CHAPTER 2

International Trade and FDI

The evolution of international trade and foreign investment in Sub-Saharan African (SSA) countries expresses the ability to generate value and create the conditions for attracting new partners with the relevant knowledge required to globalize the economy.

Export and FDI followed by economic transformation could disseminate more added value to more people. It could be generated by investments in the whole value chain of each economic sector. I analyse the flow of international trade and FDI and their contribution to the SSA economy.

International Trade and GDP Growth

According to the World Bank, GDP growth in Africa was on an average 4.5% in 2014, which is greater than 4.2% GDP in 2013 (World Bank, 2015). It is weaker than the peak average rate of 6.4% during 2002–08. Performance in the three largest economies of the region was different: strong growth in Nigeria, subpar growth in South Africa and a decline in growth in Angola.

Sub-Saharan Africa's (SSA's) main export goods are crude oil, gold, natural gas, cocoa and different minerals. Crude oil is the main export of Angola, Cameroon, Chad, Republic of Congo, Gabon, Nigeria and

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Sudan. The export in oil is more than 80% of the total exports for all oil-abundant countries, excepting Cameroon. Extractive industries play a key role in various economies (World Bank 2015; IMF countries' reports). Iron ore is the top commodity export in Mauritania, copper in the Democratic Republic of Congo (DRC) and Zambia, aluminium in Guinea and tin in Rwanda. In other countries, agriculture is the most important source of the economy. Coffee is the main commodity export of Burundi and Ethiopia, cocoa in Côte d'Ivoire, Ghana and Togo and cashews in Guinea-Bissau.

The GDP per capita of most of the African countries remains lower than US$5000, and those above this threshold are either oil or mineral exporters, or more diversified economies such as South Africa. While SSA has 12% of the world's population and 18% of the world's land surface, it produces only 1.5% of the world's nominal GDP (and 2.3%in PPP) (EU parliament 2016).

Africa's manufacturing has lost its relative importance both globally and at a regional level and has not contributed to any structural transformation. Africa's share of global manufacturing had fallen from about 3% in 1970 to less than 2% in 2013. The share of manufacturing in total African GDP has decreased slightly over the past four decades and is much lower in SSA than in other developing regions.

The failure of industrialization in Africa could be explained by a weak infrastructure in electricity, water supply and transport, lack of skills, small market size and inefficient institutions.

Major commodities exported from SSA countries continue to feel the impact of weak commodity prices especially for SSA largest trading economies that include Nigeria, South Africa and Angola. The continent's merchandise trade contracted for the second consecutive year in 2014, shrinking by 3.79% from US$1.20 billion in 2013 to US$1.16 billion in 2014 (UNCTAD, 2015; ITC Trade Map 2015).

The continued slowdown of the Chinese economy, the impact of the European Union (EU) recession and uncertainty about the timing of the Federal Reserve's winding down of monetary stimulus in the United States continued to depress Africa's merchandise exports.

Africa's export revenues are still overdependent on primary commodities, which account for more than 75% of the continent's total merchandise exports. African energy exports, of which crude oil accounts for 75%,

suffered the highest rate of decline during 2013 and 2014, contracting by 9.7% in 2013 and an estimated 10.5% in 2014.

African metals and minerals exports declined only marginally in 2014. The decline was the result of weak gold and silver exports and a strong US dollar, which reduced the reliance on these minerals as safe-haven assets.

African agricultural exports also trended downwards in 2013 and 2014 on account of low levels of production and exports of cocoa and coffee and weak prices of cotton, rubber, soybeans and tea. International cocoa prices rose substantially in 2014, but cocoa production and exports from the four largest-origin countries in Africa, Côte d'Ivoire, Ghana, Nigeria and Cameroon, are estimated to have declined by 4% from 3.1 million tonnes in 2013 to 2.97 million tonnes in 2014.

Much of the rise in SSA exports is due to an expansion of African trade with Asia, particularly China and India. Asian countries now take about 32% of African merchandise exports, compared to 29% in 2012; nearly two-thirds (62%) of these exports are of energy commodities. Asia has become Africa's largest source of imports of electrical and electronic equipment; imports in this category in 2014 amounted to US$22 billion from Asia, compared to US$16.47 billion from Europe.

The share of African exports going to Latin America and the Caribbean has trended downward during the last two years declining to 2.96% in 2014 from 4.14%.

Intra-SSA Trade

Regional integration plays a key role in intra-regional trade (Afrexim Bank 2015). As part of efforts to pursue regional integration, the following regional economic communities (RECs) were created:

- The Common Market for Eastern and Southern Africa (COMESA), established in 1994
- The Community of Sahara-Sahel States (CEN-SAD), established in 1998
- The East African Community (EAC), established in 1999
- The Economic Community of Central African States (ECCAS), established in 1983
- The Intergovernmental Authority on Development (IGAD), established in 1986

- The Economic Community of West African States (ECOWAS), established in 1975
- The Southern African Development Community (SADC), established in 1992

Intra-African merchandise trade grew by 11.46% in 2014, to US$183.87 billion from US$164.97 billion in 2013. Intra-regional trade remains by far the lowest in Africa of all world regions, 14% in 2014. The comparable share for Europe is 72%; for Asia 52%; for North America 48%; and for Latin America and Caribbean 26% (WTO 2014).

Most of the intra-African trade occurs within sub-regions, between countries that are members of RECs or customs unions. Countries within the SADC registered the highest intra-REC exports in 2014, at an average of US$41.8 billion, followed by members of CEN-SAD, ECOWAS, COMESA and ECCAS.

Cross-Border Trade in SSA Countries

The high cost of transporting goods is an important constraint to economic growth and poverty reduction in both Côte d'Ivoire and Burkina Faso. To address this challenge, the governments of both countries have developed ambitious reform programmes for the transport sector.

The World Bank Group's Board of Executive Directors approved a US$100 million Development Policy credit, to help the governments of Burkina Faso and Côte d'Ivoire to reduce trade and transport transaction costs as a step towards promoting the development of the private sector and improving global integration in the two countries (World Bank 2015b, c). The funds from the International Development Association (IDA) include a US$50 million credit for Burkina Faso and a US$50 million credit for Côte d'Ivoire to support the First Regional Trade Facilitation and Competitiveness Development Policy Operation.

Informal trade is a significant component of intra-regional trade across the African continent. Maur and Shepherd (2015) argue that only an estimated 20% to 25% of the actual regional trade volume in West Africa is recorded. Afrika and Ajumbo (2012) estimate informal trade in the order of 20% of Nigeria's GDP, and 75% of GDP in Benin. Similarly, Lesser and Moise-Leeman (2009) claim that, in Africa, informal cross-border trade (ICBT) is equivalent to 43% of official GDP. Support to formalization of informal trade could improve trade efficiency, stronger competition against dominant players and lower cost.

ICBT plays an important role in diversifying local economies, particularly in the presence of high barriers to formal trade. ICBT also has an important gender dimension—women represent between 70 and 85% of informal traders in SSA. Herewith I present the result of a statistical cross-border trade analysis of two countries, Uganda and Rwanda.

Cross-Border Uganda

Uganda cross-border export is evaluated by US$2.8 billion in 2013, of which, formal exports were worth US$2.4 billion and informal exports accounted for US$421 million (Bank of Uganda 2014). The overall export earnings rose by 0.6% in 2013, registering a much slower increase compared to that recorded in 2012 of 11.8%. Informal exports receipts reduced by 7.2% compared to an increase of 27.5% registered in 2012.

The reduction in the informal merchandise exports is the result of the war in the DRC. There was a reduction in exports of various commodities like maize grains, wheat flour and potatoes by 16%, 43% and 100% respectively. Some beverage and beer companies started exporting directly to the DRC and South Sudan through formal channels.

DRC was the leading informal exports destination during 2013, with exports from Uganda estimated at US$135.0 million representing a 32.0% share of total informal exports receipts. South Sudan followed with US$130.8 million (31.1%). Exports to Kenya amounted to US$69.69 million (or 16.5% of the total). Tanzania and Rwanda followed in that order representing 10.2% and 6.6% of informal exports in 2013 respectively.

The leading informal export commodities during 2013 were shoes, maize grains, fish, clothes, maize flour, beans, cattle, beer, goats, motorcycle parts, human medicine, eggs, wheat flour, bananas, soda, tomatoes, fruits, groundnuts and onions.

Cross-Border Rwanda

Official trade data for the formal and informal sector show that informal exports in 2011 were higher than formal exports to neighbouring countries, Rwf 33.2 bln informal exports compared to Rwf 21.9 bln formal exports. Over the same period informal imports were significantly lower than formal imports. Informal imports were just Rwf 11.5 bln in 2011 compared to Rwf 162.4 bln formal imports.

The export in 2011 was mainly to the DRC (40%), Burundi (8%), Uganda (5%) and Kenya (2%). Imports from Rwanda's four immediate

neighbours were three times higher than exports in 2011 but accounted for a smaller portion of Rwanda's total imports—19%. Imports are mainly from Uganda, Kenya and Tanzania.

Informally Rwanda's Cross Border Trade (CBT) exports are dominated by local agricultural produce (40%) and livestock (26%). Manufacturing goods such as processed food, fast-moving consumable goods (FMCG) and re-exports of paraffin are also significant.

Livestock and petroleum exports—both significant informal exports—are much lower in the formal sector. Beverages, clothing and construction material tend to be exported more often through formal channels as opposed to informal.

The EU

Nigeria, South Africa and Angola are the main exporters to the EU and South Africa and Nigeria the main importers (EU 2014). EU exports mainly machinery and vehicles, energy products and chemicals. The main import is oil.

Recent WTO analysis has highlighted a range of areas where EU policies affect production and trade outcomes (Godison 2015). EU tries to minimize the negative external consequences of EU agricultural policies on food and agricultural sector development on SSA countries.

Since 2010, the African, Caribbean and Pacific (ACP)'s agro-trade surplus with the EU has fallen some 44.5%. Between 2009 and 2013, the value of EU agro-food exports to the ACP increased more than four and a half times faster than the value of EU imports from ACP countries.

This saw the ACP's agro-food sector trade surplus fall from over €5.13 billion to under €2.85 billion. ACP countries are an increasingly important market for EU agro-food exports, with African markets taking on a growing importance in specific sectors, particularly for poultry meat, bulk dairy and horticultural products such as onions commodity exports.

In 2014, imports from Europe of agricultural/mining equipment/machinery (including self-propelled bulldozers, graders and excavators) and energy-related machinery and parts (including turbo-jets, turbo-propellers and other gas turbines) and other forms of machinery amounted to US$31.7 billion, compared to US$24.5 billion from Asia. Europe is Africa's biggest source of iron and steel imports.

West Africa

West Africa is the main destination for EU agro-food sector exports to ACP countries (taking 37.3%) and is also the main source of agro-food imports from ACP countries (taking 34.5%). Since 2010, West Africa's agro-food sector trade surplus with the EU has fallen to 95%. Between 2009 and 2013, the value of EU agro-food exports to West Africa grew to 75.6%, while the value of EU agro-food imports from West Africa grew only 3.5%. This saw West Africa's agro-food sector trade surplus fall steadily and dramatically from €1.6 billion to 85.5 million.

Southern Africa

In 2009, Southern Africa accounted for 35.8% of EU agro-food sector exports to ACP countries. Since 2010, Southern Africa's agro-food sector trade surplus with the EU has fallen 23%. Between 2009 and 2013, the value of EU agro-food exports to Southern Africa grew 60.4%, while the value of EU agro-food sector imports from Southern Africa grew only 32%.

Central Africa

Since 2009, the Central African region has moved from being a net agro-food sector exporter to the EU to being a net agro-food sector importer. The value of Central African agricultural exports to the EU showed a steady decline between 2009 and 2013, falling by 20.6% over this five-year period. In contrast, the value of EU agro-food exports to Central Africa rose 65.8%.

The EAC

While the EAC is the third largest source of EU agro-food imports from ACP countries, it is not a major market for EU agro-food exports (only 3.3% of total EU agro-food exports to the ACP). Between 2009 and 2013, the value of EU agro-food exports to the EAC grew 42.6%, and import values grew only 9.2%. However, the overall EU agro-food sector trade surplus of the EAC with the EU grew 4.2% between 2009 and 2013.

United States

US exports to SSA countries have been steadily on the rise and up 58% from 2009 to 2013 (US Department of Commerce 2014). Exports reached nearly $24 billion in 2013, an increase of $8.8 billion since 2009.

Imports from SSA have passed from more than $74 billion in 2011 to $39.3 billion in 2013. South Africa and Nigeria are the largest markets for US exports, contributing to the first and second highest dollar value of exports respectively in 2013.

In 2013, oil products represented 12.9% of the total dollar value of exports to the SSA region. Transportation-related exports with automotive and aircraft products are 9.5% and 5.5% shares of US exports to SSA respectively in 2013.

US imports from SSA declined by 16% between 2009 and 2013, mostly due to a decrease in crude oil and mineral fuel imports. The total value of imports decreased by US$12.6 billion, or 35%, between 2009 and 2013. Other top import sectors are passenger vehicles, platinum and diamonds.

Due to technological breakthroughs like hydrologic fracturing and a business-friendly environment, the United States has experienced a steady increase in unconventional sources of energy, specifically light tight oil and shale gas, over the past decade (Brune 2015). While global oil prices have declined more than 50% since mid-2014 (closing at below $50 in September 2015) and US production is off its recent highs, net increases in US production over the last decade have impacted economies and oil markets around the world and particularly in Angola and Nigeria. Coupled with the worldwide decline in commodity prices, the cuts caused a sharp reduction in the US share of Africa's exports, from 10.6% in 2012 to 7.89% in 2013 and 4.36% in 2014.

In order to boost the industrialization in SSA countries, Obama launched the Power Africa Initiative in 2013, in which he pledged $7 billion of investment over five years to increase energy production and access to energy in Nigeria, as well as Ethiopia, Ghana, Kenya, Liberia and Tanzania. Since its launch, Power Africa has awarded $700,000 for off-grid energy projects in Nigeria.

China

China's largest African trading partner in export is South Africa, constituting about 21% of China's annual export to Africa, followed by Nigeria with 12% and Ghana with 6%. In imports the leading partners are also South Africa with 42% of its imports from Africa, followed by Angola with 31.7% and Libya with 6% (RAND 2015).

China is the world's second-largest oil consumer behind the United States, consuming 10.2 million barrels per day (mbpd), of which around

5.6 mbpd is imported. China currently receives more than two-thirds of its imported oil from the Middle East and Africa: 2.6 mbpd from the Middle East (about 46% of imports) and 1.2 mbpd from Africa (21% of imports).

China's trade with SSA countries has expanded dramatically during the past decade (Ghosal 2016). China–SSA trade has grown by 26% per year since 1995, reaching a total value of US$170 billion in 2013.

SSA's exports to China have grown faster than its imports, generating a large, positive trade balance. SSA's exports are concentrated in primary commodities, especially extractable resources such as oil, uranium, aluminium, zinc, phosphates, copper, nickel and gold, as well as renewable resources and agricultural commodities such as timber, rubber, coffee, cotton, cocoa, fish and cashew nuts. While SSA's export mix is narrowly focused on the primary sector, Africa's imports from China are extremely diversified. Consumer goods represent the largest share, particularly textiles and clothing, footwear and consumer electronics, and also capital goods such as machinery, commercial electronics and transportation equipment. Chinese capital goods imports are boosted in the presence of large Chinese-financed infrastructure projects, which frequently include country-of-origin procurement rules.

In 2013, China became SSA's most important export partner. China now accounts for 27% of SSA's exports, compared to 23% for the EU and 21% for the United States. While India accounts for just 9%, the growth rate of SSA's exports to India is second only to that of China.

Overall, SSA has benefitted from China's increasing demand for SSA's exports of oil, minerals and metals (Roache 2012). Imports from China have had a negative effect on SSA's exports within the African regional market, and local producers and traders have faced serious competition from Chinese imports throughout SSA. In a study of 44 South African manufacturing industries during 1992–2010, Edwards and Jenkins (2014) show that labour- intensive industries were particularly badly affected by Chinese imports and the negative impact on employment was more than proportional to the output displacement. Edwards and Jenkins also found evidence that Chinese imports contributed towards lower producer price inflation in South Africa, which in turn contributed to a moderation in consumer price increases.

African firms do not appear to be positioning themselves within Chinese value chains. Trade with China is having a limited impact on economic transformation and export diversification. Input exports from China to

SSA for processing and subsequent re-export to the US consumer market have increased in recent years but remain extremely small as a share of total trade (Pigato and Gourdon 2014).

China's trade with SSA is highly concentrated in a few countries. Five countries, Angola, South Africa, the DRC, the Republic of Congo and Equatorial Guinea account for most of SSA's exports to China. South Africa, Nigeria, Liberia, Ghana, Benin are the main importers.

Reduced external demand and lower commodity prices caused a 13% contraction in Chinese imports in the 12 months to October 2015 over the same period a year earlier. By comparison, the value of imports from Africa over the period fell 32% (Romei 2015).

Some African countries are more exposed to the Chinese market. For seven, including Sierra Leone, Eritrea, Republic of Congo, Angola and Sudan; China accounted for 40% of their total exports.

The steep contraction in the value of Chinese imports from Africa is largely due to the fact that commodities and crude materials make up more than 85% of the total.

India

Trade between Africa and India more than doubled from US$25 billion in 2007 to US$57 billion in 2011 (Roy 2014). By 2014, trade figures had reached over US$75 billion, 34.6 export, 40.4 import (UNECA 2015).

In 2014 Africa accounted for 11% of India's exports and 9% of its imports. Since 2010, India's exports to and imports from Africa increased by 93% and 28%, respectively.

Indo-African trade is concentrated in a select few African countries such as South Africa, Nigeria, Angola and Tanzania being the top trading partners in 2014. Most of this trade entails primary commodities exported from Africa, while African countries mostly import manufactured goods from India. Exports from the extractive industries (mining, quarrying and crude oil) have seen the largest increase in the share of total exports.

India–Africa trade has grown steadily in the past years (Schaffnit-Chatterjee 2015). Bilateral trade amounted to US$65 billion (6% share of Africa's trade with the world) in 2014, up from US$7 billion (3% share) in 2000. Most of India's trade with Africa takes place in SSA countries. SSA's exports to India reached US$30 billion in 2014 (8% of total exports), overtaking the United States (share of 6%). Two-thirds of these exports

are oil and gas, 16% gold and other precious stones. India's main trade partners in Africa are Nigeria (US$17 billion), South Africa (US$9 billion), Angola (US$6 billion) and Tanzania (US$5 billion).

India needs increasingly large amounts of raw materials. It imported US$195 billion worth of raw materials in 2014 and is particularly dependent on crude oil imports (34% of its total imports), precious metals, other minerals and agricultural products, such as cashews and cotton. India's total imports from Africa amounted to US$33 billion, a small share (6%) of its total imports compared to its main provider China, 13%. More than a quarter of India's oil and gas imports now come from Africa, particularly Nigeria and Angola, as part of an effort to diversify import origins. Nigeria recently replaced Saudi Arabia as the largest crude oil supplier to India (KPMG 2015).

Although India has lost out to Chinese oil giants in its search for oil supplies in Africa, Indian oil and gas companies are present on the continent. India is a significant market for a few African countries, including Tanzania, Nigeria, Botswana, Cameroon and Angola. It is now the largest buyer of Nigerian oil.

All African countries import pharmaceuticals from India (UNECA 2015). In 2014 pharmaceutical products accounted for US$2.8 billion, or 8% of India's total exports to Africa. The main export destinations were South Africa (17% of Indian pharmaceutical exports to Africa), Nigeria (15%) and Kenya (9%). Overall, Africa was a huge market for India's pharmaceutical exports in 2014, 25% of the total exports of this product group were shipped to Africa.

FDI with and in SSA Countries

Main Trends

Capital investment into the continent surged to US$128 billion in 2014, up 136% from US$54.2 billion in 2013. FDI created 188,400 new African jobs, a 68% increase (EY 2015). Africa attracted more FDI funding than North America, Latin America and the Caribbean, and Western Europe. The upsurge was driven by large, capital-intensive energy extraction and real estate.

Africa has more than doubled its share of global FDI flows, from 7.8% in 2013 to 17.1% in 2014. That made it the second-largest recipient of

capital investment during the year, from sixth in 2013, and the fastest-growing destination for FDI funding.

Africa's FDI projects provide more capital than employment. In 2014, Africa attracted 17.1% of global FDI inflows (only Asia-Pacific performed better) but got only 8.7% of jobs.

A joint study by the African Development Bank (AfDB), Organization for Economic Cooperation and Development (OECD) and United Nations Development Programme (UNDP) estimates that external financial flows to Africa have quadrupled since 2000 (AfDB et al. 2015a).

FDI has grown almost fivefold since 2000. Official development assistance (ODA) has more than tripled in the same period to US$56.3 billion in 2014. Remittances from Africans working abroad have become the biggest source of foreign inflows to African states. FDI helps to build infrastructure and extracting and exporting natural resources.

Main Supported Sectors

A large part of the FDI supports big projects in electricity, roads and railways originally in order to improve the transportation of minerals, but they can generate also industrialization and higher productivity in other sectors (European Parliament 2016).

Electricity Projects

- River dams for electricity production as the Renaissance Dam in Ethiopia on the Blue Nile being the most exemplar. Already half built, the dam will be the largest in Africa when finished.
- The Grand Inga Dam on the Congo River in DRC is only in the concept stage, but if built, it would transform energy supply in the whole region.
- The Lake Kivu methane gas to electricity project in Rwanda is being built with the support of the US governmental aid agency (USAID). Kivu's methane could be used to add up to 960 megawatts (MW) of electricity-generating capacity, more than six times what Rwanda has now (Rosen 2015). The first phase of KivuWatt, a $200 million project owned by the US. energy firm Contour Global.
- Symbion Power is set to begin construction of a 50-MW project on the Rwandan side of the lake by the end of the year. In the

DRC's distant capital, Kinshasa, the Ministry of Hydrocarbons is reviewing bids for that country's first Kivu gas concession. Symbion Power Lake Kivu Ltd, a subsidiary of Symbion Power LLC, signed a 25-year power purchase agreement (PPA) with the Rwanda Energy Group (REG) for a 50-MW methane gas to power project (Symbion Power 2015).

– The Lake Turkana Wind Power Project (LTWP) financed by AfDB and several other development financial institutions (including by the EU with a €25 million grant), seeks to exploit wind power in Kenya. The project aims to provide 310 MW of reliable, low-cost wind power to the Kenya national grid, equivalent to approximately 20% of the current installed electricity-generating capacity (ltwp.co.kewebsite). The planned investment is of €625 million. The wind farm site, covering 40,000 acres (162 km^2), is located in Loyangalani District, Marsabit West County approximately 50 km north of South Horr Township. Completion is planned by July 2017, raising the country's installed capacity to 6700 MW (Genga 2016). Kenya was the first African country to begin developing geothermal power plants in 1956, when the government first drilled two 950-m-deep exploratory wells (Oxford Business Group 2016). The Kenya Electricity Generating Company (KenGen), a 70% state-owned company, is responsible for the majority of Olkaria's development. KenGen began commercial production at the 140-MW Olkaria IV plant, which was commissioned in August 2014, as well as the 140-MW Olkaria I Unit 4&5 plant, which started operation in January 2015. The private sector is also actively involved in the development of Kenya's geothermal resources, most notably at Olkaria III—a 110-MW plant developed and owned by Israel's Ormat Industries—which opened in February 2014. Retail electricity tariffs dropped significantly after these projects were brought on-line. In August 2015 the Kenya Power and Lighting Company announced that it is set to purchase 70 MW of geothermal power from Akiira Geothermal and Marine Power Generation, from its 140-MW Rift Valley plant. KenGen will receive a $387.2 million loan from the Japan International Cooperation Agency(JICA) to fund the construction of a geothermal power plant for the construction of Olkaria (Njini 2016).

Roads and Railways

- The rail connection between Angola, Zambia and DRC has been rebuilt. A new electric railway between Addis Ababa and Djibouti has been opened to freight in November 2015, and a major plan in East Africa to connect Kenya, Uganda, Tanzania, Rwanda, Burundi and South Sudan by rail has started taking shape.
- The bridge at Voi, northwest of the port of Mombasa, is the latest construction frontline for the initial 327 billion-shilling ($3.2 billion) stretch of an ambitious railway project to link the East African country with landlocked neighbours including Rwanda and Uganda (Hill 2016).
- Kenya's rail line, is among the most advanced of the more than $30 billion of African rail projects planned or under way.
- Senegal signed an agreement in December 2015 with China Railway Construction for the renovation of 645 km of railroads. Projects are also planned in Tanzania, Mali and Egypt, while Ethiopia recently completed a line connecting Addis Ababa to Djibouti and has another 4000 km of projects planned.

FDI Distribution by Regions

Southern Africa

Southern Africa attracts about one-third of FDI projects in Africa, and their numbers have been growing at a compound annual growth rate (CAGR) of 10.8% since 2007.

Capital inflows more than doubled to US$33.6 billion in 2014, thanks to a massive energy sector deal, but there was a marked fall in FDI projects announced in South Africa. Companies from both the United States and the United Kingdom, South Africa's largest investors, announced fewer projects in 2014, like those from Germany and Spain.

East and Central Africa

Kenya, softened during 2014, after growing by more than 30% a year (CAGR) since 2007. Investors from the United Kingdom and Japan, who were Kenya's largest investors in 2013, started fewer projects in 2014.

The potential large natural gas deposits in Mozambique attract investors. Financial services attracted the most projects in 2014 as three foreign retail banks moved in, opening a total of 16 branches (fdiintelligence 2015). There was also a strong uptick in RHC and automotive projects.

The 32 projects launched in 2015 in Ethiopia 4.4% of the African total, involved relatively small sums but they provided 18.5% of FDI jobs in Africa. Ethiopia, now has slowly been opening up to foreign investment in manufacturing and retail.

Telecommunications and financial services remain the preserve of state-owned enterprises.

West Africa

Nigeria, attracted 49 FDI projects in 2014, 10 fewer than during 2013. However, the average project involved more than twice as much investment, though job creation continued to lag. It is also the case in Ghana where growth in project numbers has averaged 34.1% since 2007. In 2014, the number of inward investment projects fell to 39%, from 58% in 2013, even as capital investment rose 61.3%.

Sources of FDI

The EU

Western Europe accounted for more than half of all greenfield investment into Africa in 2014, with an estimated $47.6 billion invested, according to a report from fDi Intelligence (FDI Intelligence 2015; Fingar 2016).

France is the main source of investment in Africa with US$18.3 billion, 18% of the total FDI in 2014, followed by Greece with US$10 billion (10%) , United States with US$7.9 billion (9%) and China with US$6.1 billion (7%) (FDI Intelligence 2015). Angola attracted the bigger share of those FDI with US$16.1 billion in 2014 (19%), followed by Nigeria with US$10.7 billion (12%) and Mozambique with US$8.8 billion (10%), Those investments are mainly in four sectors: manufacturing 33%, mining 26%, construction 14%.

France's Total, an oil and gas major, plans to invest US$16 billion to develop the Kaombo offshore oilfield in Angola. The development will be established through a joint venture with Total as the main operator with a 30% share.

Greece's high position is explained by Mac Optic, a Greece-based company that announced plans for a multibillion-dollar refinery and petrochemical plant in Egypt.

Belgium saw the highest increase in capital investment into Africa in 2014 with its $5.2 billion, thanks to commercial real estate devel-

oper Pylos's plans to build more than a dozen shopping malls across Mozambique. Meridian Port Services, a subsidiary of Denmark-based AP Moller-Maersk, is expanding Tema Port in Ghana. The US$1 billion expansion project will see the development of four deep water berths and an access channel for larger vessels, increasing the port's throughput capacity to 3.5 m 20-foot equivalent units (TEUs).

Since 2007, the EU together with some of its Member States has financed numerous infrastructure projects in SSA through the EU-Africa Infrastructure Trust Fund (EU-AITF) (EU-AITF 2014).

The aim of the fund is to increase investment in infrastructure in SSA by blending long-term loans from participating financiers with grants. It funds regional and cross-border infrastructure projects in the energy, water, transport and communications, and telecoms sectors, as well as projects under the Sustainable Energy for All initiative. The money provided by the EU stems from the European Development Fund (EDF). Between 2007, when the fund was created, and 2014, more than €536 million has been provided by the EU to support investment in 73 projects.

The EU–AITF offers grant support from two different envelopes:

- The Regional envelop promotes regional infrastructure projects (energy, transport, water, ICT): cross-border projects or national projects with a demonstrable regional impact on two or more countries.
- The SE4ALL envelop supports regional, national and local energy projects.

Between 2001 and 2012, most private capital flows have benefitted two countries, namely South Africa and Nigeria, with 45% and 13% respectively of the total for SSA. The United Kingdom remains a keen investor overall, though British companies eased back last year.

TheEU is seeking to promote growth in Africa by negotiating economic partnership agreements (EPAs) with regional blocs in the continent. These EPAs are designed to deliver duty-free and quota-free access for African goods to the EU market. Three EPAs have been signed, with the ECOWAS, the EAC and with the SADC (ICTSD 2015). In April 2014, the fourth EU–Africa summit was held to discuss bilateral business relationships (European Council 2015).

EU Commitment from 2014 to 2020, €6.5 billion will be delivered to support EPA Development Programme (PAPED). EU institutions for

over €3 billion, EU Member States for €2 billion and European Investment Bank (EIB) for €1.5 billion.

The funds will be invested in Infrastructure (Energy, Transport), Agriculture, Regional economic integration, Trade and private sector development and Civil society.

The United States

The US private investments in Ethiopia, Ghana, Nigeria and Tanzania are projected to grow at an average rate above 6% between 2014 and 2019 (US Trade and Development Agency 2016). The US government's Power Africa initiative, which aims to increase electricity access across the region, represents opportunities for US industry and has generated demand for US Trade and Development Agency's (USTDA's) Congressional Budget Justification) programme.

USTDA was created to promote United States' private sector participation in development projects in developing and middle-income countries.

USTDA has generated over $51.7 billion in US exports and has emerged as a leading US government agency for early project development and planning activities in emerging economies.

The Agency accomplishes its mission by providing grants to overseas sponsors of priority infrastructure development activities in their countries. Infrastructure such as clean energy, transportation and telecommunications fosters economic growth.

The Agency has formed strategic partnerships with over 35 export promotion organizations across the United States under its Making Global Local initiative.

The objective is to add 30,000 MW (USAID 2015). Power Africa intends to add 60 million connections by scaling up grid roll-out programmes.

USTDA is sponsoring follow-on activities to help three of the distribution companies develop comprehensive network modernization plans, which are expected to lead to additional sales for US firms.

North America is the second-largest source region for investment into Africa after Western Europe, at $13 billion. EY (2015).

Ethiopia is important because the 90 million people are requiring basic needs such as electricity and water and services such as telecommunication and transport. Ethiopia is also an important aviation hub with the continued expansion of Ethiopian Airlines, Africa's fastest-growing and most profitable airline.

USTDA's continued presence in Ghana's energy and transportation sectors will help foster relationships between key Ghanaian public and private sector stakeholders and US companies with sector-specific technologies and expertise.

Nigeria has the largest population in Africa and requires energy and transportation infrastructure in order to industrialize and provide to its population the required products and services.

South Africa, which is the continent's most advanced, broad-based and productive economy, is the destination of choice for US businesses looking to export to SSA.

Tanzania is projected to grow at 7% through 2016, driven by the transport, communications, manufacturing and agriculture sectors. The country's strong growth is also supported by the expansion of public investment in infrastructure as well as private investment in recently discovered natural gas reserves.

US strategy for Africa hinges upon the renewal of its African Growth and Opportunity Act (AGOA), which expired in September 2015. The act grants qualifying African countries tariff-free access to the US market for some goods and services.

Since 2007, US companies have launched 700 FDI projects across the continent, pouring in US$52.7 billion and creating nearly 98,000 jobs. After a slight dip in 2013, US companies became the largest investors in Africa again in 2014, overtaking those from the United Kingdom. Launching 101 FDI projects, up 29.5%, US investors accounted for 13.8% of total FDI projects in Africa, an increase from a 9.8% share in 2013. The number of US projects was almost double that from the next largest group of investors, coming from South Africa and the United Kingdom, in joint second position. US investments in Telecommunication, Media, Technology (TMT) surged from 13 projects in 2013 to 28. US companies also initiated more projects in business services, cleantech and chemicals.

IBM, among the world's most prolific corporate investors, made a handful of high-tech investments in Africa last year. It opened a new Mainframe Linux and Cloud Innovation Centre in Nairobi, and new innovation centres in Lagos and Johannesburg.

China

China is the largest developing country foreign investor in Africa (UNCTAD 2013). The relationship started in the early 1980s, as part of concerted diplomatic efforts promoting Chinese economic coopera-

tion with Africa (Goshal 2016). Initial investments were small, amounting to US$51.9 million for 102 projects (about US$500,000 per project) between 1979 and 1990, with Chinese businesses relying heavily on government-sponsored assistance projects to gain a foothold in local African markets. Investments by Chinese state-owned enterprises can be included in definitions of official flows of development assistance and not of FDI if they receive subsidized state financing such as export credits.

FDI flows from China to SSA rose from non-existence a decade ago to US$3.1 billion in 2013, representing 7% of global FDI flows to SSA.

China's FDI stock in SSA reached nearly US$24 billion in 2013, reflecting an annual growth rate of 50% between 2004 and 2013 (MOFCOM 2003, 2014; Copley et al. 2014).

Chinese FDI has recently undergone a marked diversification into financial services, construction and manufacturing. Chinese FDI are concentrated in Nigeria, South Africa, Sudan and Zambia. Chinese manufacturing firms have invested also in other countries such as Ethiopia, Nigeria and Tanzania.

In 2014, Chinese companies announced 32 FDI projects across the continent, just 4.4% of the total, entailing a total investment of US$6.1 billion and creating 11,015 jobs, 5.8% of those created across Africa by FDI (EY 2015). South Africa was the main destination for Chinese projects, securing 34.4% of them. Tanzania, Ghana and Kenya were also popular, each taking a 9.4% share. Nearly a third of Chinese FDI projects were in TMT, though Chinese companies also stepped up investment in coal, oil and natural gas, mining and metals, and aerospace and defense.

The huge financial losses in 2011 after the fall of the Muammar el-Qaddafi government was a wakeup call (Shinn 2015). This incident exposed its limited ability to protect its economic or security interests (Alden 2014:4). This event and a series of other attacks on Chinese nationals have resulted in new procedures (Anthony and Jiang 2014:84–85).

Some Chinese academics now refer to creative involvement or constructive intervention (Wang 2011). China's objective is not to abandon or replace the non-interference principle, but rather to improve on its definition (Pang 2013:49). As a result, China's traditional concept of sovereignty and non-interference underwent some changes and is becoming pragmatic (Wang 2012:91).

African states, in their majority, are not in a position to formulate projects and suggestions or demands to China before the meeting (Grimm 2015). This partly has to do with very limited capacities to co-ordinate

such a great number of actors, but partly also has to do with somewhat obscure or unclear political preferences, also depending on the political.

One example is Angola Huawei's experience (Haifang 2015). The company managed to work with a nearly collapsed technological institute to tailor the suitable skilled workers, thus initiating stable long-term co-operation.

Chinese International Trust and Investment Company (CITIC), carrying out a large project of affordable houses worked with local communities to recruit and train labourers since 2008. Gradually the training centre has been upgraded into a training college.

Another successful case is the Confucius Institute in Ethiopia, based in a local technological institute assisted by Tianjin University of Technology and Education. As a good working relationship was built, the Ethiopian Ministry of Education developed deep co-operation with the Chinese university, and invited it to co-operate with Addis Ababa University to build the second Confucius Institute (Tianjin University of Technology and Education 2015).

Chinese private investment flow is rising fast (Gu 2015) via tax shelters. The officially reported stock of Chinese FDI in Africa was estimated at US$21 billion in 2012, a doubling since 2009. The largest share is directed towards the resource sector in Angola, Chad, Niger, Nigeria, Sudan and Zambia. Chinese investment in manufacturing is seen in the gradual development of manufacturing clusters in Ethiopia (glass, fur, footwear and automobiles), Mali (sugar refineries) and Uganda (textiles and steel pipe manufacturing).

Development Finance Africa is the largest recipient of Chinese development financing and its share is increasing. Africa received nearly half of the cumulative US$54 billion provided by China in global foreign aid through 2012.

Chinese and OECD ODA differ in scale, nature and degree. Although Chinese assistance increased rapidly as OECD disbursements declined, Chinese aid remains well below the OECD's, amounting to US$3.2 billion in 2013 compared to the US$26 billion disbursed by OECD countries in the same year. Chinese development assistance is frequently packaged into agreements that mix grants and investment, and concessional and non-concessional loans.

SSA's investment in China remains marginal. South Africa is the only country in SSA with a significant investment presence in China. Financial flows from countries in SSA to China are dominated by trading companies, often subsidiaries of Chinese firms supporting the business of their parent companies.

India

Indian companies invest mainly in copper mining in Zambia, and iron ore and steel milling in Liberia and Nigeria (Roy 2014).

The state-owned infrastructure and engineering companies Rites and Ircon have supported Africa's rail and road development and its engineering companies.

The Indian state has supported public companies with credit (e.g. through Exim Bank).

The building of critical human capital (especially in health and education) has also been boosted through the creation of an Indian pan-African e-network linking 53 African countries to Indian universities and hospitals.

India has also been investing in telecommunications, petrochemicals and chemicals, and floriculture, and executing contracts in the power and other sectors.

Tata Chemicals acquired Magadi Soda Company Kenya in 2006, which produces soda ash, while Indian insurance companies and corporations, including Essar Energy, Bharti Airtel, Reliance Industries, Bank of India, HDFC and Central Bank of India, have been investing in Kenya.

In 2009, the Indian government gave a large grant to launch the Pan-African e-Network (Lucey et al. 2015). This allowed India to provide educational and medical support to African countries by means of satellite technology. The project is implemented by an Indian public-sector company through teleconsultations between hospitals in India and Africa.

In terms of technical assistance, India has instituted the Indian Technical and Economic Programme to support training and technical assistance in African countries.

Line of Credit (LoC) was also developed as a means to enhance India's development co-operation, and specifically the role of the private sector. LoCs were established under the Indian Development and Economic Assistance Scheme (IDEAS) in 2004 and backed by the Export Import (Exim) Bank of India. They support developmental projects identified by the Indian Ministry of External Affairs. The Exim Bank has extended LoCs worth US$6.3 billion to 48 African countries, accounting for 133 out of the total 187 LoCs extended by the bank.

India's Tata buses, Maruti cars, Bajaj motorbikes sell in African markets. In the pharmaceutical industry, several Indian companies have increased sales in African markets as the government has pushed its 'Pharma India' promotion.

There are more than 35 Indian pharmaceutical companies operating in Nigeria, 27 out of which about 30 Indian pharmaceutical companies

are located in Lagos alone for manufacturing and/or importing Indian products.

By 2016, pharmaceutical spending in Africa is expected to reach US$30 billion, with Indian companies competing mostly with South African firms in local markets.

The New Delhi-based The Energy Resources Institute (TERI) programmes include policy dialogues and knowledge sharing, as well as participating in capacity-building programmes such as the Indian Technical and Economic Cooperation (ITEC) programme, which offers courses on biotechnology with a focus on Africa.

The Government of India is also facilitating private investments in the agriculture sector in Africa; Indian firms have invested in more than one million hectares of farm land in Africa. The profile of these companies ranges from large to small and medium enterprises, that are present in sectors ranging from tea and spices to chemicals.

The International Livestock Research Institute (ILRI), based out of Nairobi, Kenya, has programmes covering countries like Ethiopia, Kenya, Mali, Mozambique, Tanzania, as well as India, in the field of animal biotechnology.

Some countries that have seen significant interest from the Indian private sector are Ethiopia, Malawi, Kenya, Uganda, Ghana and the Congo.

Intra-SSA Investment

South African companies ranked as the continent's second-biggest investor group, launching 53 projects in 2014, down from 65 the previous year (EY 2015). Though they provided 7.2% of projects during the year, they invested only 4% of the continent's FDI capital inflow.

Investors from Nigeria and Kenya, two other African FDI dynamos, were also less active in launching projects. Moroccans, on the other hand, became more prominent investors, initiating 13 intra-African investments last year—the highest in over a decade. Moroccan companies are looking towards SSA as the country becomes a platform for exporting to African countries.

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