Chapter 10

Regional trade agreements and South-South FDI: potential benefits and challenges for SACU-MERCOSUR investment relations

Nicolette Cattaneo [*]

1. Introduction

In December 2004, the countries of the Common Market of the South (MERCOSUR) and the Southern African Customs Union (SACU)[1] signed an initial preferential trade agreement (PTA) as a step towards the eventual formation of a free trade area. The PTA was expanded and consolidated during subsequent negotiations that took place between 2004 and 2008, and the new agreement, signed by SACU ministers in April 2009 and MERCOSUR in December 2008, is expected to enter into force at the beginning of 2010.

At present, the PTA provides for preferences on a limited range of products, and includes annexes relating to rules of origin, safeguards, dispute settlement, sanitary and phytosanitary measures and customs administration.[2] While trade between MERCOSUR and SACU comprises only a small proportion (1-2%) of each bloc's total trade, bilateral trade has trebled since 2001 (Woolfrey, 2009). From SACU's perspective, this trade largely involves the export of primary products in exchange for higher value-added goods from MERCOSUR, effectively reinforcing North-South trade patterns (Roberts, 2004: 10).[3] The rationale for the PTA thus appears to rest on trade and investment potential and, more broadly, on growing moves to intensify South-South trade and investment cooperation. Such moves have gathered momentum with the increasing influence of emerging economies such as the BRIC

[1] MERCOSUR comprises Argentina, Brazil, Paraguay and Uruguay, while Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela are associate members. SACU is a customs union between South Africa and the smaller countries of Botswana, Lesotho, Namibia and Swaziland (the BLNS countries).
[2] MERCOSUR grants preferences to SACU in about 1000 HS8 product categories, mainly under organic chemicals, electrical machinery and equipment, and pharmaceutical products; SACU's preferences to MERCOSUR also cover approximately 1000 HS8 categories, primarily electrical machinery and equipment, boilers, machinery and mechanical appliances, and plastics (CUTS-CITEE, 2005; MERCOSUR and SACU, 2008).
[3] SACU's main exports to MERCOSUR include mineral products, chemicals and basic metals, while its main imports are machinery, vehicles and parts, and chemicals.

countries[4], lack of progress in the Doha Development Round of multilateral trade negotiations, and the view that ongoing changes in the balance of power in the global economy offer renewed prospects for the development and diversification of the countries of the South. In the SACU-MERCOSUR case, it has been argued that the PTA could provide impetus to the India-Brazil-South Africa (IBSA) Trilateral Development Initiative (Roberts, 2004: 7).[5]

Developing countries have been active in what has been termed the "new generation" of PTAs[6] which grew out of frustration with the stalled Doha Round and the imbalances and inequities of the multilateral trading system. A distinguishing feature of many of these PTAs, in both North-South and South-South configurations, is the increasing consideration that has been given to services and investment aspects of regional trade agreements. This is a result of dramatic increases in services trade in recent years and renewed recognition of the importance of the services sector in development, both in its own right and with respect to its role in facilitating development through industrialisation. Investment agreements have proliferated with increased capital mobility and a re-examination of the costs and benefits of FDI, both as part of broader regional and bilateral accords and as independent agreements. Although the SACU-MERCOSUR PTA has not yet addressed these issues, it is instructive to explore the services and investment relations between the two blocs, given the intention to increase economic cooperation between the two regions and to move towards the formation of a free trade area (FTA).

Against this background, the purpose of this paper is to explore the levels, growth and structure of foreign direct investment (FDI) in South Africa and Brazil and, in the light of this, to consider the implications of intensified South-South FDI between SACU and MERCOSUR for development and diversification in the SACU region. The paper's focus on South Africa and Brazil rests on these countries' dominance of their respective blocs in terms of trade, population and economic size (CUTS-CITEE,

---

[4] Brazil, Russia, India and China.
[5] The IBSA Trilateral Development Initiative was launched in Brasilia in 2003 by the Foreign Ministers of India, Brazil and South Africa as a dialogue forum to foster cooperation between the three countries in a wide range of fields including trade, investment, poverty alleviation, social development, education, health, science and technology, and climate change, amongst others (see http://www.ibsa-trilateral.org/index.html; Dube, 2009).
[6] See, for example, Aggarwal (2008: 1-3).

2005: 2; Woolfrey, 2009). Further, it is evident that despite this dominance, South Africa and Brazil both have comparatively low ratios of domestic savings to GDP (Table 1). This suggests that FDI is likely to be of particular importance for development in these countries, and that the prospects for stronger bilateral FDI flows may be weak in the absence of appropriate accompanying policies.

The rest of the paper is organised as follows. The following section reviews the importance of FDI to developing countries, and explores the potential development benefits of South-South FDI. Section 3 examines aspects of the theoretical literature on the impact of regional integration on FDI. Section 4 considers inward and outward FDI trends and patterns in South Africa and Brazil, and the importance of current bilateral flows between the two countries. In the light of this discussion, the remainder of the paper discusses the opportunities presented by increased investment flows between SACU and MERCOSUR, and the inferences for development. Section 6 concludes by considering the major challenges the blocs face in harnessing the potential benefits of greater South-South FDI.

2. The importance of FDI to developing countries and the potential benefits of South-South FDI

2.1 The importance of FDI

The potential benefits of inward FDI for a middle-income developing country such as South Africa are well-known. These include technology transfer, acquisition of managerial and other skills, as well as job creation and the provision of capital needed for investment and growth. Additional advantages are the impact on foreign exchange and the balance of payments (Rusike *et al.*, 2007: 2). FDI could also stimulate competition in the host country's domestic market, and potentially provide access to foreign export markets and global production-sharing networks (Agosin, 2008: 7; UNCTAD, 2004a: 2).

Many sub-Saharan African countries, including South Africa, have very low domestic savings rates. South Africa's gross domestic savings as a proportion of GDP is about 17%, significantly less than the southern African countries of Angola, Botswana, Namibia and Zambia (two of which belong to SACU), and far below Argentina, Chile and China (Table 1). It is interesting to note that Brazil is in a

comparable position, although its domestic savings to GDP ratio exceeds South Africa's at 19%. In such instances, FDI takes on particular importance as a possible way of acquiring the capital needed for development. It also, however, influences the prospects for improving bilateral investment flows between such countries.

Table 1: Gross domestic savings as a proportion of GDP (%), 2006

South Africa	17.1
Angola	49.5
Botswana	52.5
Lesotho	-15.0
Malawi	11.2
Mauritius	17.5
Mozambique	13.3
Namibia	28.4
Swaziland	12.0
Tanzania	12.0
Zambia	32.7
Argentina	28.6
Brazil	19.7
Chile	34.9
India	31.1
China	52.5

Source: World Bank (2008).

The purported benefits of inward FDI for development have nonetheless been widely questioned. FDI flows may have inappropriate or negative effects on the host economy, depending on the type or motive for which the FDI is undertaken. Certain types of resource-seeking FDI, for example, have been criticised as encouraging low value added activity and inducing little spending on plant and equipment (Rusike *et al.*, 2007: 6; Narula and Dunning, 2000: 151). Prospects for employment creation in certain skill categories may be low if FDI results in the use of technology that does not complement the country's factor endowments. Beneficial technological spillovers may be limited if research and development is not conducted in the host economy, or if there are demands for highly restrictive protection or fees for technology use. In addition, high profit and dividend remittances could negate potential balance of

payments benefits. Excessive tax and other concessions and possible adverse income distribution effects are other concerns (Gammeltoft, 2007: 3). In contrast to the view of increased competition in host country markets, South Centre and ActionAid (2008: 9) point to the disadvantages for developing country producers and consumers of the market power of multinational corporations in commodity supply chains, with increasing market concentration downstream in the value chain, particularly in foodstuffs industries.

Even the key attraction of FDI as a supplement to low domestic savings has been subject to intensive debate. Kok and Ersoy (2009: 109) discuss evidence that FDI displaces domestic savings, possibly further increasing reliance on foreign capital. Agosin (2008) explores the circumstances in which FDI may "crowd in" investment from local firms (i.e. stimulate local investment that would not have been undertaken in the absence of FDI), "crowd out" domestic investment (i.e. supplant local investment that would have occurred in the absence of FDI) or have a neutral effect (whereby a dollar increase in FDI also raises total investment by a dollar) (Agosin, 2008: 2-3). Conditions favourable to crowding in domestic investment include FDI in goods and services not already produced in the host market, whether for local consumers or for export. The idea is that FDI and domestic investment are more likely to complement one another where such foreign investment occurs in less developed economic sectors. This view could be countered with reference to an infant industry argument – namely that possible future local investment by emerging domestic firms (assisted by temporary government support) could be displaced.

Agosin (2008: 4-5) argues that crowding in of domestic investment could also be assisted by the existence of strong forward and backward linkages from the foreign firm to local enterprises. Further, it has been suggested that the impact would be more favourable (though not necessarily positive) for Greenfield investments than mergers and acquisitions. The argument is that mergers and acquisitions often simply involve ownership transfer with no increase in host country capital formation. However, there is survey evidence of beneficial effects from modernisation, rationalisation and investment in technology following mergers and acquisitions in Argentina and Chile. Nonetheless, large mergers and acquisitions may be accompanied by macroeconomic effects that could result in crowding out. The net impact is ultimately an empirical question, and host countries would need to ensure

that the necessary selective policies are in place to encourage crowding in (or at least prevent crowding out), while at the same time ensuring that the essential features of a stable investment environment (such as guaranteed property rights) are in evidence.[7]

Developing countries' ability to profit from the potential growth benefits of FDI are said to rest on a range of factors including education, macroeconomic, financial and political stability, as well as the extent to which the knowledge and technology diffused through FDI can be assimilated (Gammeltoft, 2007: 3). While it has been argued that technological spillovers would be more substantial the greater the difference in technological sophistication between foreign and local firms, Gammeltoft (2007) suggests that larger gaps could instead prevent such spillovers from occurring effectively. If so, then it could be proposed that

South-South FDI may…offer better development potentials than North-South FDI by applying more 'appropriate' technologies, business models, and managerial and organisational techniques, which are better attuned to developing-economy circumstances (Gammeltoft, 2007: 3).

2.2 South-South FDI

FDI flows from emerging markets have been growing rapidly since the early 1990s, although they still form a small proportion of global outward FDI (19% in 2008, up from 17% in 2006). Strong growth in outflows from emerging economies in 2006-2007 of around 40% was followed by much weaker, but still positive, growth in 2007-2008 of close to 4% in the context of the global financial crisis (UNCTAD, 2009a: 16)[8]. Investment flows from emerging markets to other developing countries have grown even faster than total outflows from these markets, increasing from US$6.5 billion in 1990 to US$59.8 billion in 2004 (UNCTAD, 2006: 118)[9]. They have also grown faster than flows from developed to developing countries in the last decade (UNCTAD, 2004a: 6).

---

[7] In the case of South Africa, Fedderke and Romm (2006: 758) find evidence of crowding out in the short run, but complementarity between foreign and domestic investment in the long run, implying positive spillover benefits for capital and labour (and hence growth) in the longer term.

[8] By contrast, outflows from developed countries fell in 2008, following record growth in 2007 (UNCTAD, 2009: 15).

[9] If flows to offshore financial centres are included, the figures effectively double in magnitude (UNCTAD, 2006: 118).

FDI outflows from developing countries as a whole[10] grew at 33% in nominal terms in 2006-2007, with much lower but still positive growth in 2007-2008 of 2.53% (Table A1 in the Appendix). For the period 1990-2007, the average annual growth rate of FDI flows from developing countries was 20.6% per annum compared to 13.8% per annum for global flows. The share of developing country outflows in global outward FDI was 13% in 2007 and 16% in 2008.[11]

Increased South-South FDI has been facilitated by the liberalisation of financial flows and greater financial integration between emerging economies, as well as rising wealth and rapid industrialisation (UNCTAD, 2004a: 3; Gammeltoft, 2007: 3). Strong competition for FDI among developing countries and more active investment promotion agencies in many of these countries, as well as reductions in foreign aid have also reinforced the attractiveness of greater South-South investment cooperation. It has been argued that such investment flows have been both prompted and facilitated by the proliferation of developing country regional trade agreements (RTAs), preferential trade and investment accords (PTIAs), bilateral investment treaties (BITs) and double taxation treaties (DTTs)[12] (see Section 3).

MIGA (2008: 2) notes that increased trade among developing countries is, in itself, another driving force behind South-South FDI, especially where it is linked to trade between multinationals and their affiliates, and between affiliates in different countries. Further, geographical proximity, trade and cultural ties are factors encouraging cross-border investment by smaller firms in developing countries, as they lower transaction costs for such firms relative to other destinations. In addition, the experience that developing country multinationals have acquired in their domestic markets implies that they will be more adaptable to conditions in poorer economies, could function with lower overheads than developed country firms, and would have more appropriate technology for developing host economies (Gammeltoft, 2007: 4).

---

[10] The emerging economies group in the United Nations classification used by UNCTAD includes only the following countries: Argentina, Brazil, Chile, Mexico, Peru, Malaysia, Republic of Korea, Singapore, Taiwan Province of China and Thailand (UNCTAD, 2009b). It does not include China, India or South Africa.

[11] Shares and growth rates for developing country and global outward flows have been computed from the data in Table 7.

[12] According to UNCTAD (2004: 6-8), the number of South-South BITs more than quadrupled between 1990 and 2004. By 2009, South-South BITs accounted for 26% of all such treaties globally (UNCTAD, 2009c: 5). Growth in South-South DTTs has been steady but less spectacular, while PTIAs are fewer and tend to be more modest in the depth and scope of their provisions.

The rationale for South-South FDI includes the conventional market-seeking, resource-seeking and efficiency-seeking FDI motives (MIGA, 2008: 1-2; UNCTAD, 2004a: 2-3). For example, the search for new markets drives South African retail firms into Africa; Chinese, Russian and Brazilian companies look to Africa and central Asia to address their energy requirements; and East Asian manufacturing firms seek efficiency gains through production-sharing in regional networks. Gammeltoft (2007: 5-6) analyses shifts in the characteristics of outward FDI from emerging markets since the 1980s. He finds that while market-seeking and efficiency-seeking remain the first and second most important motives for South-South FDI, especially where there is a regional dimension, FDI from emerging economies into developed countries has, by contrast, been increasingly of the asset-seeking variety, in pursuit of technological and other capabilities that may not be available at home.

For developing country MNCs, while Greenfield investment was the dominant mode of entry in the 1980s, mergers and acquisitions are gaining in importance. The sectoral structure of outward FDI from emerging economies has changed significantly in the past two decades, with a shift towards services and away from manufacturing and natural resources. The latter nevertheless remains particularly important in South-South flows. The destination of outward FDI from developing countries has also broadened considerably since the early 1990s. Such investment initially took place close to the home country market (to take advantage of existing trade, cultural and other relationships), but has since grown significantly beyond the source country's neighbouring region. While other developing country destinations still dominate, entry into developed country markets appear to be increasing more rapidly (Gammeltoft, 2007: 10). The implications of this apparent shift in the destination of developing country outward FDI for the promotion of South-South investment relations requires further research.

Notwithstanding the general trends in the characteristics of outward FDI from developing countries noted above, it is evident that the characteristics of South-South FDI differ significantly according to the source country in the South from which the outflows emanate. Such differences in motive, mode of entry, sectoral structure and destination need to be examined, as they will have diverse implications for

development.[13] In this regard, Section 4 considers the characteristics of South Africa and Brazil's FDI in more detail, in a comparative developing country framework.

The discussion in this section suggests that the attraction of South-South FDI lies in its potential to offer more appropriate ways for developing countries to stimulate the productive capacity needed for development. Cross-border FDI among developing countries may facilitate integration into regional supply chains as a stepping stone to participation in global production networks. South-South FDI could be of some importance for low-income developing countries that may not attract FDI from the North, but may receive investment from developing country multinationals investing in countries with similar or lower GDPs than their own for comparative advantage reasons (UNCTAD, 2004a: 3). Further, the growing importance of the services sector in FDI flows from emerging markets to other developing countries coincides with a renewed recognition of the importance of a growing and efficient services sector in development. Developing countries could explore ways to harness the benefits for development from FDI flows related to the services sector.

If South-South FDI is a desirable goal, then the essential question to be considered is how such investment is to be promoted among developing countries and, in particular, whether RTAs, PTIAs and other types of trade and investment agreement could be useful vehicles for increased investment cooperation of this kind. In order to explore this further, it is instructive to consider the theoretical literature on the impact of economic integration on FDI, with a focus on the developing country context.

3.   The impact of regional integration on FDI, with particular reference to South-South regional agreements

The theoretical analysis of the impact of economic integration on foreign direct investment considers three channels through which integration may affect FDI flows. The first is via the trade provisions of the agreement, the second is via any particular investment provisions that may be contained therein, and the third is through other cooperation provisions of the agreement and institutional changes that could accompany the integration process (Blomström and Kokko, 1997; Aggarwal, 2008).

---

[13] Henley *et al*. (2008), for example, investigate similarities and differences in the characteristics of FDI from China, India, South Africa and the North into sub-Saharan Africa. Their findings are considered further in subsequent sections.

These channels of influence are examined from both static and dynamic perspectives.[14] Although the SACU-MERCOSUR PTA could not currently be classified as a new generation preferential trade and investment agreement (PTIA), it is important to contemplate whether the inclusion of explicit investment provisions in the future could make a significant difference to the prospects for SACU and MERCOSUR to attain the potential development benefits of greater South-South FDI.

3.1 The reduction of intra-regional trade barriers

When considering the trade provisions of economic integration agreements, it should be noted that regional trade liberalisation may have a differential impact on foreign investment originating within the region and that from outside the region, depending on the motive for the FDI. Firstly, intra-regional FDI flows of the tariff-jumping variety are likely to fall with the removal of intra-area tariffs since exporting replaces FDI as the best way of operating in the regional market (i.e. trade and FDI are substitutes). However, Blomström and Kokko (1997: 4) note that trade creation and the accompanying changes in the production structure of member countries following integration may increase intra-regional FDI in parts of the RTA.[15] The removal of intra-regional tariffs may also result in an inflow of FDI from the rest of the world,[16] if external suppliers lose export markets as a result of trade diversion.[17] External FDI inflows may also increase if they were initially restricted by inadequate national market size. In the presence of internal free trade, the location of new FDI into the region will depend on the comparative advantages of the member countries. In the FTA case specifically (where there will be internal free trade but no common external tariff), foreign investors may move funds to countries with lower tariffs on raw materials and intermediate goods, resulting in "investment deflection" (El-Agraa, 1989: 49).

Secondly, if the motive for FDI is internalisation of firm-specific intangible assets rather than the avoidance of trade barriers, the removal of tariffs will not reduce the incentive to engage in FDI, and may in fact stimulate overall investment flows between member

---

[14] Dynamic effects are of particular importance in the development integration approach.
[15] Kindleberger (1966) terms this "investment diversion".
[16] Termed "investment creation" by Kindleberger (1966).
[17] Investment diversion is therefore a response to trade creation, while investment creation is a response to trade diversion. Conventionally, trade creation refers to the replacement of relatively less efficient domestic production with lower cost imports from a partner country, while trade diversion refers to the replacement of lower cost imports from outside the integrating area with relatively less efficient partner country imports.

countries by facilitating the more efficient operation of multinationals across regional borders.[18] Although, in this case, integration seems likely to exert a positive effect on aggregate FDI flows both into and within the region, it is possible that some member countries will experience a reduction in investment, as FDI will tend to concentrate in countries in which investment conditions are most favourable. More specifically, countries with less protected and efficient markets prior to integration are likely to experience the greatest increases in foreign and domestic investment. This is because countries with lower trade barriers will be less likely to be hosting tariff-jumping FDI that may be withdrawn or diverted on integration. At the same time, those sectors characterised by high levels of protection and weak locational advantages may experience a reduction in both foreign and domestic investment.

The actual outcome is ultimately an empirical question, and will depend on the degree to which trade and investment flows are liberalised in the regional agreement, on the locational advantages of the countries in question, and on the motivation for FDI. In sum, the reduction or removal of regional tariffs will have conflicting impacts on intra-regional FDI flows, but is likely to raise FDI inflows from outside the region.

3.2   Investment provisions and other effects

Key provisions of investment agreements include "national treatment" provisions to ensure that foreign and domestic investors received comparable treatment, FDI protection and promotion, minimisation or elimination of performance requirements, property rights guarantees and dispute resolution mechanisms (Aggarwal, 2008: 3; UNCTAD, 2004;: 6-8; Blomström and Kokko, 1997: 6-7). The impact of these provisions will be contingent on the extent to which restrictions were in place prior to integration. An important consideration in regional agreements among low- and middle-income developing countries is that the adoption of investment provisions at an international level will signal to investors that the policy environment is predictable and stable (Velde and Bezemer, 2006).

---

[18] Internalisation via the establishment of foreign affiliates will occur when the alternatives of exporting or licensing carry comparatively high transactions costs. For more discussion, see Dunning (1981), whose eclectic theory of FDI suggests that a country's net international investment position is determined by three sets of factors: ownership, locational and internalisation (OLI) advantages.

Other cooperation provisions of integration agreements may have a positive impact on the investment environment. These include services provisions of regional agreements, cross-border movement of people, and the establishment of regional projects and joint ventures (Aggarwal, 2008: 3). The formation of regional institutions (such as a regional development bank) may also contribute to an environment which is more conducive to intra-regional investment flows.

3.3   Dynamic effects

While the dynamic effects of economic integration are far more difficult to analyse and quantify than the static effects, it is generally argued that they have a significantly stronger impact and are of particular importance in the developing country context (Jaber, 1970-71: 256; Lundahl and Petersson, 1991: 197). The dynamic effects of economic integration that may affect FDI flows include improved competition, dynamic economies of scale in a larger regional market, higher growth rates and the formation of new intangible assets (Aggarwal, 2008: Blomström and Kokko, 1997: 8). Such effects would be expected to encourage FDI flows within and from outside the regional grouping.

However, adverse polarisation effects may outweigh any positive dynamic effects in a regional integration arrangement among countries at unequal levels of development (Vaitsos, 1978: 739,746; Lundahl and Petersson, 1991: 202). Such concerns have been raised in the literature on both SACU and MERCOSUR. While Blomström and Kokko (1997: 8) note that FDI itself may be a critical channel through which the dynamic benefits of economic integration are realised, various factors may lead to a concentration of investment in some parts of the region that could exacerbate any tendency towards polarisation within the area. Nonetheless, even with integration among unequal partners, polarisation is not inevitable. Krugman's (1991: 96-7) core-periphery analysis suggests that closer integration will draw production to the periphery while partial integration will concentrate industry at the core. This suggests that developing countries should carefully consider the depth of integration and the need for a regional industrial development policy. For example, the FDI flows that could follow the promotion of production-sharing networks in a regional integration arrangement may mitigate adverse polarisation effects.

The discussion in this section suggests that regional integration agreements impact on both intra-regional and extra-regional investment flows to the integrating area. From a static perspective, the impact on intra-regional flows depends on the motivation for the FDI, while extra-regional investment into the area is likely to increase. There is a danger, however, that investment will be attracted to the most developed parts of the union, exacerbating polarisation of industrial development. A regional industrial policy that incorporates policies to promote investment flows to less developed areas and countries, as well as the inclusion of explicit investment provisions in the agreement, are likely to enhance the investment benefits of regional integration.

4.   FDI trends and patterns in South Africa and Brazil

In order to facilitate an analysis of the opportunities and challenges relating to the promotion of investment relations between SACU and MERCOSUR in a regional integration context, the present section explores the characteristics of South Africa and Brazil's inward and outward FDI, and the extent and growth of their bilateral investment flows in a comparative setting.

4.1   Trends in inward FDI

Inward foreign direct investment (IFDI) flows to developing countries grew faster than global IFDI flows in the first half of the 1990s and 2000s (Table A1 in the Appendix). Annual flows grew strongly in 2005, 2006 and 2007, but did not match world growth. As the global financial crisis broke in 2008, world IFDI contracted by 14%, but growth in developing country IFDI remained high, exceeding 17% in nominal terms.[19] Developing economy IFDI stocks have, for the most part, consistently accumulated more rapidly than global IFDI stocks. This section examines how South Africa and Brazil have performed in attracting FDI in a comparative developing country context.

---

[19] It is estimated that developed country IFDI flows contracted by 30-50% in the first half of 2009, compared to the second half of 2008. Developing country IFDI flows began to fall in late 2008 as the effects of the crisis began to take hold (UNCTAD, 2009a: 4).

Table 2: Flows and stock of inward FDI (millions of current US$)

		1990	1995	2000	2004	2005	2006	2007	2008
South Africa	**IFDI flow**	**-78**	**1241**	**888**	**799**	**6644**	**-527**	**5687**	**9009**
	IFDI stock	9207	15005	43462	64444	78985	87782	110383	119392
Botswana	**IFDI flow**	**96**	**70**	**57**	**391**	**279**	**486**	**495**	**-4**
	IFDI stock	1309	1126	1827	982	806	805	836	699
Lesotho	**IFDI flow**	**16**	**23**	**32**	**53**	**57**	**92**	**106**	**199**
	IFDI stock	83	179	330	480	537	629	735	934
Namibia	**IFDI flow**	**30**	**153**	**186**	**226**	**348**	**387**	**733**	**746**
	IFDI stock	2047	1708	1276	4120	2453	2786	3854	3472
Swaziland	**IFDI flow**	**28**	**43**	**106**	**71**	**-50**	**36**	**37**	**10**
	IFDI stock	336	535	536	930	813	827	889	619
SACU	***IFDI flow***	*92*	*1530*	*1269*	*1540*	*7278*	*474*	*7058*	*9960*
	IFDI stock	*12982*	*18553*	*47431*	*70956*	*83594*	*92829*	*116697*	*125116*
Brazil	**IFDI flow**	**989**	**4405**	**32779**	**18146**	**15066**	**18822**	**34585**	**45058**
	IFDI stock	37143	47887	122250	161259	181344	220621	309668	287697
Argentina	**IFDI flow**	**1836**	**5609**	**10418**	**4125**	**5265**	**5537**	**6473**	**8853**
	IFDI stock	7751	25463	67601	52507	55139	60253	67574	76091
MERCO SUR	***IFDI flow***	*2937*	*10274*	*43575*	*22641*	*21232*	*26026*	*42532*	*56436*
	IFDI stock	*45983*	*75120*	*193265*	*217026*	*240608*	*286602*	*385822*	*374974*
Chile	**IFDI flow**	**661**	**2956**	**4860**	**7173**	**6984**	**7298**	**12577**	**16787**
	IFDI stock	16107	24437	45753	60541	74196	80297	99488	100989
India	**IFDI flow**	**237**	**2151**	**3585**	**5771**	**7606**	**20336**	**25127**	**41554**
	IFDI stock	1657	5641	17517	38183	44458	70282	105429	123288
China	**IFDI flow**	**3487**	**37521**	**40715**	**60630**	**72406**	**72715**	**83521**	**108312**
	IFDI stock	20691	101098	193348	245467	272094	292559	327087	378083
Angola	**IFDI flow**	**-335**	**472**	**879**	**5606**	**6794**	**9064**	**9796**	**15548**
	IFDI stock	1024	2922	7978	13437	12133	12095	11202	26750
Develop-ing econo-mies	**IFDI flow**	**35087**	**115973**	**256883**	**290397**	**329292**	**433764**	**529344**	**620733**
	IFDI stock	529593	852489	1736167	2338132	2722292	3363925	4393354	4275982
World	**IFDI flow**	**207273**	**341144**	**1381675**	**734892**	**973329**	**1461074**	**1978838**	**1697353**
	IFDI stock	1942207	2915311	5757360	9607801	1005088 5	1240443 9	1566049 8	1490928 9

Source: UNCTAD (2009b).

Notes: IFDI refers to inward FDI. **See Table A2 in the Appendix for definitions and data issues.**

Note that 1990 falls in the pre-democracy era for South Africa.

Tables 2 and 3 illustrate the current dominance of South Africa and Brazil in SACU and MERCOSUR respectively with respect to their share of each region's IFDI. For

example, South Africa's IFDI flows as a proportion of SACU's total IFDI flows exceed 80% for most of the period after 2004.[20] As Table 3 indicates, South Africa's share of SADC's IFDI is significantly less, particularly in terms of flows, largely because of the surge in IFDI flows into Angola from the early 2000s (see Table 2). Since 2000, Brazil's position in MERCOSUR has been more consistent than South Africa's position in SACU and SADC, with 70-80% of IFDI flows into MERCOSUR destined for Brazil. Brazil has also consistently held 60-80% of the region's IFDI stock since 1995. Argentina's IFDI flows exceeded Brazil's in 1990 and 1995 (see Table 2), but the position was reversed by the late 1990s, so much so that Brazil's flows have exceeded Argentina's by a factor of five in the last two years.

---

[20] The exception is 2006, when South Africa experienced negative IFDI flows related to the sale by foreign investors of holdings in a domestic gold mining company (Rusike *et al*, 2007: 13).

Table 3: South Africa and Brazil: Percentage share in global and regional inward FDI flows and stocks

	1990	1995	2000	2004	2005	2006	2007	2008
South Africa								
% SACU IFDI flows	**-84.78**	**81.11**	**69.98**	**51.88**	**91.29**	**-111.2**	**80.58**	**90.45**
% SACU IFDI stock	70.92	80.88	91.63	90.82	94.49	94.56	94.59	95.43
% SADC IFDI flows	**-144.4**	**50.22**	**28.09**	**9.56**	**43.43**	**-4.62**	**26.51**	**28.98**
% SADC IFDI stock	49.47	54.21	64.98	63.67	70.01	70.46	72.39	65.59
% Developing IFDI flows	**-0.22**	**1.07**	**0.35**	**0.28**	**2.02**	**-0.12**	**1.07**	**1.45**
% Developing IFDI stock	1.74	1.76	2.50	2.76	2.90	2.61	2.51	2.79
% World IFDI flows	**-0.04**	**0.36**	**0.06**	**0.11**	**0.68**	**-0.04**	**0.29**	**0.53**
% World IFDI stock	0.47	0.51	0.75	0.67	0.79	0.71	0.70	0.80
Brazil								
%MERCOSUR IFDI flows	**33.67**	**42.88**	**75.22**	**80.15**	**70.96**	**72.32**	**81.32**	**79.84**
% MERCOSUR IFDI stock	80.78	63.75	63.26	74.30	75.37	76.98	80.26	76.72
% Developing IFDI flows	**2.82**	**3.80**	**12.76**	**6.25**	**4.58**	**4.34**	**6.53**	**7.26**
% Developing IFDI stock	7.01	5.62	7.04	6.90	6.66	6.56	7.05	6.73
% World IFDI flows	**0.48**	**1.29**	**2.37**	**2.47**	**1.55**	**1.29**	**1.75**	**2.65**
% World IFDI stock	1.91	1.64	2.12	1.68	1.80	1.78	1.98	1.93

Source: Own computations from UNCTAD (2009b).
Notes: IFDI refers to inward FDI; negative shares for South Africa reflect years in which IFDI flows were negative.
Note that 1990 falls in the pre-democracy era for South Africa.

South Africa's IFDI as a proportion of developing country IFDI is very low, with flows generally ranging from 1-2% in the years depicted in Table 3, and stocks ranging from 1.5-3% of developing country IFDI stocks. By contrast, Brazil's IFDI flows and stocks as a proportion of developing country flows and stocks average around 6% and 7% respectively for the years surveyed. Brazil's share of world IFDI flows and stocks lies between 1% and 3% over the years in question, while South Africa's are much lower (merely a fraction of a percent), particularly in the case of IFDI flows (Table 3).

A key feature of the data in Tables 2 and 3 is the extent to which it demonstrates South Africa's inability to attract a steady stream of IFDI flows since democratisation in 1994, relative to Brazil, Argentina (in most years), Chile, India, and even Angola

(since 2004). China's IFDI flows, depicted in Table 2, exceed South Africa's by over tenfold in recent years.

The picture in terms of inward flows is reinforced when economic size is taken into account. Table 4 depicts IFDI flows and stocks as a proportion of GDP for the various years. IFDI flows as a proportion of GDP have been high in recent years in Lesotho and Namibia, Chile, and, in particular, Angola.[21] The corresponding ratios for Argentina, Brazil, China and India have largely ranged from 2.0-3.5%, although the ratio in Brazil was slightly lower at around 1.7% in 2005 and 2006, and India's was below 1% (although in excess of 0.5%) in the decade prior to 2006. In South Africa, by contrast, IFDI flows as a proportion of GDP were less than 0.9% in every year in the table except for 2005, 2007 and 2008 where they ranged from 2.0-3.3%. The higher ratios in these three years correspond to spikes in South Africa's IFDI flows related to particular M&A deals (see Table 2).[22]

South Africa's IFDI stock, however, has grown steadily at an average annual rate of 17% per annum between 1995 and 2008, in excess of the growth rate of Brazil's at 15%. Further, South Africa's IFDI stock as a proportion of GDP is higher than Brazil's, and significantly exceeds that of India and China (Tables 2 and 4). As noted earlier, however, South Africa's IFDI stock remains small as a proportion of developing country IFDI stock, compared to Brazil's.

---

[21] In Lesotho and Namibia the inflows relate to AGOA, while Chinese investment in Angola has grown exponentially since the early 2000s.

[22] In 2005 there was a large inflow following the Barclays acquisition of ABSA Bank, while the 2007 inflow followed the acquisition of South African firms by private equity funds (Rusike *et al*, 2007: 13). In 2008, the Industrial and Commercial Bank of China bought a 20% stake in Standard Bank (UNCTAD, 2009a: 44). Such IFDI spikes are also evident in the data in 1997 and 2001 (years that do not appear in the table) (see Note 23).

Table 4: Inward FDI as a percentage of GDP

		1990	1995	2000	2004	2005	2006	2007	2008
South Africa	**IFDI flow**	**-0.07**	**0.82**	**0.67**	**0.37**	**2.74**	**-0.21**	**2.01**	**3.27**
	IFDI stock	8.22	9.93	32.71	29.83	32.59	34.14	39.00	43.28
Botswana	**IFDI flow**	**2.75**	**1.59**	**1.17**	**4.60**	**3.06**	**5.24**	**4.58**	**-0.03**
	IFDI stock	37.53	25.46	37.36	11.56	8.85	8.68	7.74	5.98
Lesotho	**IFDI flow**	**2.61**	**2.51**	**3.69**	**4.04**	**4.02**	**6.16**	**6.61**	**12.86**
	IFDI stock	13.37	19.21	38.64	36.39	37.68	42.10	45.39	60.38
Namibia	**IFDI flow**	**1.26**	**4.37**	**5.46**	**4.00**	**5.57**	**5.57**	**9.89**	**10.44**
	IFDI stock	87.48	48.75	37.39	72.93	39.29	40.16	52.02	48.54
Swaziland	**IFDI flow**	**3.27**	**3.19**	**7.62**	**2.92**	**-1.94**	**1.33**	**1.30**	**0.36**
	IFDI stock	38.55	39.24	38.63	38.56	31.78	30.35	30.89	21.92
SACU[1]	***IFDI flow***	*0.08*	*0.95*	*0.89*	*0.66*	*2.78*	*0.17*	*2.31*	*3.32*
	IFDI stock	*10.88*	*11.50*	*33.07*	*30.33*	*31.94*	*33.45*	*38.17*	*41.83*
Brazil	**IFDI flow**	0.21	0.57	5.08	2.73	1.71	1.76	2.63	2.90
	IFDI stock	7.76	6.23	18.96	24.30	20.56	20.57	23.56	18.53
Argentina	**IFDI flow**	1.30	2.17	3.66	2.69	2.87	2.58	2.47	2.68
	IFDI stock	5.48	9.87	23.77	34.29	30.10	28.12	25.76	23.05
MERCOSUR	***IFDI flow***	*0.46*	*0.97*	*4.56*	*2.70*	*1.95*	*1.98*	*2.64*	*2.93*
	IFDI stock	*7.26*	*7.12*	*20.21*	*25.93*	*22.09*	*21.79*	*23.94*	*19.44*
Chile	**IFDI flow**	**1.97**	**4.10**	**6.46**	**7.50**	**5.91**	**4.98**	**7.67**	**9.90**
	IFDI stock	48.07	33.91	60.84	63.29	62.75	54.83	60.69	59.54
India	**IFDI flow**	**0.07**	**0.58**	**0.77**	**0.84**	**0.94**	**2.23**	**2.20**	**3.32**
	IFDI stock	0.51	1.53	3.74	5.53	5.50	7.72	9.24	9.84
China	**IFDI flow**	**0.86**	**4.96**	**3.41**	**3.13**	**3.14**	**2.62**	**2.46**	**2.49**
	IFDI stock	5.12	13.36	16.21	12.68	11.82	10.55	9.62	8.69
Angola	**IFDI flow**	**-3.25**	**9.46**	**9.62**	**28.35**	**22.18**	**18.26**	**18.75**	**21.66**
	IFDI stock	9.95	58.50	87.35	67.95	39.61	24.36	21.44	37.27

Source: UNCTAD (2009b).
Note: IFDI refers to inward FDI.
          [1]Own computations from UNCTAD (2009b) for SACU.

Although South African policies to attract FDI since 1994 have been wide-ranging (see Section 5), inward flows have been erratic and have not been particularly large when viewed in a comparative middle-income developing country context. Further, the flows that have occurred have not necessarily been of the most appropriate type. Significant recent inflows have mainly been related to M&As, which have

overwhelmingly dominated IFDI flows in the past decade.[23] According to Gelb and Black (2004: 210), just below half of IFDI in South Africa in the 1990s involved acquisitions as opposed to Greenfield investments or joint ventures, with little resulting benefit for employment creation. In Brazil the share of M&As in IFDI exceeded 50% in1996-98 and again in 2000, 2003 and 2006 (Hiratuka, 2008: 5; UNCTAD, 2009b). It was, however, below 40% for most of the intervening years. From a development perspective, it is often argued that Greenfield investment is to be preferred, since M&As do not necessarily result in the creation of new productive capacity in the economy (Hiratuka, 2008: 5).

4.2   *Sectoral distribution of inward FDI*

Table 5a depicts the sectoral structure of South Africa's IFDI stock for various years since 1996.[24] Currently, the services sector accounts for 36.6% of IFDI stock, followed by manufacturing at 32.4%, and mining at 30.9%. While the top panel of the table indicates a steady increase in IFDI stock in the services sector, the sector's share is somewhat lower than it was in the early 2000s. This is due to faster growth in the IFDI stock in mining in particular and also in manufacturing between 2002 and 2007. IFDI stock contracted rather dramatically in mining in 2008, while continuing to grow, albeit at a much slower rate, in services and manufacturing. The share of the services sector in South Africa's IFDI stock is largely accounted for by the finance, insurance, real estate and business services subsector. However, this has not been the fastest growing services subsector in terms of inward investment. IFDI stock in wholesale and retail trade (and for some years transport and communications) has grown significantly faster, but off a much lower base. Important manufacturing subsectors for IFDI in the early to mid-2000s included motor vehicles and parts, steel and other metals, paper, food and beverages, and chemicals (Thomas and Leape, 2005: 12-13).[25]

---

[23] IFDI into South Africa was negligible in 1985-93 as a result of the political situation, then increased slowly in 1994-96 with the political transition. IFDI spikes followed in 1997 and 2001, with foreign involvement in Telkom's partial privatisation (Thomas and Leape, 2005; Rusike *et al*, 2007: 12-13). The country has attracted more foreign portfolio inflows than FDI flows in recent years (see SARB Quarterly Bulletin, December 2009).

[24] Sectoral data does not appear to be available for South Africa's IFDI flows. The stock data was unavailable for 1995.

[25] Data on South Africa's FDI by manufacturing subsector does not appear in the SARB dataset. Data of this nature was collected by the BusinessMap Foundation from 1994 until the mid-2000s when its

Table 5a: Sectoral structure of South Africa's IFDI stock

IFDI stock in current R millions	1996	2000	2002	2005	2006	2007	2008
Agriculture	356	457	655	734	888	858	935
Mining	2897	91540	80617	168271	250361	332254	195365
Manufacturing	25422	86783	67248	136028	165432	197099	204754
Services	30033	150079	107317	184284	195041	221714	231565
Electricity, gas and water	-	-	30	28	29	29	29
Wholesale & retail trade, catering & accomm	7619	11895	13312	14722	16172	27766	30990
Transport, storage & communication	534	8521	10131	9449	13809	12840	15525
Finance, insurance, real estate & business serv.	21622	129162	81634	157590	162521	178580	182420
Construction	158	314	1858	1977	1983	1972	2033
Community, social & personal services	100	187	352	518	527	527	568
Total	58708	328859	255837	489317	611722	751925	632619
% Share of each sector	1996	2000	2002	2005	2006	2007	2008
Agriculture	0.61	0.14	0.26	0.15	0.15	0.11	0.15
Mining	4.93	27.84	31.51	34.39	40.93	44.19	30.88
Manufacturing	43.30	26.39	26.29	27.80	27.04	26.21	32.37
Services	51.16	45.64	41.95	37.66	31.88	29.49	36.60
Electricity, gas and water	-	-	0.01	0.01	0.00	0.00	0.00
Wholesale & retail trade, catering & accomm	12.98	3.62	5.20	3.01	2.64	3.69	4.90
Transport, storage & communication	0.91	2.59	3.96	1.93	2.26	1.71	2.45
Finance, insurance, real estate & business serv.	36.83	39.28	31.91	32.21	26.57	23.75	28.84
Construction	0.27	0.10	0.73	0.40	0.32	0.26	0.32
Community, social & personal services	0.17	0.06	0.14	0.11	0.09	0.07	0.09
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: SARB Quarterly Bulletin, various issues. Own computations for shares.

The structure of IFDI into Brazil has also been characterised by a shift from services to manufacturing and (except for 2006) mining in recent years (Table 5b).[26] The share of services in IFDI flows fell to 46.92% in 2007, while the shares of manufacturing and the primary sector increased to 39.3% and 13.8% respectively. An examination of the data at a more disaggregated level reveals that the rise in the share of the primary sector is overwhelmingly accounted for by increased IFDI into

---

FDI database was discontinued (see Thomas and Leape, 2005: C3-C6 for more detail on the BusinessMap Foundation database).
[26] In the case of Brazil, stock data was available by sector for 1995 and 2000, and flow data by sector thereafter.

non-agricultural primary sectors (WTO, 2009a: 159). In contrast to South Africa, it is reported that IFDI into the primary sector in Brazil tripled in 2008 raising the sector's share to 34% of IFDI while manufacturing largely maintained its previous level, accounting for 35% of inflows (UNCTAD, 2009a: 66). Within the services sector in Brazil, growth in finance and business services was consistently high until 2007 (Table 5b). The most important manufacturing subsectors in terms of IFDI flows were similar to South Africa's: foodstuffs and beverages, basic metallurgy, chemical products and automotive products (WTO, 2009a: 159).

Table 5b: Sectoral structure of Brazil's IFDI stocks and flows

	IFDI stock		IFDI flows			
IFDI in US$ millions	**1995**	**2000**	**2003**	**2005**	**2006**	**2007**
Agriculture and Mining	**925**	**2401**	1484	2194	1542	4751
Manufacturing	**27907**	**34726**	4355	6529	8462	13481
Services	**12864**	**65888**	7247	12915	12702	16114
Electricity, gas and water	0	7116	651	3958	2332	1055
Wholesale and retail trade	2801	9811	985	1571	1527	2759
Telecommunications[1]	399	18762	2999	1438	1377	938
Finance and business services[2]	6591	21690	1790	4200	5620	7469
Others	3072	8509	822	1748	1846	3893
Total	**41696**	**103015**	**13086**	**21638**	**22706**	**34346**
% Share of each sector	**1995**	**2000**	**2002**	**2005**	**2006**	**2007**
Agriculture and Mining	**2.22**	**2.33**	**11.34**	**10.14**	**6.79**	**13.83**
Manufacturing	**66.93**	**33.71**	**33.28**	**30.17**	**37.27**	**39.25**
Services	**30.85**	**63.96**	**55.38**	**59.69**	**55.94**	**46.92**
Electricity, gas and water	0.00	6.91	4.97	18.29	10.27	3.07
Wholesale and retail trade	6.72	9.52	7.53	7.26	6.73	8.03
Telecommunications	0.96	18.21	22.92	6.65	6.06	2.73
Finance and business services	15.81	21.06	13.68	19.41	24.75	21.75
Others	7.37	8.26	6.28	8.08	8.13	11.33
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Source: Hiratuka (2008: 4) for 1995 and 2000; WTO (2009a: 159) for 2002-2007.
[1]Includes Transportation for 2002-2007.
[2]Includes Real estate and Insurance for 2002-2007.

4.3   *Geographical sources of inward FDI*

By geographical source, IFDI stocks in South Africa have been overwhelmingly dominated by the UK since the late 1990s.[27]   In 2008, the UK was the origin of 54% of South Africa's IFDI stock, followed by the US, Germany, the Netherlands and Switzerland at 7.46%, 7.42%, 5.09% and 4.62% respectively (Table 6a).   As far as developing country sources go, only Malaysia has been in the top ten in the 2000s, with the exception of China in 2008 (see Note 22).   Generally, less than 1% of South Africa's IFDI stock originates in the rest of Africa, with more than half of this proportion coming from Zimbabwe and Mauritius.   The position of Brazil, Argentina, India and China is considered in detail in Section 4.5.

Although the top five geographical sources in Table 6a have consistently dominated IFDI stocks in South Africa since the mid-1990s, countries such as Japan, France and Luxembourg have shown an increasing presence, while others appear to engage only in occasional large deals.

---

[27] This is related to the change in domicile of prominent South African multinational corporations, including Anglo-American, BHP Billiton, Old Mutual and SABMiller (Rusike *et al.*, 2007: 17; Thomas and Leape, 2005: 10-11).

Table 6a: South Africa: Geographical sources of inward FDI stocks: selected countries

IFDI stock in R millions	1996	2000	2003	2005	2007	2008
UK	19377	242926	188411	350459	524170	342472
US	8594	19625	29521	32139	46346	47165
Germany	11001	19090	22858	29903	41359	46960
Netherlands	4584	11006	16066	14120	28952	32224
Switzerland	4146	10263	6102	10636	21338	29235
China	..	..	209	340	480	26760
Japan	530	1533	7127	9887	12934	17036
Malaysia	..	6816	10043	2348	2343	12750
France	3226	2531	4069	7699	12304	9228
Luxembourg	..	766	1840	2170	8569	8419
AFRICA	631	2279	4659	3989	5711	5225
Zimbabwe	..	..	2138	2138	2138	2138
Mauritius	..	..	1966	1265	1982	1910
BLNS[1]	264	270	424	419	1397	693
India	..	..	170	188	548	..
Brazil	..	..	98	181	213	..
Argentina	..	..	12	32	20	..
Total	**58708**	**328859**	**303545**	**489317**	**751925**	**632619**

% Share of country/region	1996	2000	2003	2005	2007	2008
UK	33.01	73.87	62.07	71.62	69.71	54.14
US	14.64	5.97	9.73	6.57	6.16	7.46
Germany	18.74	5.80	7.53	6.11	5.50	7.42
Netherlands	7.81	3.35	5.29	2.89	3.85	5.09
Switzerland	7.06	3.12	2.01	2.17	2.84	4.62
China	..	..	0.07	0.07	0.06	4.23
Japan	0.90	0.47	2.35	2.02	1.72	2.69
Malaysia	..	2.07	3.31	0.48	0.31	2.02
France	5.49	0.77	1.34	1.57	1.64	1.46
Luxembourg	..	0.23	0.61	0.44	1.14	1.33
AFRICA	1.07	0.69	1.53	0.82	0.76	0.83
Zimbabwe	..	..	0.70	0.44	0.28	0.34
Mauritius	..	..	0.65	0.26	0.26	0.30
BLNS	0.45	0.08	0.14	0.09	0.19	0.11
India	..	..	0.06	0.04	0.07	..
Brazil	..	..	0.03	0.04	0.03	..
Argentina	..	..	0.004	0.007	0.003	..
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Source: SARB Quarterly Bulletin, various issues; SARB (2009). Own computations for shares.
[1]BLS for 1996 and 2000.
.. not available.

IFDI in Brazil has been dominated by the Netherlands and the US in the past decade, with the share of the Netherlands (21.4%) exceeding that of the US (19.3%) in terms of cumulative flows in 2003-2007.[28] The Cayman Islands and Bermuda became the third and fourth most important sources of IFDI into Brazil in terms of cumulative flows in 2003-2007, with shares of 7.2% and 7.0% respectively. Spain has been a consistently important country of origin for Brazil's IFDI, ranking fifth in 2003-2007 with a share of 6.0% of cumulative IFDI flows. Germany, France and Luxembourg are other significant source countries. By contrast with South Africa, the UK only accounted for 1.9% of cumulative inward flows into Brazil in 2003-2007. Inflows from Latin America are generally small, and appear to have diminished in importance in recent years from countries such as Argentina, Panama and Uruguay. Mexico, however, accounted for 2.6% of cumulative inward flows in 2003-2007. There are no significant inflows from Africa, and neither China nor India feature as inward investors of any importance in 2003-2007. The increasing role of offshore financial centres such as the Cayman Islands and Bermuda as conduits for Brazil's IFDI is evident from the data. The position of South Africa as an investor in Brazil is considered in Section 4.5.

---

[28] The US dominated in terms of IFDI stock in 1996 and 2000, with shares of 25.6% and 23.4% respectively. Note that, as in the case of sectoral structure, stock data by geographical source was available for Brazil for 1995 and 2000, and flow data by geographical source thereafter.

Table 6b: Brazil: Geographical sources of inward FDI: selected countries

US$ millions	IFDI stock		IFDI flows			
	1996[2]	2000	2003	2005	2007	2003-07
Netherlands	2061	11055	1444	3208	8129	23992
United States	12828	24500	2383	4644	6073	21599
Cayman Islands	1547	6225	1909	1078	1604	8087
Bermuda	887	1940	630	39	1497	7892
Spain	838	12253	710	1220	2202	6750
Germany	6040	5110	506	1388	1801	5357
France	3002	6931	825	1458	1233	4765
Luxembourg[1]	1368	1691	238	139	2857	4728
Canada	1938	2028	117	1437	819	4250
Switzerland	2924	2252	336	342	905	3607
Japan	2851	2468	1368	779	501	3550
Mexico	45	132	45	1661	409	2958
United Kingdom	1884	1488	253	153	1053	2160
British Virgin Islands	2097	3197	550	255	371	1707
Uruguay	955	2107	154	167	212	931
Chile	238	228	..	103	717	869
Panama	1352	1580	147	166	141	745
Argentina	424	758	..	112	70	388
Total	**50195**	**103015**	**13087**	**21638**	**34335**	**112031**
% Share in total	IFDI stock		IFDI flows			
	1996[2]	2000	2003	2005	2007	2003-07
Netherlands	4.11	10.73	11.03	14.83	23.68	21.42
United States	25.56	23.78	18.21	21.46	17.69	19.28
Cayman Islands	3.08	6.04	14.59	4.98	4.67	7.22
Bermuda	1.77	1.88	4.81	0.18	4.36	7.04
Spain	1.67	11.89	5.43	5.64	6.41	6.03
Germany	12.03	4.96	3.87	6.41	5.25	4.78
France	5.98	6.73	6.30	6.74	3.59	4.25
Luxembourg[1]	2.73	1.64	1.82	0.64	8.32	4.22
Canada	3.86	1.97	0.89	6.64	2.39	3.79
Switzerland	5.82	2.19	2.57	1.58	2.64	3.22
Japan	5.68	2.40	10.45	3.60	1.46	3.17
Mexico	0.09	0.13	0.34	7.68	1.19	2.64
United Kingdom	3.75	1.44	1.93	0.71	3.07	1.93
British Virgin Islands	4.18	3.10	4.20	1.18	1.08	1.52
Uruguay	1.90	2.04	1.18	0.77	0.62	0.83
Chile	0.47	0.22	..	0.48	2.09	0.78
Panama	2.69	1.53	1.12	0.77	0.41	0.66
Argentina	0.84	0.74	..	0.52	0.20	0.35

Source: WTO (2009a: 158) for 2003-2007; UNCTAD (2004c: 171-2) for 1996 and 2000.
Own computations for shares.
[1]Belgium/Luxembourg for 1996 and 2000.
[2]1995 data for Chile and Mexico.
.. not available

4.4   *Outward FDI: destination, type and motivation*

As noted in Section 2.2, there has been increasing research on the growing importance of outward FDI from developing countries (see Gammeltoft, 2007; Henley *et al.*, 2008; UNCTAD, 2006). Brazil, India and China have all become important sources of OFDI, together accounting for 16.4% and 11.7% of developing country outward FDI flows and stock respectively in 2007. The corresponding shares for 2008 were 30.9% and 15.8% for flows and stock respectively, due to large additional outflows from Brazil and China that year.[29]

If South Africa is included, the proportion of developing country outward FDI stock accounted for by the group rises to 14.9% and 18.4% for 2007 and 2008 respectively (see Table 7).

---

[29] Shares and growth rates in this section have been computed from the data in Table 7 unless otherwise indicated.

Table 7: Flows and stock of outward FDI (millions of current US$)

		1990	1995	2000	2004	2005	2006	2007	2008
South Africa	**OFDI flow**	**27**	**2498**	**271**	**1352**	**930**	**6067**	**2962**	**-3533**
	OFDI stock	15004	23288	32333	39078	37705	50835	65859	62325
Botswana	**OFDI flow**	**7**	**41**	**2**	**-39**	**56**	**50**	**51**	**3**
	OFDI stock	447	650	517	950	796	758	1323	1060
Lesotho	**OFDI flow**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
	OFDI stock	0	0	2	2	2	2	2	2
Namibia	**OFDI flow**	**1**	**-1**	**3**	**-22**	**-13**	**-12**	**3**	**5**
	OFDI stock	80	15	45	101	26	7	16	11
Swaziland	**OFDI flow**	**3**	**30**	**10**	**-1**	**-24**	**2**	**3**	**-5**
	OFDI stock	38	135	87	110	74	69	72	59
SACU	*OFDI flow*	*38*	*2568*	*286*	*1290*	*949*	*6107*	*3019*	*-3530*
	OFDI stock	*15569*	*24088*	*32984*	*40241*	*38603*	*51671*	*67272*	*63457*
Brazil	**OFDI flow**	**625**	**1096**	**2282**	**9807**	**2517**	**28202**	**7067**	**20457**
	OFDI stock	41044	44474	51946	69196	79259	113925	136103	162218
Argenti-na	**OFDI flow**	**35**	**1497**	**901**	**676**	**1311**	**2439**	**1504**	**1351**
	OFDI stock	6057	10696	21141	21804	2334	25897	27544	28749
MERCO-SUR	*OFDI flow*	*660*	*2598*	*3188*	*10507*	*3870*	*30649*	*8668*	*21817*
	OFDI stock	*47422*	*55534*	*73427*	*91272*	*81908*	*140230*	*164209*	*191539*
Chile	**OFDI flow**	**8**	**752**	**3987**	**1563**	**2183**	**2742**	**3009**	**6891**
	OFDI stock	154	2774	11154	17413	21359	26596	32695	31728
India	**OFDI flow**	**6**	**119**	**509**	**2179**	**2978**	**14344**	**17281**	**17685**
	OFDI stock	124	495	1859	7759	10033	26799	44080	61765
China	**OFDI flow**	**830**	**2000**	**916**	**5498**	**12261**	**21160**	**22469**	**52150**
	OFDI stock	4455	17768	27768	44777	57206	73330	95799	147949
Angola	**OFDI flow**	**1**	**-1**	**-21**	**35**	**221**	**194**	**912**	**2570**
	OFDI stock	1	0	2	52	273	467	1127	3696
Develop-ing econo-mies	**OFDI flow**	**11909**	**55007**	**134799**	**120445**	**122707**	**215282**	**285486**	**292710**
	OFDI stock	145179	329927	862358	1116030	1283694	1731557	2360772	2356649
World	**OFDI flow**	**239111**	**361679**	**1213795**	**929641**	**878988**	**1396916**	**2146522**	**1857734**
	OFDI stock	1785584	2941724	6069882	10093115	10603662	12953546	16226586	16205663

Source: UNCTAD (2009b).
Note: OFDI refers to outward FDI. **See Table A2 in the Appendix for definitions and data issues.**

OFDI flows from South Africa have been erratic for the years depicted in Table 7, and were negative in 2008 due to the divestment of Richemont and Remgro from British

American Tobacco (UNCTAD, 2009a: 46).[30] There has generally been steady growth in South Africa's OFDI stock however, with some significant growth periods, particularly in 2005-2007.   The average annual growth rate in South Africa's OFDI stock for the period 1995-2007 was 9% per annum in nominal terms.   Outward investment from Brazil has been significantly higher than that from South Africa in flow and stock terms in most years. Brazil's OFDI stock, however, grew at much the same rate as South Africa's at an average annual rate of 9.8% per annum in nominal terms for the period 1995-2007.

In 2007, South Africa's OFDI stock was primarily located in Luxembourg (27.2%), the UK (20.1%), China (7.4%), Mauritius (7.38%), and the US (5.3%). In regional terms, Europe accounted for 62% of South Africa's OFDI stock, followed by Africa at 19% (SARB Quarterly Bulletin, December 2008; SARB, 2009). South America received only 0.6% of South Africa's OFDI stock in 2007.[31] In 2008, the picture differed slightly at the country level, with the UK as the destination of 24.8% of South Africa's OFDI stock, Luxembourg 11.7% and Mauritius 9.51%. China was next in importance, followed by Austria, with the US falling to sixth place. The share of Europe in 2008 was 54.8%, while that of Africa was higher at 21.8%.[32] South America's share more than doubled to 1.39% but was still very low (SARB Quarterly Bulletin, December 2009).   The geographical destination of South Africa's outward investment has shifted significantly since 1996, when Europe accounted for 90% of OFDI and Africa only 4% (SARB Quarterly Bulletin, December 1997).

Brazil's OFDI stock resides primarily in other Latin American countries, and is mainly oriented towards offshore financial centres (Gammeltoft, 2007: 11; UNCTAD, 2004b: 7). In 2003, the Cayman Islands was the location of 40.5% of Brazil's OFDI stock, followed by the Bahamas (12.6%) and the British Virgin Islands (12.2%).[33]   This suggests that Brazil's OFDI is strongly driven by tax shelter or currency transaction motives, rather than an intention to engage in international production. The UNCTAD

---

[30] Thomas and Leape (2005: C3) note that the change in domicile of large South African multinationals in the late 1990s (see Note 27) would have raised South Africa's OFDI as well as IFDI, as shares held in these companies by South African residents would have been re-classified as foreign assets.
[31] South Africa's OFDI to Brazil, Argentina, India and China is considered further in Section 4.5.
[32] In 2008 Mozambique (with a share of 1.68%) overtook the Netherlands (at 1.64%) in importance as a destination for South Africa's OFDI. The BLNS shares were very low at 0.6% in 2007 and 0.73% in 2008.
[33] Shares have been computed from the data in UNCTAD (2004b: 8, Table 4).

(2004b: 1) report comments, however, that the offshore financial centres may to some extent be acting as conduits for investment to other countries. Uruguay, the US, Luxembourg, Spain and Argentina are other important hosts of Brazil's OFDI stock. Africa, China and India have not been significant destinations.

Brazil's outward investment stock is concentrated in services (with a share of 96.8% in 2003), mainly in finance and business activities, in accordance with the high proportion of OFDI in offshore financial centres (UNCTAD, 2004b: 9). Manufacturing sector OFDI (at 2.7% of the total OFDI stock) was concentrated in food, beverages and tobacco, petroleum and other fuel products, and metals in 2003. More recently, trade, resource extraction and construction have increased in importance (UNCTAD, 2006: 114). It is reported that the preferred mode of entry of Brazilian firms in these areas is through Greenfield investments (UNCTAD, 2004b: 5).

According to Gelb and Black (2004: 181), South Africa's South-South OFDI into Africa has been market and resource-seeking in nature, with mining, finance, retail and infrastructure as key sectors. Market-seeking motives appear to have become more dominant by the mid-2000s, with the increasing importance of outward FDI in certain services subsectors like IT and telecommunications (Gelb, 2005; Henley *et al.*, 2008). Using data based on UNIDO's 2005 Africa Foreign Investor survey (see UNIDO, 2007), Henley *et al* (2008: 5) report that more than 60% of outward foreign investors from South Africa into sub-Saharan Africa are to be found in the services sector, while investors from China and India operate mostly in manufacturing. Acquisitions are a significant mode of entry for South African firms.[34] In manufacturing, food and beverages is a significant subsector for South Africa's OFDI. UNCTAD (2006: 125) also points to the importance of industrial chemicals, metals and paper.

The discussion in Sections 4.2 to 4.4 indicates that the investment relations of South Africa and Brazil are oriented to and from other countries and regions. However, an examination of the sectors that are important in inward and outward FDI in each country is suggestive. There may be prospects for increased FDI between the two countries related to particular services and manufacturing subsectors. For example,

---

[34] It should be noted that the absence of Angola and Mauritius from the UNIDO survey is a major shortcoming in Henley *et al.*'s use of the database to analyse OFDI from China and South Africa in sub-Saharan Africa.

foodstuffs and beverages, metals and chemicals are important in both South Africa's manufacturing OFDI and Brazil's manufacturing IFDI. A clearer and more recent picture of each country's FDI at a more disaggregated sectoral level is necessary to investigate this further. This is an area for future research.

4.5 *South Africa and Brazil: bilateral FDI levels and trends*

In order to assess the aggregate levels and recent trends in FDI between SACU and MERCOSUR, this section explores South Africa's inward and outward FDI stocks vis-à-vis Brazil from a comparative perspective, with reference to its bilateral FDI relations with Argentina, India and China. Argentina is included as it is the other relatively large member of MERCOSUR, while India is chosen as a comparator country because of its involvement in the IBSA Trilateral Development Initiative, and China because of its emerging position in the global economy and its increasing importance as a trade and investment partner in Africa.

As Table 8a indicates, South Africa's inward FDI stock from Brazil more than doubled in nominal terms between 2002 and 2007, but has remained a mere 0.03% of South Africa's total IFDI stock and less than 1% of its IFDI from other developing countries. South Africa's IFDI stock from Argentina is negligible at a tenth of that from Brazil. In both cases, IFDI stock resides solely in the private non-banking sector of the economy.[35]

---

[35] The sectoral structure of the IFDI stock by geographical origin in terms of mining, manufacturing and services was not available for the countries in Table 8.

Table 8a: South Africa's inward FDI stock from selected countries by institutional sector

Stock in current R millions	2001	2002	2003	2004	2005	2006	2007
Brazil	**-**	**96**	**98**	**114**	**181**	**180**	**213**
Public corporations	-	0	0	0	0	0	0
Banks	-	0	0	0	0	0	0
Private sector	-	96	98	114	181	180	213
Argentina	**0**	**9**	**12**	**12**	**32**	**23**	**20**
Public corporations	0	0	0	0	0	0	0
Banks	0	0	0	0	0	0	0
Private sector	0	9	12	12	32	23	20
India	**158**	**152**	**170**	**183**	**188**	**271**	**548**
Public corporations	0	0	0	0	0	0	0
Banks	137	131	138	146	151	179	266
Private sector	21	21	32	37	37	92	282
China	**169**	**219**	**209**	**319**	**340**	**486**	**480**
Public corporations	0	0	0	0	0	0	0
Banks	140	182	147	159	181	218	317
Private sector	29	37	62	160	159	268	163
Total IFDI stock	**370695**	**264419**	**311208**	**362858**	**499586**	**611722**	**751925**
Public corporations	5072	4923	12207	650	-	-	-
Banks	3622	3984	4265	7759	46047	57497	63417
Private sector	362001	255512	294736	354449	453539	554225	688508
% Share in total	2001	2002	2003	2004	2005	2006	2007
Brazil	**-**	**0.036**	**0.031**	**0.031**	**0.036**	**0.029**	**0.028**
Public corporations	-	0.000	0.000	0.000	0.000	0.000	0.000
Banks	-	0.000	0.000	0.000	0.000	0.000	0.000
Private sector	-	0.036	0.031	0.031	0.036	0.029	0.028
Argentina	**0.000**	**0.003**	**0.004**	**0.003**	**0.006**	**0.004**	**0.003**
Public corporations	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Banks	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Private sector	0.000	0.003	0.004	0.003	0.006	0.004	0.003
India	**0.043**	**0.057**	**0.055**	**0.050**	**0.038**	**0.044**	**0.073**
Public corporations	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Banks	0.037	0.050	0.044	0.040	0.030	0.029	0.035
Private sector	0.006	0.008	0.010	0.010	0.007	0.015	0.038
China	**0.046**	**0.083**	**0.067**	**0.088**	**0.068**	**0.079**	**0.064**
Public corporations	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Banks	0.038	0.069	0.047	0.044	0.036	0.036	0.042
Private sector	0.008	0.014	0.020	0.044	0.032	0.044	0.022
Total IFDI stock	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
Public corporations	1.368	1.862	3.922	0.179	-	-	-
Banks	0.977	1.507	1.370	2.138	9.217	9.399	8.434
Private sector	97.655	96.631	94.707	97.683	90.783	90.601	91.566

Source: SARB Quarterly Bulletin, various issues; SARB (2009).
Own computations for shares.

IFDI stock from India was two-and-a-half times that from Brazil in 2007 and grew significantly more rapidly in nominal terms in the period 2002-2007, at an average annual rate of 29% compared to 17% in the case of Brazil. South Africa's stock of IFDI from China was at least twice as large as that from Brazil for most of the years in the table. While the average annual growth rate of China's IFDI stock in South Africa was marginally less than that of Brazil for the period 2002-2007, the picture changed dramatically for 2008 as a result of the ICBC/Standard Bank deal (see Note 22). By contrast with the IFDI stock from Brazil and Argentina, South Africa's IFDI from India and China is primarily found in the banking sector for most of the years surveyed. In 2007, the shares of India and China in South Africa's total inward stock were 0.07% and 0.06% respectively (compared to Brazil's share of 0.03%), and their shares in South Africa's IFDI from developing countries were about 1.9% and 1.7% respectively (while Brazil's was less than 1%).

Table 8b depicts South Africa's outward FDI stock to the same countries. While South Africa's OFDI stock in Brazil doubled between 2002 and 2007, it is only a small fraction of the size of the country's inward stock from Brazil, just 0.007% of South Africa's total outward FDI stock, and about 0.02% of South Africa's outward FDI stock in other developing countries. However, UNCTAD (2009a: 47) reports that in 2008 Aspen Pharmacare Holdings Ltd of South Africa acquired 50% of shares in Strides Latina in Brazil in a deal worth $153 million.

Table 8b: South Africa's outward FDI stock in selected countries by institutional sector

Stock in current R millions	2001	2002	2003	2004	2005	2006	2007
Brazil	**13**	**15**	**17**	**18**	**23**	**23**	**31**
Public corporations	0	0	0	0	0	0	0
Banks	0	0	0	0	0	0	0
Private sector	13	15	17	18	23	23	31
Argentina	**96**	**20**	**22**	**24**	**26**	**30**	**23**
Public corporations	0	0	0	0	0	0	0
Banks	0	0	0	0	0	0	0
Private sector	96	20	22	24	26	30	23
India	**71**	**8**	**44**	**46**	**67**	**11**	**13**
Public corporations	0	0	0	0	0	0	0
Banks	0	0	0	0	0	0	0
Private sector	71	8	44	46	67	11	13
China	**12**	**19**	**19**	**2155**	**4326**	**15894**	**33353**
Public corporations	0	0	0	0	0	0	0
Banks	0	0	0	0	0	0	0
Private sector	12	19	19	2155	4326	15894	33353
Total OFDI stock	**213184**	**189911**	**180507**	**220036**	**238490**	**354254**	**448629**
Public corporations	4414	6766	4707	3764	3779	4149	6032
Banks	7284	3411	3758	2818	1173	1038	488
Private sector	201486	179734	172042	213454	233538	349067	442109
% Share in total	2001	2002	2003	2004	2005	2006	2007
Brazil	**0.006**	**0.008**	**0.009**	**0.008**	**0.010**	**0.006**	**0.007**
Public corporations	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Banks	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Private sector	0.006	0.008	0.009	0.008	0.010	0.006	0.007
Argentina	**0.045**	**0.011**	**0.012**	**0.011**	**0.011**	**0.008**	**0.005**
Public corporations	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Banks	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Private sector	0.045	0.011	0.012	0.011	0.011	0.008	0.005
India	**0.033**	**0.004**	**0.024**	**0.021**	**0.028**	**0.003**	**0.003**
Public corporations	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Banks	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Private sector	0.033	0.004	0.024	0.021	0.028	0.003	0.003
China	**0.006**	**0.010**	**0.011**	**0.979**	**1.814**	**4.487**	**7.434**
Public corporations	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Banks	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Private sector	0.006	0.010	0.011	0.979	1.814	4.487	7.434
Total OFDI stock	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
Public corporations	2.071	3.563	2.608	1.711	1.585	1.171	1.345
Banks	3.417	1.796	2.082	1.281	0.492	0.293	0.109
Private sector	94.513	94.641	95.310	97.009	97.924	98.536	98.547

Source: SARB Quarterly Bulletin, various issues; SARB (2009).
Own computations for shares.

South Africa's outward FDI stock in Argentina and India was miniscule in 2002-2007, and does not show a discernible trend for the years covered in the table. Of the countries under discussion, only China has become a significant destination for South Africa's outward FDI. South Africa's OFDI stock in China grew spectacularly between 2003 and 2007, and in the latter year accounted for 7.4% of South Africa's

total OFDI stock and about a quarter of the country's OFDI stock in developing countries. South Africa's OFDI stock resided only in the private non-banking sectors of the four countries.

As seen in Sections 4.3 and 4.4, South Africa's IFDI stock primarily originates from Europe and the US, while the country's OFDI is overwhelmingly oriented towards Europe and Africa, and more recently China. With respect to the countries considered in the present section, it is evident that India and China are currently more important partners than the MERCOSUR countries of Brazil and Argentina in terms of South Africa's IFDI stock. In terms of the destination of OFDI, neither Brazil, Argentina nor India were of particular significance for South Africa over the years for which bilateral data was available. However, there are indications that this picture may change with respect to Brazil and India as recent deals and initiatives are taken forward.

5.   Opportunities for South Africa and Brazil / SACU and MERCOSUR

It was argued in Section 2.2 that there are potential benefits for developing countries of increased South-South FDI, particularly in the current global economic climate. Since South Africa and Brazil are among the top 10 outward investor developing countries in terms of OFDI stock, the potential for promoting FDI in SACU-MERCOSUR economic relations should be explored. There could be potential for the promotion of FDI related to production networks and other sectors that are important for manufacturing trade between the two countries. Research is needed on the comparative industrial and manufacturing export structures of South Africa and Brazil to identify sectors of importance for investment promotion, such as food processing, pharmaceuticals and autos. In this regard, information on the sectoral structure of current bilateral FDI flows between the two countries at the manufacturing subsector level is necessary.

It is evident that some significant FDI flows have been related to the growth of the services sector. The services sector is critical for development in terms of its contribution to GDP and employment[36] and its crucial role in support of manufacturing production and trade. The rapid growth of services trade has raised the importance

---

[36] The contribution of services to GDP is around 66% in both Brazil and South Africa, and the sector's share in employment is even higher (World Bank, 2008; WTO, 2009a, 2009b).

of services in multilateral, regional and bilateral trade negotiations. A framework for investment cooperation between SACU and MERCOSUR should explore ways in which to harness the benefits for development from FDI flows related to the services sector. In this regard, SACU could draw on the experience of Latin American countries, where services provisions of South-South regional cooperation agreements have proliferated.

As noted in Section 2.2, the critical question is how South-South investment is to be promoted between SACU and MERCOSUR, particularly in the light of the recent growth in outward FDI from developing to developed economies, the strong orientation of South Africa's outward FDI to Europe and the rest of Africa, and the extent to which Brazil's outward FDI is destined for offshore financial centres. It is evident that both countries need to consolidate existing policies and measures geared towards the promotion of FDI in their respective national economies and regional blocs. Further, cooperation should be developed and enhanced between investment promotion agencies in the two countries. The IBSA Trilateral Development Initiative is an existing forum that could be used in this context.

An important question is the role that regional integration has to play in the promotion of South-South investment flows. The discussion in Section 3 suggests that the trade provisions of a PTA between SACU and MERCOSUR could, on their own, potentially promote FDI between the two regions, depending on the motivation for existing and new flows between the blocs. The theory also suggests that the prospects for increased FDI flows are improved in the presence of explicit investment provisions in a PTA, even if such provisions simply provide a framework for investment cooperation without major disciplines. Given the small size of current bilateral flows between South Africa and Brazil, it is likely that investment relations between SACU and MERCOSUR would benefit from the inclusion of an investment framework in the PTA in the future. The IBSA Trilateral Development Initiative could be an important platform from which such investment provisions could be formalised. The more extensive experience of Latin American countries in South-South PTIAs would be useful to investigate in this regard.

South Africa has employed a range of policies since 1994 to promote FDI. These have included macroeconomic stabilisation policies through GEAR; industrial

development zones to attract export-oriented FDI to the manufacturing sector; the strategic investment programme, foreign investment grant and motor industry development programme; bilateral investment agreements, as well as mining sector incentives. In addition, there have been changes in exchange control regulations to influence both outward and inward FDI, although exchange rate volatility remains a concern for investors (Rusike *et al.*, 2007: 10-11; Gelb and Black, 2004). While Trade and Investment South Africa (TISA), housed within the Department of Trade and Industry, has taken on an active role with respect to further efforts to promote sector-specific opportunities, greater policy coordination of existing investment promotion programmes is important, as South Africa's IFDI flows are still low relative to GDP and to inflows into similar developing countries.[37]

6. Conclusions and challenges

South-South cooperation and integration has long been seen as a vehicle for the promotion of development through industrialisation. Appropriate investment flows are recognised as a key aspect of such a cooperation strategy. If South-South FDI between SACU and MERCOSUR is to be promoted, both South Africa and Brazil need to take cognisance of shifts in the motives for IFDI and OFDI, particularly when considering future policies at the sector level. The orientation of FDI towards development objectives is crucial. In the SACU-MERCOSUR context this suggests that attention needs to be paid to policies that facilitate Greenfield investments and explore ways in which development benefits from M&As could be enhanced. In the case of Brazil, the orientation of outward FDI towards offshore financial centres is a constraint to exploiting FDI for development purposes.

Given the small but growing bilateral FDI flows between South Africa and Brazil, an enabling environment for enhanced investment relations between SACU and MERCOSUR could result from the progression of the current preferential trade agreement (PTA) to a preferential trade and investment agreement (PTIA) in the future, drawing on the lessons and experiences of South-South PTIAs in Latin

---

[37] Brazil's Federal Government has programmes to facilitate FDI, particularly in infrastructure and technology-intensive sectors. According to WTO (2009a: 16) there are no specific incentives, but policy is directed towards improving the regulatory and business environment. In principle, foreign investors receive national treatment, but FDI can be restricted by particular laws and is constrained in this way in areas such as rural property, health, and maritime and air transport.

America. Language barriers and a lack of familiarity with the business environment remain key factors in South Africa's low investment profile in South America. An appropriate institutional framework is necessary to address these constraints.

South Africa has entered into over 40 bilateral investment treaties (BITs) since 1994, with an approximately even spread of developed and developing country partners (UNCTAD, 2008: 599). A recent assessment of BITs by the South African Department of Trade and Industry was critical of their role in a developing country context (the dti, 2009). The document argues that the terms of the BITs that South Africa entered into after 1994 did not contain the necessary safeguards to protect the country's development policy space. The importance of linkages between trade, industrial and investment policy was emphasised in the document, as was the fragmented nature of South Africa's current policy with respect to both IFDI and OFDI. Against this background, it is likely that negotiations on improved investment relations between SACU and MERCOSUR would be most effective if conducted in the context of a PTIA which takes cognisance of the mutual development goals of each region.

Appendix

Table A1: Average annual growth rates (%) of global and developing country IFDI and OFDI

		1990-1995	1995-2000	2000-2004	2004-2005	2005-2006	2006-2007	2007-2008
Developing economies	**IFDI flows**	**27.01**	**17.24**	**3.11**	**13.39**	**31.73**	**22.04**	**17.26**
	IFDI stock	9.99	15.29	7.73	16.43	23.57	30.60	-2.67
World	**IFDI flows**	**10.48**	**32.28**	**-14.60**	**32.45**	**50.11**	**35.44**	**-14.22**
	IFDI stock	8.46	14.58	13.66	4.61	23.42	26.25	-4.80
Developing economies	**OFDI flows**	**35.80**	**19.63**	**-2.78**	**1.88**	**75.44**	**32.61**	**2.53**
	OFDI stock	17.84	21.19	6.66	15.02	34.89	36.34	-0.17
World	**OFDI flows**	**8.63**	**27.40**	**-6.45**	**-5.45**	**58.92**	**53.66**	**-13.45**
	OFDI stock	10.50	15.59	13.56	5.06	22.16	25.27	-0.13

Source: Own computations based on UNCTAD (2009b).

Table A2: FDI definitions and data issues

Flows	Stock
According to UNCTAD (2009b), "FDI inflows and outflows comprise capital provided..by a foreign direct investor to a FDI enterprise, or capital received by a foreign direct investor from a FDI enterprise". The flows comprise equity capital, reinvested earnings and intra-company loans. Equity capital refers to the investor's "purchase of shares of an enterprise in a country other than that of its residence". Reinvested earnings are the investor's "share of earnings not distributed as dividends by affiliates or earnings not remitted to the direct investor". Intra-company loans or debt transactions are "short- or long-term borrowing and lending of funds between direct investors (parent enterprises) and affiliate enterprises". The data are in net terms; a net increase in liabilities is recorded as a credit (with a positive sign).	UNCTAD (2009b) defines FDI stock as "the value of the share of their capital and reserves (including retained profits) attributable to the parent enterprise, plus the net indebtedness of affiliates to the parent enterprises".

UNCTAD FDI data is collected from official national sources where available, or otherwise from a variety of international sources, such as the IMF, World Bank and OECD. For South Africa, UNCTAD data on FDI flows and stocks are sourced from the South African Reserve Bank (SARB)(see Thomas and Leape, 2005: C9-C10 for a discussion of the exchange rate measure used by UNCTAD to convert Rand values to US Dollars in comparison to other international sources like the IMF).

The SARB defines FDI as an ownership stake of 10% or more. According to Thomas and Leape (2005: C2-C3) the SARB reconciles annual changes in the FDI stock with flow data and valuation changes that firms report. The lag in disseminating flow data is three months and the stock data twelve months.

References

Aggarwal, A., 2008. Regional economic integration and FDI in South Asia: prospects and problems. *ICRIER Working Paper No. 218*, Indian Council for Research on International Economic Relations, New Delhi.

Agosin, M., 2008. Is foreign investment always good for development? *Working Group on Development and Environment in the Americas Discussion Paper No. 9*, Global Development and Environment Institute, Tufts University, Medford, Mass.

Blomström, M. and Kokko, A., 1997. Regional integration and foreign direct investment. *NBER Working Paper No.6019*, National Bureau of Economic Research, Cambridge, Mass.

CUTS-CITEE (Consumer Unity and Trust Society International-Centre for International Trade, Economics and Environment), 2005. MERCOSUR-SACU FTA: strengthening relations across the South Atlantic. *Briefing Paper IBSA 2/2005*, CUTS International, Jaipur.

Dube, P., 2009. South-South FDI: the case of the India, Brazil and South Africa (IBSA) Trilateral Development Initiative. Unpublished Honours Research Paper, Rhodes University, Grahamstown.

Dunning, J.H., 1981. Explaining the international direct investment position of countries: towards a dynamic or developmental approach. *Weltwirtschaftliches Archiv*, 117, 1: 30-64.

El-Agraa, A.M., 1989. *The Theory and Measurement of International Economic Integration*. Macmillan, London.

Fedderke, J.W. and Romm, A.T., 2006. Growth impact and determinants of foreign direct investment into South Africa, 1956-2003. *Economic Modelling*, 23: 738-760.

Gammeltoft, P., 2007. Emerging multinationals: outward FDI from the BRICS countries. Department of International Economics and Management, Copenhagen Business School, Frederiksberg. (Also published in the *International Journal of Technology and Globalisation*, 2008, 4, 1: 5-22).

Gelb, S. and Black, A., 2004. Foreign direct investment in South Africa. In Estrin, S and Mayer, K (eds), *Investment Strategies in Emerging Markets*, Edward Elgar, London: 177-212.

Gelb, S., 2005. South-South investment: the case of Africa. In Teunissen, J and Akkerman, A (eds), *Africa in the World Economy: the National, Regional and International Challenges*, FONDAD, The Hague: 200-205.

Henley, J., Kratzsch, S., Külür, M. and Tamer, T., 2008. Foreign direct investment from China, India and South Africa in sub-Saharan Africa: A New or Old Phenomenon? *UNU-WIDER Research Paper No. 2008/24*, World Institute for Development Economics Research, United Nations University, Helsinki.

Hiratuka, C., 2008. Foreign direct investment and transnational corporations in Brazil: recent trends and impacts on economic development. *Working Group on Development and Environment in the Americas Discussion Paper No. 10*, Global Development and Environment Institute, Tufts University, Medford, Mass.

Jaber, T.A., 1970-71. The relevance of traditional integration theory to less developed countries. *Journal of Common Market Studies*, 9, 3: 254-267.

Kindleberger, C.P., 1966. European integration and the international corporation. *Columbia Journal of World Business*, 1: 65-73.

Kok, R. and Ersoy, B.A., 2009. Analyses of FDI determinants in developing countries. *International Journal of Social Economics*, 36, 1/2: 105-23.

Krugman, P.R., 1991. *Geography and Trade*. Leuven University Press, Belgium, and MIT Press, Cambridge, Massachusetts.

Lundahl, M. and Petersson, L., 1991. *The Dependent Economy: Lesotho and the Southern African Customs Union*. Westview Press, Boulder.

MERCOSUR and SACU, 2008. Preferential trade agreement between the Common Market of the South (MERCOSUR) and the Southern African Customs Union (SACU). [Online] Available at http://www.tralac.org/cause_data/images/1694/I_Texto_Principal.pdf (main text) and http://www.tralac.org/cause_data/images/1694/I_ACP_MSUL_SACU_Anexos.pdf (annexes). Accessed 25 November 2009.

MIGA (Multilateral Investment Guarantee Agency), 2008. 'South-South' FDI and political risk insurance: challenges and opportunities. Multilateral Investment Guarantee Agency, World Bank Group.

Narula, R. and Dunning, J.H., 2000. Industrial development, globalization and multinational enterprises: new realities for developing countries. *Oxford Development Studies*, 28, 2: 141-67.

Roberts, S., 2004. Reflections on approaching an FTA negotiation with MERCOSUR: a review of key issues. *SAIIA Trade Policy Report No. 6*, South African Institute of International Affairs, Johannesburg.

Rusike, T.G., Aziakpono, M.J. and Snowball, J.D., 2007. An analysis of the behaviour of inward FDI to South Africa. Paper presented at the Biennial ESSA conference, Johannesburg.

SARB (South African Reserve Bank), 2009. Personal communication, November.

South Centre and ActionAid, 2008. Commodity Dependence and Development. [Online] Available at http://www.southcentre.org/index.php?option=com_content&task=view&id=604&Itemid=67 Accessed 8 February 2010.

the dti (Department of Trade and Industry, South Africa), 2009. Bilateral Investment Treaty Policy Framework Review: Executive Summary of Government Position Paper. the dti, Pretoria, July.

Thomas, L., and Leape, J., 2005. Foreign direct investment in South Africa: The initial impact of the Trade, Development, and Cooperation Agreement between South Africa and the European Union, CREFSA, London School of Economics, October.

UNCTAD (United Nations Conference on Trade and Development), 2004a. South-South investment flows – a potential for developing country governments to tap for supply capacity building. *Backgound Paper No. 3*, Doha High-Level Forum on Trade and Investment, Doha, 5-6 December.

UNCTAD (United Nations Conference on Trade and Development), 2004b. Outward FDI from Brazil: poised to take off? *Occasional Note*

UNCTAD/WEB/ITE/IIA/2004/16. [Online] Available at
http://www.unctad.org/en/docs/iteiia200416_en.pdf . Accessed 8 February 2010.

UNCTAD (United Nations Conference on Trade and Development), 2004c. *World Investment Directory, Volume IX: Latin America and the Caribbean*. United Nations, New York and Geneva.

UNCTAD (United Nations Conference on Trade and Development), 2006. *World Investment Report 2006: FDI from Developing and Transition Economies: Implications for Development*. United Nations, New York and Geneva.

UNCTAD (United Nations Conference on Trade and Development), 2008. *World Investment Directory, Volume X: Africa*. United Nations, New York and Geneva.

UNCTAD (United Nations Conference on Trade and Development), 2009a. *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development*. United Nations, New York and Geneva.

UNCTAD (United Nations Conference on Trade and Development), 2009b. *FDI On-line Statistics*. [Online] Available at
http://stats.unctad.org/fdi/ReportFolders/reportFolders.aspx?sCS_referer=&sCS_ChosenLang=en . Accessed February 2010.

UNCTAD (United Nations Conference on Trade and Development), 2009c. Recent developments in International Investment Agreements (2008-June2009). *IIA Monitor No.3*, United Nations, New York and Geneva.

UNIDO (United Nations Industrial Development Organization), 2007. *Africa Foreign Investor Survey 2005: Understanding the Contributions of Different Investor Categories to Development: Implications for Targeting Strategies* (2nd edition). UNIDO, Vienna.

Vaitsos, C.V., 1978. Crisis in regional economic cooperation (integration) among developing countries: a survey. *World Development*, 6(6): 719-769.

Velde, D.W. te and Bezemer, D., 2006. Regional integration and foreign direct investment in developing countries. *Transnational Corporations*, 15, 2: 41-70.

Woolfrey, S., 2009. SACU and MERCOSUR: the big picture. Chapter prepared for *South Africa's Way Ahead: Shall we Samba?* Trade Law Centre for Southern Africa, Stellenbosch.

World Bank, 2008. *World Development Indicators 2008*. World Bank, Washington DC.

WTO (World Trade Organization), 2009a. *Trade Policy Review, Brazil: Report by the Secretariat*. WTO, Geneva.

WTO (World Trade Organization), 2009b. *Trade Policy Review, Southern African Customs Union: Report by the Secretariat*. WTO, Geneva.