Foreign Direct Investment for Economic Development

Does Foreign Direct Investment Foster Economic Development in Angola and Mozambique?

Pinja Vakola
Foreign direct investment is a type of investment where companies acquire investments internationally in order to improve their business and its opportunities and it works as a key driver of globalisation. Offers a way for implementing stable, direct and long-lasting connections between different economies.

The purpose of this research is to examine whether FDI fosters economic development in Angola and Mozambique. It identifies the main area of economic development and how that correlates to FDI spillovers.

Results indicate the right policy environment can boost the transfer of technology and know-how, while improving the competitive position of both the host and the home economy, through foreign direct investment. But the initial level of education and development in general is essential as for the ability to exploit FDI for development. Appropriate host-country policies and a basic level of development together with FDI assists human capital formation, contributes to international trade integration, helps create a more competitive business environment and enhances enterprise development.

The study indicates that FDI is associated with positive consequences under certain conditions. However, it isn’t a sufficient tool for solving economic development issues in developing countries, in particular Angola and Mozambique.

Keywords
Foreign direct investment, economic development, developing countries
# Table of contents

1 Introduction .................................................................................................................. 1  
1.1 Background and Research Objective ..................................................................... 2  
1.2 Structure of the Thesis ........................................................................................ 3  
2 Theoretical Framework ............................................................................................. 5  
2.1 The Definition of Foreign Direct Investment ......................................................... 5  
2.2 Foreign Direct Investment: An Overview of the Main Theories ............................. 6  
2.3 Defining Economic Development ......................................................................... 9  
2.4 Impact of Foreign Direct Investment on Economic Development ...................... 9  
3 An overview of the Economies .................................................................................. 12  
3.1 Trends of Foreign Direct Investment in Africa ....................................................... 12  
3.2 Overview of the Economy in Angola .................................................................. 13  
3.3 Overview of the Economy in Mozambique ............................................................ 15  
3.4 Institutions ........................................................................................................... 17  
   3.4.1 Economic institution ....................................................................................... 18  
   3.4.2 Political institution ........................................................................................ 19  
   3.4.3 Social .............................................................................................................. 20  
4 Implementation of the Research ............................................................................. 22  
4.1 Research Methodology ........................................................................................ 22  
4.2 Data ...................................................................................................................... 23  
4.3 Hypotheses .......................................................................................................... 23  
5 Main Findings ............................................................................................................ 24  
5.1 International Trade Integration .......................................................................... 24  
5.2 Technology Spillovers .......................................................................................... 25  
5.3 Human Capital ..................................................................................................... 26  
5.4 Business Environment and Enterprise Development ......................................... 28  
5.5 Environmental and Social Conditions .................................................................. 29  
6 Discussion .................................................................................................................. 31  
6.1 Conclusion ............................................................................................................ 31  
6.2 Development Ideas and Suggestions for Further Research ............................... 33  
6.3 Trust-worthiness and the Ethical Viewpoints ....................................................... 33  
6.4 Evaluation of the Thesis Process and Learning .................................................... 34  
References .................................................................................................................... 36  
Appendices ................................................................................................................... 41
1 Introduction

Foreign Direct Investment (FDI), defined as “investment made to acquire a lasting interest in or effective control over an enterprise operating outside of the economy of the investor” (International Monetary Fund, 1993) has gained an integral role in the international economy during the last decades. FDI flows have grown rapidly in global scale and many countries see FDI inflows as an important component for better integration to global economy and the country’s economic development. Foreign direct investment has become a considerable source of external finance for the developing countries.

Foreign direct investment is a major catalyst to development and essential for an effective and open international economic system over all. Regardless, the benefits of FDI do not amass automatically nor do they pervade evenly across different countries, local communities and sectors. The national policies and the international investment architecture determine how much FDI a developing country attracts. These countries need to establish a transparent, broad and effective enabling policy environment for investment. In order to attract the desired external financing, the human and institutional capacities need to implement those policies. Most often the challenges primarily address the host countries. (Pigato & Tang 2015, 1-23; OECD 2002, 3-32).

As mentioned in the overview made by OECDs (2002) most FDI flows originate from the OECD countries. Meaning developed countries can contribute to the advancing of this agenda. The developed countries can facilitate developing countries' access to international markets and technology. And when they partake FDI in developing countries, it’s crucial to help ensure policy coherence for further general development.

Sub-Saharan Africa (SSA) had been neglected for a long time as an investment opportunity due to its poor infrastructure, debt problems, weak regulatory frameworks and low political stability in some of the countries in the region. There has been a change to this during in past years. Market conditions and economic environment have improved, leading to an increase in foreign capital inflows to the area. Overall, both developing and transitioning economies have experienced a steady increase of foreign direct investments inflows during the past years. In 2012 a new trend appeared, an increased interest towards the developing and transitioning economies. For the first time ever, developing economies’ share of total FDI was greater than the of developed economies (Pigato & Tang, 2015, 9). This can be viewed as an indicator that investors see developing and transition countries as prominent market places. Shifting their focus and investments towards new regions.
This thesis will provide an analysis of the relationship between foreign direct investment and economic development in both Angola and Mozambique, which are part of the so-called Sub-Saharan Africa.

1.1 Background and Research Objective

The writer of this research has studied abroad in both Brazil and Portugal developing an interest in the Portuguese speaking regions, their cultures and traditions. This led her to select two African countries for the study, Angola and Mozambique, due to their native language, Portuguese, alongside the connection between the previously mentioned countries. Combining personal motivation and curiosity over developing countries’ development opportunities with the studies of business administration and other perspectives gained from studying international business.

This paper examines the relationship between foreign direct investment and economic development, and it analyses which factors are affected the most by foreign direct investment in each particular country, Angola and Mozambique, chosen for the thesis. African countries and developing countries in general are still a very unknown and distant territory for many in the western world. The purpose here is to give understanding as to how the decisions and economical investments, done by other than an African country in particular, into these local economies can possibly have a powerful impact on the development of the economy in a developing country. Challenge the conception of each country being on its own and responsible for their own problems.

It’ll also be further examined as to what extent FDI impacts Angola and Mozambique’s economic development. Or is the change dependent on some other factor or factors rather than the investments coming from foreign countries. As for the general outcomes, the aim is to open, through which factors and areas of investment, the future of the countries still in development is being impacted the most. Whether all of the factors mentioned above have a great influence over the future of the two countries or it doesn’t matter at all will be answered in final conclusions of this paper.

Some other questions to be studied are what economic development is and what should be taken into account when analysing it. This is meant to give a better overall view of the topic that is being studied. The study focuses on Angola and Mozambique in particular, but ideally the results and main ideas of the discoveries could be applied to countries in similar circumstances. Nevertheless, each country is its own specific case and has
characteristics typical for solely that region. Yet the main conclusion should be applicable through various cases.

The research objective is to understand what type of correlation lies between foreign capital inflows and economic development?

The research has following sub-questions:
- What is required for a country to be able to develop its economy?
- What are the main areas impacted by FDI?
- What consequences does FDI have upon a developing country?

1.2 Structure of the Thesis

The research consists of 6 main chapters and the table below (Figure 1) shows the structure of the research. The first chapter gives an introduction to the topic, relevant background information and explains the research objectives.

Chapter two briefly reviews current status of relevant literature related to the determinants and theoretical framework of FDI. Also providing a review of the impacts of FDI on economic development. The third chapter goes through trends of FDI in Africa and provides the characteristics of current economy in Angola and Mozambique. An analysis about the quality of institutions affecting foreign investment is also included.

The fourth chapter examines the implementation of the research. While the fifth chapter presents the main findings from the analysis. The final main chapter concludes the study and gives recommendations, addresses specific problems including reliability of data and validity issues and examines possible future research.
<table>
<thead>
<tr>
<th>I part: Introduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Background, Research objective &amp; structure</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>II part: Theory</td>
</tr>
<tr>
<td>Foreign direct investment &amp; Economic development</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>III part:</td>
</tr>
<tr>
<td>Overview of the economies &amp; Political Institutions</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>IV part: Implementation of the Research</td>
</tr>
<tr>
<td>Research methodology, Data &amp; Hypotheses</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>V part: Main Findings</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>VI part: Discussion</td>
</tr>
<tr>
<td>Conclusion, Development ideas, Trust-worthiness and ethical viewpoints &amp; Evaluation of the process</td>
</tr>
</tbody>
</table>

Figure 1- Structure of the research
2 Theoretical Framework

The status of current literature relating to the topic is divided into four sections. The first section reviews the definitions and key features related to FDI according to different authors. The second section goes through the theoretical framework of foreign direct investment using the most common theories from different sources. The third section goes to explain the definitions and key features of economic development. The fourth section focuses on the implications of foreign direct investment on economic development. The paper explains the theoretical and empirical literature on FDI, it further identifies the main trends in FDI theory and how the theories were developed.

2.1 The Definition of Foreign Direct Investment

Foreign direct investment (FDI) is a key driver of globalisation. It offers a way for implementing stable, direct and long-lasting connections between different economies. With the right policy environment FDI can boost the transfer of technology and know-how, while improving the competitive position of both the host and the home economy. In addition, FDI is a significant source of capital for many economies, providing financial stability and promoting economic development. (OECD 2008, 14.) Foreign direct investment has various definitions and depending on the author basic factors, effects and meanings can differ.

The Organisation for Economic Co-operation and Development, known as OECD, uses the following definition of foreign direct investment as a benchmark definition.

Foreign direct investment is a category of investment that reflects the objective of establishing a lasting interest by a resident enterprise in one economy in an enterprise that is resident in an economy other than that of the direct investor. The direct or indirect ownership of 10% or more of the voting power is evidence of such a relationship. (OECD 2016, 79.)

Another definition of foreign direct investment is made by the European Commission and it closely follows the same guidelines as the definition set by OECD.

Foreign direct investment (FDI) is the category of international investment that reflects the objective of obtaining a lasting interest by an investor in one economy in an enterprise resident in another economy. The lasting interest implies that a long-term relationship exists between the investor and the enterprise, and that the investor has a significant influence on the way the enterprise is managed. Such an interest is formally deemed to exist when a direct investor owns 10% or more of the voting power on the board of directors (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise). (Eurostat 2019.)
Based on these definitions, mentioned above, used by the OECD and the European Commission we can say that foreign direct investment is a type of investment where companies acquire investments internationally in order to improve their business and its opportunities. A firm becomes a multinational enterprise (MNE), when it undertakes FDI (Charles W.L. Hill 2013, 250).

2.2 Foreign Direct Investment: An Overview of the Main Theories

The development of different theories of FDI has been impacted greatly by the Classical International Trade Theory and its applications. One of the first attempts to define foreign direct investment was considered to be the Theory of Comparative Advantage advanced by David Ricardo in the early 1900th century. Currently there are many existing theoretical papers that examine the various phenomena of foreign direct investment from various perspectives. Most studies around foreign direct investment seem to present at least the three following theories; the eclectic paradigm, also known as the OLI-model, by John Dunning, Product Life-Cycle Theory by Raymond Vernon and Microeconomic Theory by Stephen Hymer. In addition to these three theories, also the internalization theory will be discussed.

David Ricardo’s theory of Comparative Advantage was the first one to be acknowledge as an attempt to explain foreign direct investment. His theory served as a pillar for a more advanced Heckscher-Ohlin (1933) theory, which argued that countries choose which goods to export based on as the availability of the factor endowments and the proportions needed to produce each and particular merchandise, in different countries. Meaning a country will choose to export goods that are relatively abundant and cheap and import products that make use of the scarcer factors. Nevertheless, Ricardo’s theory of Comparative Advantage doesn’t allow FDI thus it’s based on two countries with perfect mobility of factors at local level. (Kurtishi-Kastrati 2013, 57; Charles W.L. Hill 2013, 178.)

The microeconomic theory of International Production by Stephen Hymer was firstly introduced in 1960. Hymer presented two reason for which companies choose to internationalize: firstly, the removal of competition and secondly, variables related to the firm’s dimensions and ownership specific assets. Hymer put out the concept of firm-specific advantages (FSAs). According to Hymer MNEs have firm-specific advantages and FDI only takes place when a company is able to exploit those benefits, thus the benefit overcomes any additional cost caused by operating in a foreign country. Furthermore, according to the theory, there must exist some imperfections in the market
generating advantages and challenges in order for foreign direct investment to be successful. (Denisia 2010, 53-57.)

In 1971 Caves argued that the diversification of products is the main influencing factor for FDI. He classified foreign direct investment into three different categories as vertical, horizontal and conglomerate. (Kurtishi-Kastrati 2013, 58.) Vertical FDI, sometimes referred to as “efficiency seeking” FDI, requires geographical de-location of product chain. Typically, this is done to poorer countries where either labour costs, natural resources or specific skill are available, therefore the motive is to improve the cost of effectiveness of the company. This is the type of FDI often associated with less developed countries whereas horizontal FDI is more often related to advanced countries. Horizontal FDI occurs when companies buy into other companies within the same industry, they are already operating in. In this case companies use so called market seeking strategies which is why horizontal investments can be sometimes referred to as “market seeking” FDI. (Mariotti, Mutinelli & Piscitello 2003, 419-431.)

The internalization theory was conceptualized in 1976 by Buckely and Casson as efforts to try to explain the growth of transnational companies and their motivations for investing in foreign countries. Due to market imperfections companies have an opportunity to maximize profits by doing business internally beyond national borders. However, the theory fails to cover every aspect behind the motivation as to why a company chooses a particular country for its investments. Different aspects concerning the locations and its attributes are left blank. (Kurtishi-Kastrati 2013, 59; Denisia 2010, 56.)

The Product Life-Cycle Theory was proposed by Vernon in the 1960s. It was originally used to explain foreign direct investments made by American companies in Europe after the World War II. (Charles W.L. Hill 2013, 191.) Vernon (1966) argued that often those companies with pioneering product are the exact same ones to undertake FDI in order to produce those goods for the consumption of foreign markets. The theory defines 4 phases through which a product passes by: an introductory phase, growth and maturity followed by the last decline phase. Depending on the product the length of time for each stage is due to a variety of factors. According to Vernon’s theory companies choose particular stages in the product’s lifecycle for when they undertake FDI, the timing of the product is crucial. Additionally, many old products can be launched in new markets. Investment in other advanced countries takes place when the demand in that country is large enough to cover costs of local production. Foreign direct investment in the first phase is referred to as local market oriented. The investments made in the latter stage are called export oriented, thus it’s mostly driven by cost pressures and risen competition. Here companies often move production to less developed countries due to cheaper labour force. Vernon
points out in his study that the theory is explicit to all types of products, rather to those associated with high income and those which substitute capital for labour. Lastly, in the decline stage of product life-cycle, the product innovating country start to import more in value compared to exports. (Vernon 1966, 190-207.)

In order to comprehend FDI better, it’s essential to understand what the determinant factors in the decision in the internationalization process are. One of the best explanations for this, offered by the British economist John Dunning (1993), is called the OLI-paradigm. OLI stands for O- ownership, L- location, and I- internalization advantages. Ownership specific advantages (OSA) refers to any privileges or knowledge, such as superior technology or management knowledge, which a firm possess but no other competitor has. This allows it to be profitable work in a foreign market despite elevated transaction costs. Location specific advantages come from having production activities in a particular area. A large market or low-cost inputs in the host economy could be a motive for such an advantage to accrue. Internalization specific advantages (ISA) occurs due to market imperfections. Meaning, when transaction can be carried internally instead of through the local market, and it is more cost effective. This is often followed by a decision to internalize. (Kurtishi-Kastrati 2013, 60-61.)

Foreign Direct Investment flows (measured in USD and share of GDP) is a concept often used to record the value of cross-border transactions related to FDI, often times related to a certain period of time such as a quarter or a year. These financial flows are such as reinvestment of earnings, equity transactions and intercompany debt transactions. FDI enables durable and stable relations between economies. Outward flows are transactions which increase the investment that investors in the home country have in the host economy. For example, through reinvestment of earnings or purchases of equity. On the opposite we have inward flows which represent transaction from an external or foreign entity into a local economy. (OECD 2019a.)

There are two main types of FDI, greenfield and brownfield investment. The first type, greenfield FDI, implies to the creation of a completely new firm or extension of current production, which by definition directly generates additional economic activity. The local business environment and regulations are an important determinant for greenfield investment. Brownfield investment most often captures cross-border acquisition or mergers of already existing firm in a host economy. (EPSC 2017,1)
2.3 Defining Economic Development

Economic development is a broad concept that consist of both economic and social progress. One of most well-known definitions for development was proposed by Amartya Sen. According to Sen (1999, 1), development is about removing obstacles in order to create freedom for people. Such obstacles to development, and to freedom according to Sen, are poverty, corruption, poor governance, lack of health and education and lack of economic opportunities.

Some of the indicators used to assess development are such as the human development index (HDI), life expectancy, adult literacy, GDP per capita, genuine progress indicator and gross national income (GNI), which is sometimes seen as a more comprehensive measure compared to GDP. Other indexes and ways of measuring exist and are being used depending on what exactly is being measured and by whom. The human development index was firstly introduced as part of the United Nations Development Programme in 1990. It consists of three different components included into one index. Those are as follow, longevity, knowledge and standard of living. Longevity is measured by life expectancy at birth. Knowledge is measure by the number of years kids are enrolled at school and adult literacy. The third one, standard of living, comes from real GDP per capita at purchasing parity. (Economics Online 2019.)

2.4 Impact of Foreign Direct Investment on Economic Development

Economic development is often confused with economic growth. The two concepts are rather similar but economic development is a broader concept. Development includes both social and economic progress and requires economic growth, which is a vital condition for development. Though economic growth isn’t a sufficient condition on its own, as it doesn’t automatically guarantee development. In other words, growth of GNP can play an important role as a mean to expand the freedoms which the members of the society enjoy. But such factors as education, health care, political and civil rights are just as important of component as economic growth, if not even more, for the economic development. (Economics Online 2019.) Many of the empirical studies done about FDI seem to point towards its contribution to both factor productivity and income growth in host economies, beyond what could be achieved solely based on domestic efforts. There are, however, other unrelated factors with unusually high growth rates, which difficult the fully comprehensive assessment of the topic. (OECD 2002, 9.)
Foreign direct investment is especially important for developing countries, facing inadequate savings and liquidity constrains, in need of more capital in order to achieve sustainable development. Foreign companies get to bring their products to new markets while the domestic firms can benefit from new technology. Additional capital inflows and the technological advances are a key driver for modernization of the host economies and promoting growth. Foreign direct investment is expected to affect economic in growth in two principal ways, directly and indirectly. Firstly, it directly increases the stock of capital in the host economy. Sometimes FDI is provided in the form of technology, encouraging integration of new technologies and inputs in the production process hence it could increase growth. Secondly, FDI can have an impact in an indirect way, for example knowledge transformation. It is predicted that foreign direct investment. This usually happens when the employees are taught new skills from labour training or through introduction of activities, such as alternative management and organization practices, that increase the labour productivity. The extent to which indirect growth effects varies upon the economic and institutional development of the host country. (Adams & Opoku 2015, 48-56; Alfaro, Chanda Sayek & Kalemli-Ozcan 2004, 89-112; Elkomy, Ingham & Read 2016, 347-362; Neto, Brandão & Cerqueira 2010, 22-44.)

As mentioned, foreign direct investment could be provided in form of technology. The incoming investments can also be utilized to buy or import technology from other countries. This is one of the ways foreign direct investment plays a crucial role to economic development in an indirect way. On a more social level, the investment can be of great assistance to set up educational programs and tackle a number of healthcare issues for the developing countries. Educational programs for the disadvantaged sections of the population is often a key step in the development of the whole nation. (Economics Online, 2019.) According to OECD’s report (2002, 19-21) studies have showed that higher incomes in developing countries tend to benefit the poorest segments of the population proportionately. So foreign direct investment can be a powerful tool for reducing poverty when it’s aimed to more labour-intensive industries, applying internationally accepted labour standards.

FDI has been able to improve the infrastructural condition of a country. But it has been observed that the private sector companies are not always interested in undertaking activities that help to improve the infrastructure of the country they are investing in. This usually arises from the lack of short-term benefits for the investing enterprise. Opposed to FDI which can assist in helping economically underdeveloped countries to build their own facilities for technological development. Eventually, contributing to many areas of the economy. Considering these affects and the improvements to the standard of living of the
general public, it can be said that foreign direct investment plays an important role in the economic development of a country. (Economics Online, 2019.)

Some government policies can utilize the enhanced human capital as a way to attract more FDI into the country. The principal connection between human capital and FDI stems from those policies rather than directly from MNE's efforts. MNE can further improve the local human capital through training, on-the-job learning and even in other companies, such as suppliers they might work with, through cooperation. The issue of human capital development is related with broader development issues. Investment in achieving a certain minimum level of general education and other generic human capital is of the utmost importance for a country's ability to attract FDI and to maximise its human capital spillovers. The minimum level can vary from an industry to another and according to some other enabling factors. MNE's have a tendency to invest in countries with complimentary assets. The capability to offer complimentary assets and exploit them quickly is crucial for attracting multination enterprises as investors. This claim focuses mainly on the quantity rather than the quality of FDI as not all activity from MNEs offers such development benefits and spillover. (OECD 2002, 14.)

However, according to OECD (2002) if a significant “knowledge gap” is allowed to persist between the entity and the host economy, spillover is like to be insignificant. FDI can potentially bring social and environmental benefits to the host economy. But there is a risk that the foreign enterprise is taking on FDI to continue the production which is no longer approved in their home countries. The host country runs a risk of lowering regulatory standards.
3 An overview of the Economies

In order to understand whether FDI can foster growth in Angola and Mozambique the following literature will firstly go through the general trends of FDI in Africa. After that, each country has been divided to its own sub chapter. Providing information on the current economic situation, basic information about the country. Finally, different institution will be analysed to further examine how much those institutions impact a country’s ability to exploit foreign direct investment for economic development. As of 2016 Africa continues to be the second fastest growing economy after Asia. The growth is forecasted to pick up put is this fact, however, is extremely sensitive and dependent on the vulnerable global economy and the high volatility of commodity prices. (AfDB, OECD, UNDP 2016, 19.)

3.1 Trends of Foreign Direct Investment in Africa

Global flows of FDI fell by 23 per cent in 2017 to 1,43 trillion USD. Showing an abrupt deviation to the accelerated growth in GDP and trade. The fall might be explained partly by the 22 per cent decrease in the value of cross-border mergers and acquisitions. Another area, greenfield investment, an indicator often showing future trends, also fell by 14 per cent. Cross-border investment in developed and transition economies dropped steeply, while developing economies maintained a growth near zero ($671 billion). This negative trend is especially concerning for developing countries, where international investment has a crucial role in the building of sustainable industrial development. (UNCTAD 2018, xi.)

According to UNCTAD’s world investment report from 2018 FDI flow to Africa decreased by 21 per cent from 2016, reaching $42 billion. In 2017 the top 5 host economies of FDI flow in Africa were Egypt, Ethiopia, Nigeria, Morocco and Ghana. The report highlights three points as a trend for the African region. Firstly one-fifth of a decrease in FDI flows, larger commodity-exporting countries declined the most and lastly to support a recovery it suggests commodity uptick and cooperation through signing of the African Continental Free Trade Area agreement (AfCFTA). The contract hasn’t been signed by Nigeria, the most populous county in Africa, nor South Africa. Weak oil prices and harmful ongoing microeconomic effects from the commodity lead to a decline of the flows in Mozambique, Nigeria and Angola among others. East African is the fastest-growing region in Africa, yet with a 3 per cent decline in FDI from 2016. Due to Africa’s commodity dependence the report suggests FDI will continue to be directed into commodity enclaves causing FDI to continue cyclical and with fever spill overs. In order to develop from this point government policy would be required to work to foster linkages and diversify inflows.
The figure below (figure 2) shows how the incoming foreign direct investments have fluctuated between 2012 and 2017 in different areas of Africa. The size and population on each region should be taken into account, as they may vary greatly, when reading the table. A slight incline is visible, as mentioned before. Southern Africa has a bigger decline in incoming investment since 2015.

![FDI inflows, by region 2012-2017 (Millions of dollars)](image)

**Figure 2- FDI inflows by region (Adapted from UNCTAD 2018)**

### 3.2 Overview of the Economy in Angola

Angola is a republic situated on the West coast of Southern Africa. As shown in table 1 below, the capital is called Luanda and Portuguese is the official language but other languages such as Kikongo and Kimbundo are being used widely across the country. The population varies according to the source but an estimate from 2017 is about 29 million. President of the republic is currently João Lourenço. National currency is called kwanza (kz). The country is rich in natural resources, for example, petroleum, diamonds, iron ore and phosphates. Their export consists of oil, diamonds, refined petroleum products, gas and coffee. (Embassy of Angola 2018.)

Oil exports account for around 95% of the total exports from Angola. The revenues gained from exporting oil are expected to keep up the large trade surplus in the following years as well. In addition to oil the county has been listed as the world’s fourth largest exporter of diamonds. Exports to America, Europe and Japan have increased in the form of liquefied natural gas. As for the imports, they mainly consist of vehicles, medicines, food, military goods and machinery. In 2017 the total exports of services and goods were estimated around 35.59 billion in USD. Total imports of both services and goods accounted for 28.25
billion USD. Out of the country’s GDP about 52% stands for trade. Angola has liberalised its trade scheme during the last few years, thus it has signed the African Continental Free Trade Agreement and is a member of SADC (Southern African Development Community). SADC regulatory guidelines on biotechnology have been adopted hence why importing of biotechnological particles has been banned. The import of such products like pharmaceuticals and agricultural products continue to require the authorisation from the concerned official ministries. Angola’s main trade partners are India, the European Union, United States and China, accounting for more than 40% of exports. The country’s oil revenues may suffer due to China-US trade tension if stringent tariffs slow down China’s economic growth and therefor curb its demand for crude oil. (Santander TradePortal 2019a.)

Before independency was gained in 1975, Angola was a Portuguese colony with a strong Brazilian influence. Up until 2002 the country was suffering through a civil war. After the election of 2017, when the new administration of President João Lourenço took power, several reforms have been executed to achieve macroeconomic stability and favourable environment for economic growth. The currency was devalued and after that different measures were taken to gravitate toward a more transparent and market-based foreign exchange market. By 2018 a budget surplus was achieved thanks to a strict monetary policy. A three-year EFF, International Monetary Fund Extended Financial Facility, from the World Bank was set to support the government’s new macroeconomic goals.

Among other efforts, two new laws were created to enhance private sector-led growth and competitiveness. The private investment law, the antitrust law and a competition authority were approved. The public utilities, utility tariffs and subsidies were put under a reform. However, Angola is still suffering the effects of lower oil prices and production levels, despite significant progress in stability and structural reforms. Its estimated GDP contraction was around 1.5 percent in 2018. Oil continues to have a great significance in the economy, accounting for on third of GDP and over 90 percent of exports. A lower oil price forecast and the oil production cap set by the OPEC agreement is expected to maintain the economic growth subdue. (The World Bank, 2019a.)

The World Bank (2019a) describes Angola’s main development challenges to be dependency on oil, diversification of the economy, public financial management systems, human development indicators and the living conditions of the population. Large parts of the population still live in poverty and do not have access to basic services. Angola is still considered to be a lower middle-income country in the Sub-Saharan Africa according to
the World Bank (2019b). Their GDP was around 122 billion and the GNI per capita 3,570 USD in 2017 (Table 1).


<table>
<thead>
<tr>
<th>Population</th>
<th>29,784,194 (2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political System</td>
<td>Democracy</td>
</tr>
<tr>
<td>President of the Republic</td>
<td>João Lourenço</td>
</tr>
<tr>
<td>Currency</td>
<td>Kwanza</td>
</tr>
<tr>
<td>Official Language</td>
<td>Portuguese</td>
</tr>
<tr>
<td>Capital</td>
<td>Luanda</td>
</tr>
<tr>
<td>GDP (USD)</td>
<td>122.124 billion (2017)</td>
</tr>
<tr>
<td>GNI per capita (USD)</td>
<td>3,570 (2017)</td>
</tr>
</tbody>
</table>

3.3 Overview of the Economy in Mozambique

Mozambique is a democratic republic located in the southeast coast of Africa. As shown in table 2 the capital is called Maputo and as in Angola, Portuguese is the official language. Other languages popular amongst the people are Makhuwa, Sena and Swahili. The population according to the World Bank was almost 30 million in 2017. The current president of the republic is Filipe Jacinto Nyusi. National currency is called Mozambique metical (MZN). Mozambique is considered to a low-income country. Mozambique was a Portuguese colony until gaining independence in 1975. From the 80s up until 1992 the country was in a civil was affecting the economy and infrastructure in many negative ways. (Portal do Governo de Moçambique 2017; The World Bank 2017.)

Mozambique has plenty of natural resources like water, ample arable land and energy alongside mineral resources and newly discovered natural gas offshore. The country’s location is ideal for trade. Four of the countries it borders are landlocked, and dependent on Mozambique as a conduit to global markets. The country has strong ties South Africa, a great economic engine in the region. Mozambique’s economic, social and political development is hence why influential to the growth and stability of Southern Africa as a whole. (The World Bank 2019c.)
According to the World Bank the economy of Mozambique continues to have a slow growth trajectory. Some of the main challenges Mozambique currently faces are maintaining the macroeconomic stability considering exposure to commodity price fluctuations, re-establishing confidence through improved economic governance and increased transparency, including the transparent handling of the hidden debt investigation and lastly the upcoming general elections. The economy has said to be very capital-intensive and low-productivity subsistence agriculture. For future development the focus should be turned towards a more diverse and competitive economy. Other aspects of development are social indicators which could be improves through strengthening the key drivers of inclusion such as higher quality in education and health service delivery.

Mozambique is open to foreign trade, which shapes a great majority of the country's GDP. Mozambique has signed trade agreements with Malawi and Zimbabwe, as a step to a more open trading amongst these African countries. It's also a member of the WTO, and of the South African Development community. Other contracts signed by the country include EU-SADC Economic Partnership Agreement, February 2018, and African Continental Free Trade Agreement. The Eu signed the Economic Partnership Agreement (EPA) in mid 2016 with SADC EPA group, consisting of Botswana, Lesotho Mozambique, Namibia, South Africa and Swaziland. This was the first regional, fully operational, Economic Partnership Agreement in Africa since after Mozambique signed the agreement in February 2018. This Economic Partnership Agreement aims at promoting trade with participating countries, and contribute, through trade and investment, to sustainable development of the participating countries such as Mozambique. The EU-SADC EPA is considered to have a crucial role in as a building block towards the future African Continental Free Trade Area. (Santander TradePortal 2019b; European Commission 2019)

The government of Mozambique has been reforming its trade regulations to improve business climate and encourage exports. Yet, there are various non-tariff barriers and high custom duties in the country. Most of the exports are natural resources (coal, coke, aluminium, titanium electrical energy), sugar and tobacco. Imports consist mainly of hydrocarbons, metal products, electrical energy, boats, medications and vehicles to mention a few. Current trade partners are India, South Africa, the Netherlands and China. The country has considerable potential to become a one the largest exporters of natural gas in the world as it hosts the third largest reserve in Africa. Current infrastructure is being improved on through building new natural gas plants, a dam and export infrastructure. Mozambique’s trade balance continues to be negative and is expected to remain so until gas exports can be exploited for economic purposes. Trade deficit was
around 497.8 million USD in 2017 and 973.1 million USD in 2018 with higher growth rate of exports than of imports. (Sander TradePortal 2019b.) The GDP stands at USD 12.65 billion (2017) and in the same year GNI per capita was estimated at 420 USD (table 2).


<table>
<thead>
<tr>
<th>Population</th>
<th>29,668,843 (2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political System</td>
<td>Democratic Republic</td>
</tr>
<tr>
<td>President of the Republic</td>
<td>Filipe Jacinto Nyusi</td>
</tr>
<tr>
<td>Currency</td>
<td>Mozambique Metical (MZN)</td>
</tr>
<tr>
<td>Official Language</td>
<td>Portuguese</td>
</tr>
<tr>
<td>Capital</td>
<td>Maputo</td>
</tr>
<tr>
<td>GDP (USD)</td>
<td>12.65 Billion (2017)</td>
</tr>
<tr>
<td>GNI per capita (USD)</td>
<td>420 (2017)</td>
</tr>
</tbody>
</table>

3.4 Institutions

The African Economic Outlook (AEO) 2016 report from The African Development Bank, the OECD Development Centre and the United Nations Development Programme describe both institutions and strong policies, as a way out from corruption. To promote faster and more inclusive growth those strong policies are heavily emphasized on, relying on them to bring better lives for all the people across Africa. Three out every four African still lives under poor human conditions. African institutions together with international community have set development objectives for the whole continent. Structural and regulatory reforms as one of them. Alongside with better macroeconomic stability, tackling the power supply bottlenecks as way to overcome some of the obstacles standing in front of better, transformed, economies. All these areas coupled up with investment in social sector, should bring more opportunities for less favoured groups, such as youth and women.

The AEO report describes employment as one of the main concerns for African over the past decade. Locals have started to demand better infrastructure and better services. At the same time violence and armed conflicts across the continent have started to be a worry not only in the conflict zones, but in people’s everyday life. Beside from reforming their institutions, African countries have started to take the health of their business environments seriously. For now, the impacts have been rather short term but could
possibly yield economic dividends over the long term if done correctly with persistence and resilience. Some indicators have already shown slight improvements in regulations and rules affecting business. (5-116)

An accountable and effective institution is said to be one that strengthens the governance mechanisms and practices ways to guarantee the effective delivery of public services and ensures that citizens have the possibility to hold their governments to account in meeting their development goals. (OECD 2019b.)

3.4.1 Economic institution

The average time to register a new business in Sub-Saharan Africa was 23 days according to the World’s Bank Ease of Doing Business report from 2019. In 2016 the average was 59 days, which is significantly higher. This goes to show that regardless of background an economy can improve its business regulations if the will of policy makers is firm. An economy cannot thrive with an efficient governance, that directly implicates to the health of economic institutions in the region. Especially small and medium size enterprises can flourish under effective business regulations fostering growth and innovativeness. Resulting in new jobs and generating income that can be spent and invested domestically. In the ease of doing business ranking. Angola and Mozambique are at the end of the list, Mozambique placing 135th and Angola is 173rd. At the top of the score are countries such as New Zealand, Singapore and Denmark.

Despite many Sub-Saharan countries have improved their ranking and business environment they are still behind compared to the global average. Another notable difference between the OECD high income countries and Sub-Saharan Africa is the gap between regulatory efficiency and regulatory quality. Sub-Saharan African economies score clearly much lower than the more efficient economies in all areas. Public infrastructure in the area has previously suffered from weak maintenance policies and management system. Unreliable electricity. Electrification is essential for economic development. Lack of reliable electricity supply is one of the biggest obstacles for operating business. (World Bank 2019d, 1-41)

The Annual Country Policy and Institutional Assessment (CPIA) rates business regulatory environments based on the data collected by World Bank Group. Business regulatory environment assess the regulatory, policy and legal environments which offer improved conditions for private businesses in creating jobs, investing and becoming more productive. The rating goes from 1 (low) to 6 (high). The International Development
Association (IDA) is part of the World Bank Group that helps the poorest countries by providing concessional loans and improving living conditions. IDA Resource Allocation Index is based on the results of the CPIA exercise. In other words, CPIA measures the extent to which a country’s institutional and policy framework support sustainable growth. In 2016 the world average was at 3.179, Angola at 2 and Mozambique graded 3. (The World Bank 2013.)

3.4.2 Political institution

During the last decades, political stability has seen an improvement, but it hasn’t done a complete turn. Cutting down corruption has been the main agenda of many countries and new country leaders. And many struggles in that area continue to hinder upon the economy of African countries. Vast regional differences continue to exist in the Sub-Saharan Africa, and overall quality of institutions is lacking. Many countries in the region have democracy, but high levels of corruption are still registered and show as a major issue throughout the area. All which harms long-term GDP growth. Corruption and weak governance slow economic performance through various channels. Hence, both have been linked as key factors holding back economic development in Africa. Relatively the GDP in SSA (Sub-Saharan Africa) is impacted more through weak governance than in the rest of the world. Therefore improving governance closer to the world average, could possibly result in increased GDP per capita up to 2 percentage points. There is no one magical solution to fix all corruption related problems in such an ample area. But rather find ways to involve various officials and aspects, following the guidelines of those countries that have managed to create a more economically favourable environment. (Hammadi, Mills, Sobrinho, Thakoor & Velloso 2019, 3-10.)

Corruption underlies much of institutional weakness in Sub-Saharan Africa. Weak political institutions can have a weakening impact on the economic atmosphere and may result on reduced amount of foreign capital inflows. There are variety of reasons for why a country scores poorly on corruption. Some African countries have increased instability due to armed conflicts. Some suffer from weak rule of law, difficult business environment and weak government effectiveness. (Dumitru, Hayat 2015)

South Africa and Mauritius are known examples of outperformers which foster a more stable democracy and friendly business environment. Sadly, the region’s institutional quality is lacking behind the world average. Overall score of stability has however, improved over the past years, as number of conflicts has gotten smaller in number and general political stability has improved. Corruption has been seen to reduce FDI and
reduce efficacy of governments and reduce the tax-raising ability of governments. (Dumitru, Hayat 2015)

### 3.4.3 Social

African countries have been improving in offering education and health choices and higher living standards for the people. However, inequality between countries, within countries and especially between men and women continues to harm the progress. Many countries are severely lacking when it comes to opportunities for the youth, structural transformation, especially in sectors dominated by the marginalised groups, including informal sector and agriculture, and lastly weak investment in gender equality and women empowerment programmes outside political sphere. Holding back their social development. Another factor contributing to social development is urbanization. Some cases, including a successful political transition in Burkina Faso in 2015, a Nobel Peace Prize for the Tunisian national dialogue quartet, and successful reforms to health systems in a few other countries show how developmental goals can be reached with hard work. (AfDB, OECD, UNDP 2016, 20.)

There are, as a result of political, social and economic exclusion, tension between different social groups in Sub-Saharan Africa. For addressing these issues, it is essential to ensure that citizen enjoy secure livelihoods and have access to quality services. Government have the power to enhance security, promote general human rights and protect the society’s most vulnerable members. As knowledge and needs grow the locals will continue to demand better economic opportunities and more accountable and creditable institutions. The answer for such demands will effectively be sound regulatory policies and effective delivery of public services across the continent. Following the example of Burkina Faso and Tunisia is a magnificent starting point for such needed improvements. (AfDB, OECD, UNDP 2016, 20.)

African countries show a high level of discrimination against women. The level of discrimination as measures by the SIGI of 40% in African countries. Not only does women’s well-being suffer from restriction of women’s contribution to sustainable and inclusive development, discriminatory laws and social norms, but also their families and societies those women live in. In global level such discrimination creates a loss of 8% in level of investment and decreases labour force participation by 12%. The current state of discrimination creates a massive loss of USD 6 trillion or USD 1552 per capita of the global income. Economic growth cannot be guaranteed solely with gender equality. But it
can contribute to the economy in a positive way. To achieve this, political and social commitments and actions are highly required. (OECD 2019c, 17-20.)

Labour laws affect FDI, which can have an effect on economic growth and country’s attractiveness for FDI. By implementing labour laws that decrease gender discrimination, a potential improvement can be observed on economic growth and foreign capital inflows. All together reducing industrial disputes and removing barriers, such as gender inequality, a country can possibly increase the amount of FDI it would otherwise attract. (Economic Commission for Africa 2006, 99-103.)
4 Implementation of the Research

In this chapter the following information will be presented. Research methodology in more detail and the process behind the chosen working methods. Also knows as description of implementation. Any data used in the research will be presented and explained why it was crucial for the work. Lastly two hypotheses of the probable results shall be presented.

4.1 Research Methodology

When choosing the right research methodology, many aspects influence the decision. Such factor as what type of information is needed for the study, how and from which sources said information could potentially be found from. The research can be conducted by using either quantitative or qualitative research methods. Quantitative research, and data, is often used when there’s a need to collect cold, hard facts. It is structured and statistical. Studies that involve analysing a large number of variable factors is often done following the quantitative methods. As for the qualitative research method, it collects information that aims to describe a certain topic rather than to measure it. It helps to enlighten as to how individuals see and experience matters concerning the research topic. This method focuses on describing, interpreting and understanding the phenomena more effectively and profoundly. Through this method it is possible to attain more information on a deeper level of the topic or phenomena that is being studied. (Kananen 2017, 35–36; Hirsjärvi & Hurme 2009, 47–48.)

This thesis is a literature synthesis research. It incorporates a theoretical review and some comparison with the empirical data presented. It encompasses theoretical review of the main foreign direct investment theories, determinants, motives and models. Empirical approach criticises and analyses various perspectives of the relationship between foreign capital inflows and economic development in Angola and Mozambique. The study conducted is a secondary research, implying it focuses on evaluating and interpreting already existing published literature and data.

Research methods chosen for this written dissertation are primarily quantitative. By collecting quantitative data, measurements and statistics, predictions and assumptions regarding the relationship between capital inflows and economic development can be made. After the hypothesis is stated, the relationship between and interdependence between variables can be measured and analysed, for a further conclusion of the study conducted.
4.2 Data

The primary focus of the research is to find out information and facts concerning foreign direct investment and economic development, both in general level and a more detailed level in the case of Angola and Mozambique. The empirical analysis thus determines the relationship between two variables. By doing so, the study uses different sources and data gathering techniques which enable the writer of this study to analyse and interpret credible findings and to achieve its objectives, named in the introduction chapter.

The information will be collected from various creditable sources, mainly officials in different areas of trade, business and international operations. Some of the sources used to provide information are the European Union, World Bank, African Development Bank, Organisation for Economic Co-operation and Development (OECD), International Monetary Fund and United Nation Conference on Trade and Development (UNCTAD) amongst other credible sources through the whole study. Secondary data and surveys information online are big part of the information needed for the study. All other information required in this research is based upon updated and recent secondary, where possible, from selected sources. These include academic and scientific journals, reports, and statistics from government authorities and other independent researchers.

4.3 Hypotheses

Based on the analytical framework presented above two separate hypotheses can be made as a likely outcome. As the overall benefits of foreign direct investment for developing economies are documented, a positive outcome can be expected. Where the impact of FDI on the economic development of Angola and Mozambique is positive. Several factors induced by appropriate local conditions can contribute to a higher economic growth and improve other aspects that are rather essential for development.

On the other end of the perspective is the negative or insignificant effect upon economic development. As some concerns are related to the local “costs” from FDI, both economic and non-economic. This is the case where the host economy isn’t able to take advantage of the knowledge transferred through foreign direct investment.
5 Main Findings

In the main findings chapter the research results are discussed by themes. The findings are divided into five categories, based on the empirical analysis above, that FDI is found to contribute in. Those categories are: international trade integration, technology spillovers, human capital, business environment and enterprise development, lastly environmental and social conditions. Foreign direct investments have a certain impact on the economy of African countries, as well as on the economic development of Angola and Mozambique. The focus isn't solely on the positive effects of foreign capital inflows, that would support a positive conclusion for the main research objective. It also addresses any potential drawbacks for the host economies, and where those concerns more often than so may arise from.

5.1 International Trade Integration

The empirical evidence shows that the effects of FDI on host-economy foreign trade differ significantly across economic sectors and countries. However, FDI-trade linkage must be considered in bigger context than just the most obvious and direct impacts that can been seen in the numbers of commercial exchange. Imports and exports are surely an essential measure when assessing the development of a country’s trade and trade integration into the world economy. Foreign direct investment seems to contribute to those two factors in the long run. Many African countries continue to face current-account pressure as seen in previous studies mentioned above. Hence why the different authorities and institutions should consider the short and medium-term impacts on trade that come along with FDI. In other words, foreign-owned multinational enterprises’ transaction with their mother corporation could abate foreign reserves, with the money flowing outside the host-economy rather than contributing into the local economy.

It is been shown that a country’s openness to trade is highly related to the amount of investment it receives. A developing country’s ability to attract FDI is determined by the extent to which, companies entering the host-country, can later on have access to activities that include in exporting and importing. As it is not beneficial for a company to practise business, especially production related, if the policies concerning exchange are strict and not encouraging for foreign enterprises. Along with development and industrialised-nation status foreign capital inflows can further enhance a country’s international trade integration. This implies that some great tools for getting the most benefit out of FDI for would-be host countries are firstly, broadening the policy openness to international trade and centralizing their strategies around it. Secondly, pursuing
policies of regional trade liberalisation and integration as way to create a more relevant market area for possible investors. The opposite would be home countries restricting imports from developing countries, lowering those countries’ ability to attract FDI to begin with.

How well a country can use FDI to increase its medium- and short-term exports depends on the current situation in said country. If a developing country has some existing resource endowments, such as oil in Angola, the inward investment can help to make better use of that resource and subsequently boost exports. This applies to those countries in particular that are struggling to finance the needed economic measures by themselves.

Targeted measures to harness the benefits of FDI for integrating developing host economies into the global economy do not, however, support the assumption that FDI could substitute imports. Rather, along with foreign capital inflows comes an increased need for imports. At least till the local companies adapt and learn from the multinational enterprises through skill-transfer. Possibly later on being able to serve needed resources from the host economy to the foreign company.

5.2 Technology Spillovers

Economic literature present technology transfer as one of the main sources for positive externalities that foreign companies can transfer into a host economy. Multinational enterprises almost always have access to plenty of corporate research and development activity. Along with it much higher levels of technology than available in most developing countries. This allows MNEs to generate technological spillover to the community or country they operate in. Anyhow, context and sector of each case defines how much of this spillover can be seen, whether at all, and how easy it is to capitalize.

Technology transfer often happens through four main channels: horizontal linkages with competing or complementary companies in the same industry, vertical linkages with suppliers or purchasers in the host countries, migration of skilled labour or the internationalisation of research and development. Positive spillover is most supported scenario within the studies, especially in the case of vertical linkages. In other words where the bigger companies use local suppliers, more precisely ones that have learned to adapt to the needs of those MNEs, with their guidance. Several cases show that MNEs generally provide training, technical assistance and other information for the suppliers. Giving them an opportunity to raise their product quality to meet the international
standards. Another form of educating local companies is helping them to purchase raw materials and intermediate goods and to upgrade their production facilities. (OECD 2002, 13.) This strikes as mutually beneficial as locals improve their businesses in multiple aspects and the MNEs can find local suppliers rather than bearing the costs of exporting for example.

According to the Foreign direct investment for development -report from OECD (2002) there isn’t much of reliable empirical evidence when it comes to horizontal spillovers. Referring to linkages with competing or complementary companies in the same industry. The reason for this is presented to be behind the multiple affects that along with the entry of an MN into a less developed economy. The results to whether horizontal dimensions of spillovers actually happen are complicated due to the local market structure and its complexity. One could assume that entering foreign companies try to avoid the immediate transfer of know-how to their closest competitors as it could affect their competitive position. It would seem more beneficial if horizontal spillover happens between enterprises operating in unrelated sectors.

In order for the technology spillovers to actually generate externalities and be useful for the host- country, the technologies should be relevant to the local business sector. And not just for the one company that receives them first. It is after all, very impractical, if not impossible, to exploit the technologies from one area to another. Clothing manufactures hardly use equipment suitable for biotechnology, just to give an example. Again, emphasizing the importance of the technological level of the host country’s business sector. When the “technology gap” between domestic enterprises and foreign investors is within a reasonable range, FDI can have a higher change of more positive externalities. However, if such gap is relatively large, the local enterprises are unlikely to incorporate foreign technologies in their business processes.

5.3 Human Capital

The major impact of FDI on human capital in developing countries seems to be related to already existing human capital. As mentioned previously in this study, the principal connection between human capital and FDI stems from government policies rather than directly from MNE’s efforts. Meaning a host economy has certain policies that aim to attract FDI by improving the skills of local labour force. Further training or simply on-the-job learning acts as a second phase of this process. Providing access to more education for local workers that already attain certain level of knowledge needed in the area. Which
isn’t to say that those subsidiaries couldn’t provide a positive influence on human capital enhancement in other companies they work with, as in the case of technology spillovers and vertical linkages. When the labour moves to other companies or start their own businesses the scope of such enhancement broadens it effects. Most often human capital development is very strongly related to other bigger development issues and can’t be solved solely through foreign efforts and MNEs’ spillovers.

Other areas such as investing in educations and general wellbeing is highly important for attracting foreign capital inflows and creating an enabling environment for them. Focusing on achieving a minimum level of knowledge on a particular area, that a country wishes to attract more FDI, is of utmost importance. Generic education will most likely not guarantee the interest of investors.

Many African countries are recorded to have higher rates of discriminations and as stated in the SIGI 2019 Global Report from OECD that can have costly consequences on the economy. Therefore, the host country’s labour market standards play a big role in creating an enabling environment. By offering everyone better opportunities to upgrade their human capital and strengthen their incentives for doing so, the labour force can improve the much-needed flexibility, which just could be the key to the success of economic strategies based on human capital. In order for this to occur any discrimination or abuse should be at the lowest possible level. Such environment is easier to operate in, especially for MNEs coming from OECD countries. Yet again this requires a small gap between host- and home-country standards when it comes to human capital development and status.

Finally, it all come backs to education. FDI and the human capital enhancement opportunities it provides, cannot be the only source of education. A generic increase in educational and skill levels are a must. MNEs can provide an example, further enhance the level of knowledge and give indication of what skills are demanded. Most likely just focusing on a specific industry will not solve the whole country’s issues. Like in the case on Mozambique and Angola, which both along many other African countries suffer from a very narrow production diversity. Leaving the economy dependent on one main product or its market’s fluctuations.

Human capital levels and spillovers seem to correlate with technology transfer. Technologically well-developed host economies and sectors are more like to have human capital spillovers. Whereas host- countries with a higher human capital level are more likely to have technology spillovers. Concluding that policies of technological and
educational improvement are done together, the benefits from technology and human capital spillovers could be more effective for the development of the economy as a whole.

5.4 Business Environment and Enterprise Development

The presence of MNEs and FDI can have an impact in the host country, especially impactful one for the markets. In the absence of a way to measure the degree of competitions in a particular market, conclusion need to be made upon on empirical evidence. The presence of new and bigger multinational companies can very well spur domestic competition and lead to a need for improvements in various areas of business. Local companies need to up their productivity, lower prices so they can compete against mass production and make the distribution of resources more efficient. However, high barriers to entry, small markets or a closed market area with little exchange across borders, weak law framework or a multitude of similar type of factors can create a totally reverse effect on the host market. Which isn’t ideal for development.

Host-country concentration seems to be stronger especially in developing countries. “Market concentration measures the extent to which market shares are concentrated between a small number of firms. It is often taken as a proxy for the intensity of competition.” (OECD 2018.) This could possibly mean that when MNE enter less-developed countries, it decreases the competition. However, strong evidence on the topic isn’t available to sufficiently support this suggestion. On a global level, there aren’t many cases where such concentrations would have reached alarmingly high levels, causing real concerns. Especially if local policies aren’t extremely trade restricting such concern shouldn’t be too relevant. For the economic health is desirable to allow the entrance of strong MNEs. Again, specific care should be put into the host economy’s openness to international trade and on protecting competition rather than competitors. When all the trade and competition specific regulations are performing effectively, foreign direct investment has the potential to significantly stimulate enterprise development in host countries.

Another area of business and enterprise development are the changes in management and corporate governance, which MNEs generally bring along with them. They tend to apply their own company policies in the host country as well. Mainly with a tendency of having superior policies compared to the ones prevailing in the host country. This could boost corporate efficiency. Local management policies shouldn’t be disregarded completely, MNEs need to strive toward an optimal mix of local and foreign management in order to guarantee an easy adaptation. What works in one culture and environment isn’t
always applicable to a different one. As long as foreign investors have the ability and willingness to achieve better efficiency all aspects should spur development of the economy.

5.5 Environmental and Social Conditions

Social conditions are highlighted in Sen’s (1999) definition of economic development and therefore it should not be disregarded in any way. FDI has great potential to bring social and environmental benefits to host countries. MNEs’ spillovers, new technologies and good practices can have an increasingly important role in improving those conditions. There is a risk, that the foreign enterprise is taking on FDI to continue the production which is no longer approved in their home countries. The host country runs a risk of lowering regulatory standards.

The general environmental impact of FDI seems to be positive. In those cases where host- country environmental policies are adequate even more so. Some consideration depending on the industry and sector should be taken into account when assessing the impacts. As it is not explicit on every area and exception can occur. To fully exploit possibly occurring environmental benefits of FDI, adequate local capacities are needed.

The tendency is that technologies which come along with MNEs are more modern, and environmentally friendly compared to the local ones. Employment turnover, local imitation and supply-chain requirements are some aspects that have seen to enhance positive environmental implications from FDI. In some cases, not many, international companies are moving the production to facilitate the use of equipment deemed environmentally unbecoming in the home country to their subsidiary in a developing, less strict, economy. This indeed is an environmental risk associated with FDI. However, using such inferior technology tends not to show any beneficial consequences for the company. (OECD 2002, 19-20.) OECD’s study addresses two other issues: “pollution heavens” and “race to the bottom”. Those corners seem to stay relatively insignificant according to the report, since the costs for a firm’s reputation could rise high if they are seen to participate in such activity. Nor was the much support found that policy makers would try to attract FDI with looser policies in that area.

The evidence available of the social consequences of FDI is harder to come across. It can help reduce poverty and improve social conditions by inducing economic activities. The effects on growth are clearer. And as higher income in developing countries generally
tend to benefit the poorest segments of the population proportionately. The investment inflows can be further distributed to set up educational programs and tackle a number of healthcare issues in the developing countries. Educational programs for the disadvantaged sections of the population is crucial in the development of the whole nation. (Economics Online, 2019.) So foreign direct investment could be deemed a powerful tool for reducing poverty, especially when aimed to more labour-intensive industries, applying internationally accepted labour standards. There isn’t much evidence to support any general deterioration of basic social values due to the presence of MNEs in developing countries but some positive relationship between FDI and such values have been recorded. Low labour standards or social conditions can even act as a deterrent to FDI.
6 Discussion

This chapter examines the conclusions, which have been done based on the research results and theory. Additionally, this chapter addresses some development ideas and suggestions for further research. Trust-worthiness and ethical viewpoints are presented. Lastly, this chapter has the writer’s reflections of thesis process and learning throughout it.

6.1 Conclusion

FDI really goes to impact a developing country’s development through five easily visible areas: international trade integration, technology spillovers, human capital, business environment and enterprise development, lastly environmental and social conditions.

The economic benefits of foreign capital inflows have shown to be real and abundant at their best in many studies and reports. They will not however, occur automatically nor unconditionally. In order for a developing country to gain the best of FDI a functioning enabling environment for business is crucial, which inactivates both foreign and domestic investments, improvement of labour skills, contributes to a competitive business climate and further pushes the development of new innovations.

The benefits from foreign investments do not take place automatically in the hosting country. Depending on the industry, regulations, context and the host country said benefits can vary in size. It shows that the technological level of host-country, health, general education, weak competition, and weak regulatory frames that don’t support openness to trade can severely hold back the total net benefits a developing could possibly. Conversely, a developing country with relatively higher level of technological, infrastructure and educational achievement can benefit more from foreign capital inflows. Presuming other areas of development being of equal status.

Countries unable to enjoy positive externalities from FDI due to regulatory issues in the market or lack of certain level of development, may still benefit from incoming investment as a way to access international funding. That funding might help ease financial constraint, offering a pathway to higher growth rates. Whether a country can continue relying solely on FDI for growth will depend on the policies set by the host-country government. Again, depending on the scale of different economic activities practised in the case country. Extractive industries can benefit largely from capital inflows, creating a way to develop the efficiency of extracting local natural resources. The opposite applies
for service sector. Underdeveloped service sector may be unable to attract bigger inflows of FDI.

Potential drawbacks that could occur because of FDI are resistance from groups that don’t benefit from the changes required. Usually inward investment creates a need for development of the industries, restructuring and enterprise development. Even if the overall impact of FDI tends to be positive. Slow policies may difficult the changes and elevate costs, making people lose their jobs or source of income. While new opportunities can’t be provided within the same time frame. Hence why entrance of foreign companies is resisted as it is thought to increase unemployment for example. This could be avoided if adequate legal and regulatory frameworks together with macroeconomic stability are used to support such changes.

Where the entry of foreign companies can contribute to an upgrade in the industry standards it isn’t as obvious whether it will drive actual economic development. Lacking frameworks in all five areas mentioned above can prove costly for a developing country. Conversely, a healthy environment for business driven by solid legal and economic structure, can bear the competition from an entering foreign company. Even stimulating business sector through vertical linkages, competition or some other demonstration effects. FDI can reinforce a strong business climate if it based on good governance. Whereas it can also prevail any issues lying under the country’s legal framework.

Finally, foreign direct investment cannot be the only tool for solving countries’ development issues. “With average inward FDI stocks representing around 15 % of gross domestic capital formation in developing countries, foreign investment acts as a valuable supplement to domestically provided fixed capital rather than a primary source of finance” (OECD 2002, 23). This showcases the importance of effective and inclusive education, together with infrastructure and healthy business environment. Host country authorities need to take action to improve such basic elements of development to attract and unveil the numerous externalities of FDI, including human capital formation, technology spillovers enterprise development, and lastly environmental and social conditions.

Policy markers can’t change the local market or geographical location to improve profitability for MNEs. Host country’s integration into the global trading market is crucial for economic development so is availability of relevant national competence in priority areas. How the authorities can help this is by creating an enabling environment in the host country. Investor tend consider the ease with which subsidiaries can operate within a given country, when looking for a location for new investments.

32
To conclude, it seems that foreign direct investment indeed fosters economic development in both Angola and Mozambique. But to reach the full potential of exploiting FDI for economic development, many regulatory changes still need to happen, and the general level of education needs to be worked on especially in the rural areas when access to social services is still lacking. Another problem that needs to be addressed for growth of development is narrowness of local industries. The two countries have extractive industries as part of their economy due to abundant natural resources. Those industries can be developed beneficially with the aid of foreign investors.

As always, such a broad issue as development cannot be solve by one single mean. FDI is merely a way to support economic development, to enhance it but the base has to be built with the developing country. Poverty, corruption, poor governance, lack of health and education and lack of economic opportunities are the biggest obstacle for development. FDI seems to relate to all of those are either directly or indirectly through spillovers. Nonetheless it likely to solve none of those issues if the base from a government itself isn’t created on solid grounds.

6.2 Development Ideas and Suggestions for Further Research

Only a small amount of literature narrows it down to investigate the foreign direct investment entry modes and their relationship with economic development. Many studies tend to focus on the impact foreign direct investment brings upon economic growth. Which itself is essential but this research suggest that economic development is something that should be considered more essential even. As it is a more complex measure with multiple aspects, that don’t limit purely to commercial aspects. Each aspect itself could be a research question for other studies. Including more data could be a possible development idea for further enhancing the study topic.

6.3 Trust-worthiness and the Ethical Viewpoints

This research has two major problems that are the information overload and relatively subjective sources. As many of the cases are rather generic or hard to measure, therefor hampering the ability apply the study on very specific cases, varying from the other cases studied in other researches used as a source. The trust-worthiness of the study was ensured by using various theories, information sources, and researchers, to create the
theoretical part for this study. The research question was well thought using the theories available around the topic, enforcing its validity.

One the problems related to this study is information overload, which impacts the reliability of the thesis. Many reports, studies and articles address the research topic from closely related perspectives and each source should be evaluated and criticized carefully. Additionally, information sources are subjective, and shouldn’t be taken at face value before firstly assessing their relevance.

6.4 Evaluation of the Thesis Process and Learning

Creating the research question, starting the project and doing it was pleasant and interesting starting from the beginning. This was mainly due to the writer’s interest in the topic and the countries chosen for the study. The initial plan for the thesis was done in the autumn of 2018, following the gathering of material, information and creditable sources. After which the writer moved onto familiarizing herself with the material. The topic was spurred from the writer’s studies abroad and interest in business. Choosing the right topic, rather challenging though, was great for the personal development and motivation of the writer. The writing process started late 2018. The schedule was very flexible and creating a satisfying thesis was higher in priorities compared to sticking to a strict schedule. The process taught time control and scheduling. Along with ability to commit to a big project. The thesis proceeded during the winter, extending to the spring. Despite a long process the writer managed to maintain a positive attitude and more importantly an interest and willingness to continuously learn more about the research topic.

The write was doing a part time job during the process, ending up working more than intended, however. Completing the thesis continued to be a priority despite slight change of plans in the work life timetables. During the writing process the writer also worked on few courses and their projects which required investing time in other activates besides the thesis. With the right schedule, positive attitude and good preparation there never was a fear of not completing the process. Continuous and steady progress was essential for motivation as well. The process itself was well explained. Meetings with the guiding teachers and fellow students were practically useful, giving guidance, enthusiasm and indication of the right path for this thesis. The constant feedback or available support gave a possibility to fix any issues that rose during the process, aiming to fix any necessary parts. That as a whole added an encouraging element for the writer. Over all, writing a thesis was an independent process, which turned out to be useful for the writer. It taught
ability to commit and analyse various type of material that required thorough studying. The writer improved her skills of independent working and efficient studying.

The thesis project broadened the writer’s understanding of foreign capital flows and their complexity. Some of the biggest learning points taken from this process were: persistence, analytical writing, and conducting a research from start to finish. It supported the writer’s in international market and trade.

At times the process proved harder than the writer expected. All in all, it was more a learning process and taught many valuable lessons both of the writer herself and the research topic. Most challenging part for the writer was creating the empirical study and trusting in her own ability and the quality of the work. The topic was interesting for the writer, so she managed to push through those doubts.

The thesis was written under the necessary schedule. There was no rush for writing. The writer is happy and proud of the result and thankful for all the support from others involved in the process.
References


Appendices