flow and the benefit derived from it to Africa, assessing the experience FDI strategies and investment framework of successful African countries is vital. It is the researchers believe, FDI will be a crucial catalyst in boosting African economic growth on a sustained basis. The study will contribute for policy makers as an input in dealing with the challenges of international trade in the global markets & to develop FDI policies which can excel the share of FDI flow to African countries.

II. Statement of the Problem

Africa accommodates a number of developing countries and the implementation of FDI is lagging. According to a study conducted by the reference number, as in [9], shows that for the past three decades (1980 to 2009) Africa accounts the lowest percentage share of FDI flow compared with some of the developing economies of the world like developing economies of Asia accounted 0.92%, developing economies of America 0.52%, whereas, developing economies of Africa accounted only 0.19 percent.

III. Objective of the Study

To assess FDI policies and strategies employed by selected African countries and suggest investment policy.

IV. Methodology of the Study

The study assessed the general trends on the share of FDI flows to the five African sub regions viz., Eastern, Western, Southern, Northern and Middle Africa. FDI flows to Africa for the past three decades (1981-2010). Secondary data were employed for the study. Africa comprised of more than 50 countries however, the discussion of the present study focused on the trends of FDI inflow to Common Market for Eastern and South Africa (COMESA) member African countries and their successful FDI strategies. COMESA consists of 19 countries from Horn of Africa (Djibouti, Eritrea and Ethiopia), from North Africa (Egypt, Libya and Sudan), from Indian Ocean (Comoros, Madagascar, Mauritius and Seychelles) from African Great Lakes (Burundi, Kenya, Malawi, Rwanda and Uganda), from Southern Africa (Swaziland, Zambia and Zimbabwe), from Central Africa (Democratic Republic of the Congo and South Sudan) former member countries of COMESA (Lesotho, Mozambique, Tanzania, Namibia and Angola). Since COMESA is comprised of member countries from the Horn of Africa, North Africa, African Great Lakes, Indian Ocean, Southern Africa and Central Africa. Out of which six top FDI destination COMESA member countries from each region were selected. Ethiopia from Horn of Africa, Egypt from North Africa, Madagascar from Indian Ocean, Uganda from African Great Lakes, Zambia from Southern Africa and South Sudan from Central Africa were selected for discussion.

V. Results and Discussion

The analysis of this study addressed the trends of foreign investor attraction by African countries for the past three decades (1981 to 2010) particularly member of COMESA countries; Ethiopia from Horn of Africa, Egypt from North Africa, Madagascar from Indian Ocean, Uganda from African Great Lakes, Zambia from Southern Africa and South Sudan from Central Africa.

Table 1: FDI Inward Flow to African Sub-Region

	Total FDI inward flow to African Sub-regions as used by the United Nations when categorising Geographic sub-regions and percentage share of the sub-region for the past three decades in US Dollar in Millions.							
Sub-regions	From 1981 to 1990		From 1991 to 2000		From 2001 to 2010		1981-2010	
Eastern Africa	1801.26	6.93%	8860.42	11.43%	39410.09	10.99%	50071.76	10.84%
Middle Africa	2973.44	11.44%	9169.52	11.83%	50363.53	14.05%	62506.48	13.53%
Northern Africa	10398.12	40.01%	23890.42	30.83%	142176.75	39.66%	176465.3	38.20%
Southern Africa	1348.92	5.19%	11829.79	15.27%	50052.50	13.96%	63231.21	13.69%
Western Africa	9467.61	36.43%	23745.08	30.64%	76472.28	21.33%	109685	23.74%
Africa	25989.35	100.%	77495.23	100%	358475.14	100%	461959.7	100%

Source: Compiled from UNCTAD statistics

From the year 1981 to 1990 the Northern sub-region of Africa took the leading position in attracting foreign investors followed by western African then Middle Africa and during this time southern Africa and East Africa accounts the lowest share of inward FDI flow.

In the following decade (1990-2000) FDI inflow to Africa accounted a total of US$ 77495.23 million. North lead the rest with a total FDI inflow of US$ 23890.42 million representing 30.83% of Africa followed by Western Africa US$ 23745.08 million (30.64%), Middle Africa US$ 9169.52 million (11.83%), Southern Africa US$ 11829.79 million (15.27%) and Eastern Africa US$ 8860.42 million (11.43%).

Recently, from the year 2001-2010 similar trend has been exhibited as of the previous decade being Northern sub-region of Africa the top FDI destination followed by Western Africa with a total FDI inflow of 142176.75 (39.66%) and 76472.28 (21.33%) respectively. During this period, Middle sub-region of Africa became the third top FDI inflow destination followed by Southern and Eastern sub-region of Africa with a share of US$50363.53 (14.05%), US$ 50052.50 (13.96%) and US$39410.09 (10.99%) respectively.

Generally for the past three decades (1981-22010) the flow of FDI to Africa was mainly targeted to North and Western sub region with a share of US$176465.3(38.20%) and US$109685 (23.74%) followed by southern sub-region, Middle and Eastern sub-region of Africa with a share of US$ 63231.21(13.69%), 62506.48(13.53%) and 50071.76 10.84%) respectively from FDI inflow to Africa.

Table 2: FDI Inward Flow to COMESA Region From 1981-2010

(US Dollars at Nominal prices in millions)

Name of the county	**1981-1990**	**1991-2000**	**2001-2010**	**1980-2010**	**Percentage share from FDI flow to Africa**
Egypt	8782.17	8546.6	53139.9	70468.67	16.00
Sudan (…2011)	26.34	1342.5	18892.16	20260.99	4.60
Libya	-1252.719	-206.5	15863	14403.74	3.27
Zambia	657.49	1310.5	6814	8782.03	1.99
Dem. Rep. of the Congo	-162.83	119.61	8415.7	8372.48	1.90
Uganda	-4.95	987.93	4764.434	5747.41	1.30
Madagascar	66.84	247	4594.444	4908.28	1.11
Ethiopia	14.8	816.73	3265.14	4096.67	0.93
Mauritius	142.06	515.73	1626.34	2284.13	0.52
Kenya	282.28	263.37	1351.573	1897.23	0.43
Zimbabwe	90.8	961	576.4	1628.20	0.37
Seychelles	130.11	333.47	1086.492	1550.08	0.35
Swaziland	284.01	713.81	550.7616	1548.58	0.35
Malawi	84.67	143.74	674.2972	902.70	0.20
Djibouti	2.54	26.685	740.8128	770.04	0.17
Rwanda	158.92	39.671	425.06	623.65	0.14
Eritrea	0	337.42	100.9322	438.35	0.10
Comoros	15.13	3.596	34.46248	53.19	0.01
Burundi	23.68	16.611	6.113944	46.40	0.01
Africa				440525.594	100.00

Source: Compiled from UNCTAD statistics

FDI strategies adopted by selected successful African countries among COMESA member

Ethiopia from the Horn of Africa

Ethiopia Issued Investment Proclamation no. 15/1992 and Investment Proclamation no. 280/2002 which brought several investment strategies and incentives that can boost investors' confidence. Therefore, the introduction of those investment proclamations several changes have been introduced like reducing the minimum investment capital required for foreign investors, allowing foreign investor to be treated as domestic investor, the right to own a dwelling house and other immovable property required for his investment and allowing investors to employ duly qualified expatriate experts required for the operation of their business (Ethiopian Investment Authority, 2008). According to Ethiopia Investment Agency (2013), incentives were granted both for domestic and foreign investors in order to encourage private investment and to promote the inflow of foreign capital and technologies to Ethiopia like: exemption from payment of export custom duties, income tax holidays from 2 to 7 years depending on the region and the sector of the investment. All imported capital goods and spare parts worth up to 15% of the value of the capital good are exempted from import tariffs and custom duties provided, the imported capital goods are not produced and are not available locally in comparable quantity, quality and price. Additionally, investor is entitled to have deduction of his expenses incurred for research, improvement studies or training from his taxable income.

Foreign investors can carry forward their initial operating losses and apply any depreciation methods for their financial statement. Besides, all foreign investors are exempted from profit tax for two years and also extended to 5 years for investors exporting at least 50% of their product and supply 75% of their product as input to exporters. With regards investment guarantees, the investment code provides guarantee for repatriation of capital, interest payments on foreign loans, profit, dividends, asset sell proceeds and technology transfer payments. Except in major cases of public interest, the investment code also provides guarantee against expropriation [4]. These all leads Ethiopia to emanate a sound competitive advantage in FDI attraction with elements of enabling environment in the horn of Africa.

A study by conducted by the reference number, as in [18], Ethiopia is one among the top ten best overall ranked African countries in FDI attraction on the basis of Infrastructure, Economic potential, Business Friendliness, quality of life, FDI strategy, Human resource and best Effectiveness.

A Study by the reference number, as in [8], assessed the determinants of FDI in Ethiopia and found that, political stability of the country became the main determinant variable responsible for the success behind FDI flow to Ethiopia.

Egypt from North Africa

It is worthy to mention that, almost all North African countries except Sudan were middle income and politically stable countries. All countries in the sub-region are also oil-exporting countries. In addition to this, North sub-region of African countries has concluded a large number of bilateral investment treaties to provide a more secure environment for foreign investors. Egypt, Morocco and Tunisia are the only Africa countries in the list of top 50 countries signing greatest number of bilateral investment treaties. For instance, as of end 2005, Egypt signed 98 bilateral investment treaties and ranked 5^{th} in the world [14].

In order to ease the system, a responsible Ministry of Investment was created to inject dynamism into investment-related policies and institutions. A new management team has been appointed to the General Authority for Investment and Free Zones. Some formal restrictions on FDI entry have been eased since 1998. Like the 49 percent ceiling on foreign ownership in commercial banking and insurance has been abolished. Major international banks such as CCF, HSBC, Crédit Agricole and Barclays have begun to make their presence on Egypt's banking scene. Major insurance companies such as Allianz, among others, have also entered the insurance market. Restrictions noted in the intellectual property right on foreign ownership of agricultural land were abolished in 2005 [14]. These and the strong commitment in government side led Egypt to become number one FDI destination not only COMESA member countries but also from the entire Africa.

Zambia from Southern Africa

The Zambian Government made various attempts at stabilization. Although, begun in the late 1980s, serious reforms did not take place until 1991, when, under close guidance from the International monitory fund and World Bank, the Zambian Government introduced tough reforms resting on three main policy planes: removal of subsidies; economic liberalization and stabilization; and privatization of public sector enterprises. Price controls were removed, the exchange rate was unified and became market-determined, capital controls were abolished, interest rates on loans were liberalized, 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 privatization process moved faster and by 2002, almost all the parastatal companies were privatized [13].

According to the reference number, as in [19], there is a wide range of reasons why Zambia is the best location for investment. Some of these include the availability stable political system; a positive and investor friendly economic environment; investment guarantees and securities; attractive investment incentives; progressive banking, legal and insurance services of international standards as well as a stock exchange; abundant natural resources presenting excellent investment and trade opportunities; duty-free access to regional, wider Africa, EU and USA markets; thriving private sector; repatriation of 100% of profits and no exchange controls; and good place to work and live.

Some of the incentives provided to investors in Zambia include non-fiscal Incentives, fiscal incentives and other Incentives. Non-fiscal Incentives are such as Investment guarantees and protection against state nationalization; free facilitation in applying for immigration permits, secondary licenses, land acquisitions and utilities; and the ability to own land under the company's name. Similarly, some of the fiscal incentives are; investors with $500,000 or more in a priority sector entitled to receive a corporate tax rate of 0% for an initial period of 5 years from the first year profits are made by the investor. For years 6 to 8 thereafter your corporate tax rate will only be applied to 50% of the investors profits and then 75% of the profits in year 9 to 10; dividends shall be exempted from tax for 5 years from the year of first declaration; and improvement allowance of 100% capital expenditure on improvement or for the upgrading of infrastructure, suspended customs duty to zero for 5 years on machinery and equipment. Additionally, other incentives also provided like exemption from taxes on dividends declared by a company listed on the Lusaka Stock Exchange; exemption from taxes on dividends declared by a company in the assembly of motor vehicles, motor cycles and bicycles industries for a period of five years from the date of first declaration; duties on computer parts being reduced from 15% to zero percent; Duties on inputs for the textile and clothing manufacturing being reduced from 15% to zero percent; duties on selected machinery used in the textile and clothing manufacturing being reduced from 5% to zero percent; duty on inputs used in the manufacturing of roofing sheets being reduced to zero percent for 5 years, duty on all machinery, fixtures, equipment, tools, motor vehicle parts, motorcycle parts and bicycle parts used in the manufacturing of motor vehicles, motor cycles and bicycles being reduced to zero percent for 5 years; duty on materials used in the manufacturing and packaging of cement being reduced to zero percent for 5 years and ability to externalization of 'After-Tax' income without restriction.

Uganda from the African Great Lakes

The immediate implementation of Government reforms in the public sector in 1989 that addressed a number of issues in the public sector including the improvement of efficiency among civil servants were noticeable in most of East African countries like Uganda, Ethiopia and Somalia [13].

According to the reference number, as in [3], Uganda experienced exemplary trend in attracting FDI within Africa mainly due to maintaining political and economic stability. According the reference number, as in [10], Uganda attracted the highest levels of foreign direct investment in the region because of several reasons. Some of the factors responsible for Uganda to exhibit good performance in foreign investors' attraction are the existence of a predictable investment environment, a fully liberalised economy, good market access, a strong natural resource base and a commitment to the private sector by the government.

There are several investment incentives which provided to investors in Uganda ranges from 5% to 100% of the cost/expense/. These are Investment capital allowances like; initial capital allowance on plant and machinery, start up cost spread over 4 years, scientific research expenditure, training expenditure, mineral exploration expenditure, initial allowance on hotel, hospitals and Industrial buildings, deductible annual allowances (depreciable assets), depreciation rates of assets range, depreciation rate for Hotels, industrial buildings and Hospitals, duty and tax free import of plant & machinery, first arrival privileges in the form of duty exemptions for personal effects and motor vehicle (previously owned for at least 12 months) to all investors and expatriates coming to Uganda. Additionally, provisions of export promotion incentives and facilities like manufacturing under bond, duty exemption on plant and machinery and other inputs, stamp duty exemption, duty draw back a refund of all or part of any duty paid on materials, inputs imported to produce for export, withholding tax exemptions on plant & machinery, scholastic materials, human & animal drugs and raw materials, ten year tax holiday, duty remission scheme for exporters involved in value addition.

South Sudan from Central Africa

The Sudan Ministry of Investment is a member of World Association of Investment Promotion Agencies. Foreign investment in the Sudan is protected by binding international instruments because Sudan is a member of World Bank's Multilateral Investment Guarantee Agency and the International Centre for the Settlement of Investment Disputes. World Bank Guidelines are used by foreign investment promotion agencies, including the Sudanese agency. It is expected that the International Finance Corporation, the private sector investment arm of the World Bank Group, whose mission is to promote sustainable private sector investment in developing countries, in coordination with Foreign Investment Advisory Services will act within the ambit of its mission, insofar as the Sudan is an emerging economy having considerable investment potentialities. The Sudan is also a member of the African Development Bank, the Islamic Development Bank, the Inter-Arab Investment Guarantee, and the Agreement on Promotion and Guarantee of Investment among the member states of the Organization of the Islamic Conference. Sudan belonged to the Intergovernmental Authority on Development, League of Arab States, Common Market for Eastern and Southern African countries, African Union and the New Partnership for Africa's Development. Sudan is party to the Cotonou Agreement for the renegotiation of the trade links between the African, Caribbean and Pacific countries with the European Union, under the Lomé Convention.

The legal regime in Sudan provides guarantee of free transferability of profits, dividends and capital abroad. The Investment Act 1999 empowers a foreign investor to remit dividends or net profits attributable to investment, payment in respect of loan servicing where a foreign loan has been obtained, remittance of proceeds in the event of sale or acquisition of the enterprise. The law also provides guarantee against expropriation, nationalization and similar measures.

The investment law of the country is buttressed by constitutional provisions to effect of protecting investment against arbitrary measures. As regards insurance against non-commercial risks, the Sudan is a signatory to the World Bank's Multilateral Investment Guarantee Agency convention. The convention provides coverage against non-commercial risks such as transfer restriction. Generally there are several benefits and incentives offered under the law to investors such as income and business profits tax relief, relief from customs duties, and relief from tax export and depreciation allowance. Exemption from payment of business profits tax for a period of ten years for strategic projects, and five years for non-strategic projects calculated from the date of commencement of production, an automatic exemption from payment of customs duties, surcharges and any other similar duties relating to imported machinery, equipment or apparatus necessary for production, export the exemption covers relief from export tax and duties in respect of project's products. Additionally, capital allowances are granted to investors who own depreciable assets and use the assets in the production of income [1].

Madagascar from Indian Ocean

Madagascar is one of the preferred destinations for FDI in Africa due to the significant benefit given to foreign investors for operating in Madagascar, including good international market access and its very low operating cost environment. Some of the strategies employed to attract foreign investors to the country are; it is allowed a foreign investors aside from management, which is typically staffed by expatriate, availability of below average wage levels for all employment categories and low real estate and construction costs in many sectors, which create lower initial startup costs. In addition to the above there are also other benefits like availability of low lease prices for industrial and hotel land, low cost office space rental and relatively low farmland prices.

The country's low corporate and property tax rates, quick customs clearance times and competitive transportation costs for a number of destinations were contributed to attract foreign investor. There is a higher level of economic freedom for firms, as recorded by the Transparency International Index, in Madagascar than in almost any other sub-Saharan African country, and a rated corruption level is also low [17].

According to the reference number, as in [6], Madagascar provides several incentives in order to attract foreign investors to the country Some of these are incentives for export activities, incentives for extension of activities eligible to the free zone status, new measures authorising foreign access to real estate, the lifting of custom duties and taxes on capital goods and some essential products like rice, the establishment of the Economic Development Board of Madagascar to simplify administrative procedures for company formation and investment and Import liberalisation. Additionally, the Investment law gives foreign companies the right to acquire land and real estate for their activities under certain conditions, for investment protection Madagascar has signed foreign Investment Promotion and Protection Agreement with some countries, such as Canada, Mauritius, France, and Germany. Malagasy law recognizes private property and expropriation cannot be done without due process and appropriate compensation. In addition to incentives for export activities there is also fiscal incentives provided to export-oriented companies these are eligibility for export free zone status and get the fiscal advantages spelled by the law.

Generally, tariffs are not a general worry for investors for most of African countries because they have tariff-free access to a number of major markets within a wide range of export products. It is, for this reason, that tariffs are not a general worry for investors in Africa. Among the more popular trade agreements are the African Growth Opportunity Act (USA), the Cotonou Agreement (EU), the Everything But Arms (EBA) amendment to the EU's Generalized System of Preferences (EU), the Common Market for Eastern and Southern Africa), the East African Community the Economic Community of West African States and the Southern African Development Community

VI. Conclusion, Future Enhancement & Policy Implications

It is highly recommended to respond the welcoming efforts by African countries to break the geographic barrier for integration of international trade and transfer of economy between investors from Africa and outside Africa. Because the study found that, most of African countries readiness in switching their gears towards the need of foreign investors to the extent how best mutually benefited out of FDI transaction. Recognizing the benefit derived from international trade will create great scope of benefit in creating wider economic spaces for both the foreign investors and the Africa as far as developing countries are concerned. The study found that majority of successful African countries in FDI inflow is mainly because, their focus targeted on addressing the major constraints of their county and providing priority and incentives to foreign investors to come up with solution to the existing economic, technological and managerial scenario. Therefore, regardless of how much the country is endowed with natural resource but it matters to what extent the country is politically stable and what kind of investment incentive is provided to an investor to undertake international trade outside their country.

By the virtue of those African countries viz., Ethiopia from Horn of Africa, Egypt from North Africa, Madagascar from Indian Ocean, Uganda from African Great Lakes, Zambia from Southern Africa and South Sudan from Central Africa were exhibited exemplary FDI inflow.

Therefore, it necessary to extend their reputed practices to the rest of African countries in order to caliber their investment strategies by giving special attention to research on this vital area of development. Particularly determinants of FDI to each and every African country in a way that would clearly boost the FDI share of the country and foreign investors' confidence. Those countries which have the lowest share in FDI inflow should have to reframe their FDI policy framework.

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