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Abstract of the Dissertation

Impact of Foreign Direct Investment on Trade Performance of SADC Countries

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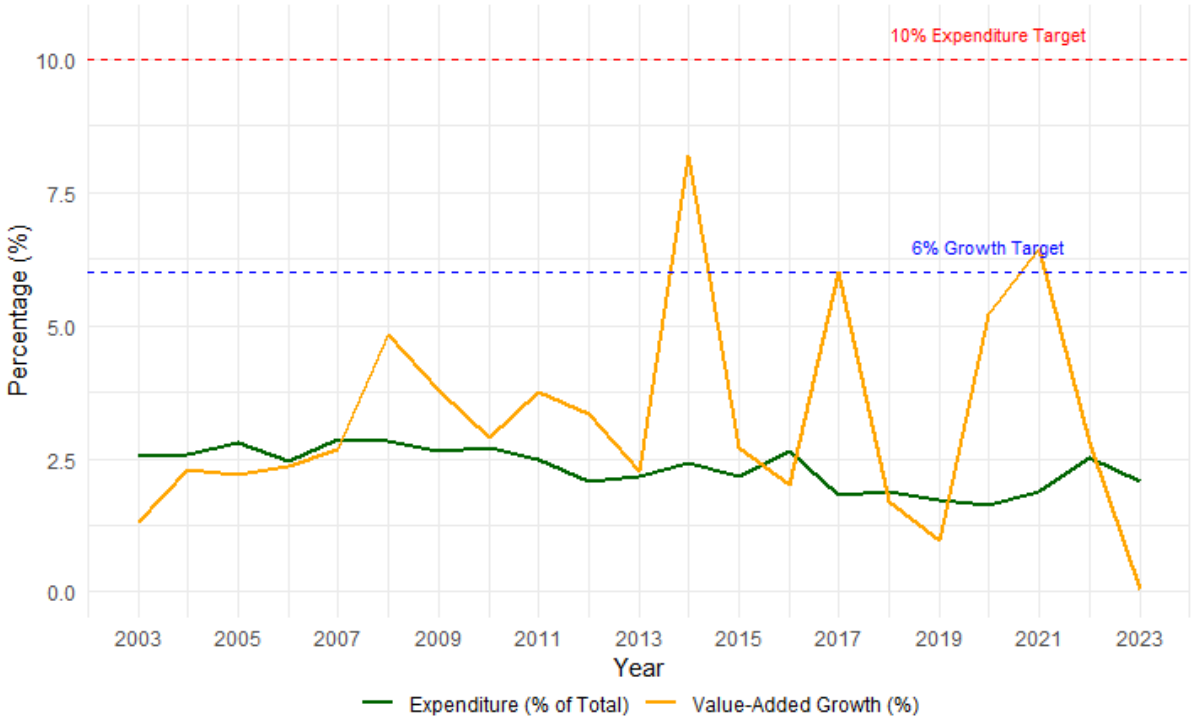
1.0 Introduction

Agriculture serves as the primary economic sector across most African countries, particularly in rural areas where it sustains approximately 70% of households (Modi, 2019), employs 60% of the workforce, and remains one of the major contributors to Gross Domestic Product (GDP) in most African economies (Abdulai, 2016; AUDA-NEPAD, 2013). Growth of the agricultural sector is therefore crucial, as it facilitates the effective integration of the working-age population, enhances income generation, alleviates poverty, and bolsters food security within the region (Modi, 2019). This imperative has been echoed by several regional bodies, including the African Union's Maputo (2003) and Malabo (2014) Declarations, the African Development Bank's 'Feed Africa' strategy (2016), and the Southern African Development Community (SADC) Regional Agricultural Policy. These initiatives aim to unlock Africa's agricultural potential, develop value chains for agro-products, foster greater intra-regional trade, and align with broader objectives of regional integration and economic development.

The Comprehensive African Agriculture Development Programme (CAADP), established under the Maputo Declaration and reaffirmed under the Malabo Declaration, obliges member states to allocate a minimum of 10% of their national budget to the agricultural sector, with the aim of achieving a 6% annual growth in agricultural GDP (AUDA-NEPAD, 2024). Over two decades of CAADP implementation have yielded notable progress. Between 2000 and 2018, Sub-Saharan Africa emerged as the global leader in agricultural production value growth, with an annual expansion rate of 4.3% in real terms, surpassing that of any other region worldwide (Fuglie, 2018; Jayne & Sanchez, 2021). However, significant challenges persist, and the continent remains off-track to attain the Malabo 2025 targets. Agricultural spending as a share of total public spending averaged only 2.94% between 2003 and 2023 in Africa, with the SADC region recording the lowest share among the major regional economic communities (Goyal & Nash, 2016; RESAKSS, 2025).

Figure 1: Tracking progress toward achieving CAADP targets of SADC countries.



Source: Author's compilation based on data from the Regional Strategic Analysis and Knowledge Support System (ReSAKSS).

For many developing economies, including those in Southern Africa, limited domestic savings and shallow financial markets have constrained the ability to undertake sustained investment in productivity-enhancing technologies, infrastructure, and value-chain development (Wamboye & Sergi, 2019). In this context, FDI is often viewed not merely as a source of capital, but as a vehicle for transferring technology, managerial expertise, and access to external markets. When appropriately aligned with host-country conditions, such investments have the potential to raise productivity, expand export capacity (Ayenew, 2022), and reduce reliance on food imports, thereby contributing to more resilient and inclusive growth trajectories.

At the regional level, these considerations take on added significance within the SADC region. Marked by pronounced disparities in economic structure, productivity, and trade performance across member states, the region presents both challenges and

opportunities for leveraging FDI as a catalyst for deeper economic integration. In principle, FDI can support this process by fostering cross-border production linkages, strengthening regional value chains, and enhancing intra-regional trade. By expanding export-oriented agricultural production and reducing import dependence, FDI may also contribute to improved balance-of-payments positions and greater macroeconomic stability among host countries (Adegboye et al., 2020).

Against this background of persistent underperformance, financing constraints, and rising import dependence, a growing body of policy discourse and academic research has increasingly turned its attention to the role of external capital in revitalising African agriculture. In particular, FDI has been advanced as a potential mechanism through which African countries can bridge longstanding investment gaps, modernise production systems, and strengthen their integration into regional and global markets (Adegboye et al., 2020; Awolusi et al., 2017; Koomson-Abekah & Nwaba, 2018). This emphasis reflects a broader recognition that domestic public resources alone are insufficient to finance the scale of transformation required in the agricultural sector, especially in contexts characterised by fiscal pressures and competing development priorities.

The overarching objective of this thesis is to examine the impact of FDI on the trade performance of SADC countries, with a particular focus on agricultural exports. The study contributes to the literature by providing a regionally grounded analysis that accounts for both production and trade outcomes, while recognising the spatial and competitive interdependencies that characterise agricultural markets in Southern Africa. The findings aim to inform policy on how FDI can be harnessed to enhance agricultural competitiveness, strengthen intra-regional trade, and support regional integration within SADC. This is particularly relevant in a region where integration has progressed slowly and unevenly (SADC, 2019)**.** Although the SADC Free Trade Area was launched in 2008, it does not yet cover all member states, and deeper stages of integration, including a customs union and common market, have not been realised. As a result, intra-SADC trade has increased only modestly, reflecting persistent barriers to market integration and value-chain development. In this context, understanding the role of FDI in strengthening agricultural production, export capacity, and cross-border competitiveness is central not only to sectoral policy, but also to broader efforts to revitalise regional integration in Southern Africa.

1.1 Objectives

The overall objective of this thesis is to contribute to improved agricultural performance and trade competitiveness in the SADC region by examining the role of foreign investment within heterogeneous and interconnected agricultural markets. The specific objectives are:

(1) To assess the performance of the agricultural sector in SADC countries in terms of productivity efficiency and export competitiveness.

(2) To examine the sugar industry in SADC as a sectoral case study of agricultural competitiveness and investment dynamics.

(3) To examine the relationship between sector-specific agricultural FDI and agricultural production and export performance in selected SADC countries.

(4) To examine the relationship between aggregated FDI and agricultural export competitiveness across African countries, including potential cross-border spillover effects.

1.2 Literature review and research gap

The existing literature on FDI and agricultural performance in Africa provides important insights into the relationship between foreign investment, production, and export outcomes. Much of this work consists of country-level studies and sector-specific analyses, which show that FDI can contribute to agricultural expansion, productivity improvements, and export growth under certain conditions (Adegboye et al., 2020; Awolusi et al., 2017; Koomson-Abekah & Nwaba, 2018). However, these studies often focus on individual countries or narrowly defined sectors, limiting their ability to capture broader regional dynamics.

A key limitation in the literature is the insufficient consideration of sectoral heterogeneity and absorptive capacity. While FDI is generally associated with positive outcomes, its effects are not uniform and depend on domestic conditions such as human capital, infrastructure, and institutional quality (Ayenew, 2022; Wamboye & Sergi, 2019). Existing studies rarely account for how these factors interact with sector-specific investment to shape trade performance across countries.

Another important gap concerns the treatment of cross-country interdependence. Most empirical studies rely on non-spatial econometric approaches, which treat cross-

sectional dependence as a statistical issue rather than explicitly modelling interactions between countries. As a result, they provide limited insight into whether the effects of FDI are confined within national borders or transmitted across countries through regional trade and competition.

These limitations are particularly relevant in the context of the SADC region, where countries are closely linked through regional and continental markets. Agricultural exports are shaped not only by domestic conditions, but also by competition and interactions across countries. Analysing FDI and trade performance within a single-country or non-spatial framework therefore risks overlooking these broader dynamics.

This thesis addresses these gaps by combining sector-specific analysis, panel econometric methods, and spatial modelling within a unified framework. It examines how FDI influences agricultural production and export performance while accounting for absorptive capacity and cross-country interactions, and extends the analysis to a continent-wide spatial setting to capture both domestic effects and regional spillovers.

1.3 Methodological Overview and Data Sources

This thesis adopts a paper-based research design that combines productivity analysis, panel econometric methods, and spatial econometric modelling to examine the relationship between FDI and agricultural trade performance. To establish a baseline assessment of agricultural sector performance, Malmquist Total Factor Productivity (TFP) indices are employed, decomposing productivity change into efficiency change and technological progress. Agricultural export competitiveness is assessed using the Normalised Revealed Comparative Advantage (NRCA) index, which enables scale-neutral comparisons across countries and over time.

The impact of sector-specific agricultural FDI on production and export performance is analysed using linear mixed-effects panel models, allowing for unobserved heterogeneity across countries while retaining both within- and between-country variation. Interaction terms are incorporated to assess how absorptive capacity, proxied by human capital, trade openness, and infrastructure, conditions the effects of FDI. To account for cross-country interdependence, the analysis is extended to a continent-wide spatial econometric framework using a spatial autoregressive (SAR) specification, incorporating both country and time fixed effects. This framework allows the decomposition of FDI effects into direct domestic impacts and indirect cross-border spillovers.

In addition to the econometric analysis, the thesis includes a sectoral case study of the sugar industry, combining historical analysis, a review of investment patterns, and an empirical assessment of export competitiveness.

The analysis is based entirely on secondary data obtained from internationally recognised sources. Agricultural production, sectoral performance, and commodity-specific data are obtained from the Food and Agriculture Organization (FAO), primarily through FAOSTAT. International trade data are sourced from the United Nations Comtrade database and complemented by data from the International Trade Centre. Foreign direct investment data are drawn from FAO-related investment datasets and the United Nations Conference on Trade and Development (UNCTAD). Macroeconomic and structural indicators, including agricultural GDP, exchange rates, population dynamics, exports, imports, and infrastructure proxies, are obtained from the World Bank's World Development Indicators. Institutional quality measures are sourced from the World Bank's Worldwide Governance Indicators, while human capital and capital stock data are obtained from the Penn World Tables. Agricultural productivity indicators are drawn from the United States Department of Agriculture (USDA).

1.4 Research questions and hypotheses

1. RQ1: How do agricultural productivity efficiency and export competitiveness vary across SADC countries and over time?
2. RQ2: How does sugar export competitiveness differ across African countries, and do SADC exporters demonstrate more sustained competitive performance compared to other regions.
3. H1: Higher levels of sector-specific agricultural FDI are associated with stronger agricultural production and export performance in SADC countries, conditional on domestic absorptive capacity.
4. H2: Higher levels of aggregated Foreign Direct Investment are associated with stronger agricultural export competitiveness in host African countries, with effects that extend across borders through cross-country spillovers.

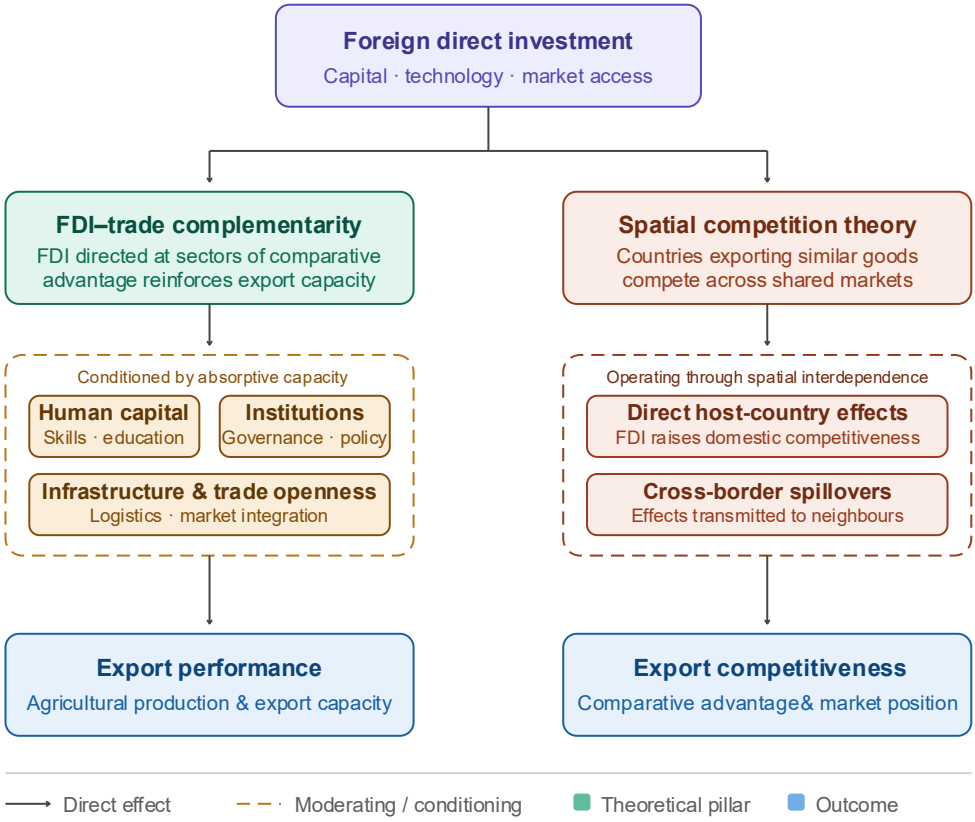
1.5 Theoretical and conceptual Framework

This thesis is informed by three complementary strands of theory. The first concerns the relationship between FDI and trade. The neoclassical position holds that capital

mobility and trade are substitutes, implying that FDI may reduce export activity. In contrast, subsequent developments in trade theory show that FDI and trade can be complementary, with foreign investment enhancing production efficiency, reducing trade costs, and strengthening export capacity (Helpman, 1984; Markusen, 1983). The distinction between trade-creating and trade-diverting FDI (Kojima, 1975) is particularly relevant in the SADC context, where investment directed toward sectors of comparative advantage is expected to reinforce export performance.

The second strand is the concept of absorptive capacity, which emphasises that the benefits of FDI are not automatic but depend on domestic conditions such as human capital, infrastructure, and institutional quality (Borensztein et al., 1998; Cohen & Levinthal, 1990). In the agricultural context, this determines the extent to which domestic producers can adopt technologies introduced by foreign investors. The third strand relates to spatial interdependence in trade and competitiveness. Agricultural markets in Africa are characterised by strong interconnections, and insights from new economic geography highlight how geographic proximity generates competitive interdependencies (Krugman, 1991; Krugman & Venables, 1995). Spatial econometric approaches allow these interactions to be modelled explicitly, capturing cross-country linkages in competitiveness (Anselin, 1988).

Figure 2: Conceptual framework of FDI and export performance.



Source: Author's conceptualisation.

2.0 Results

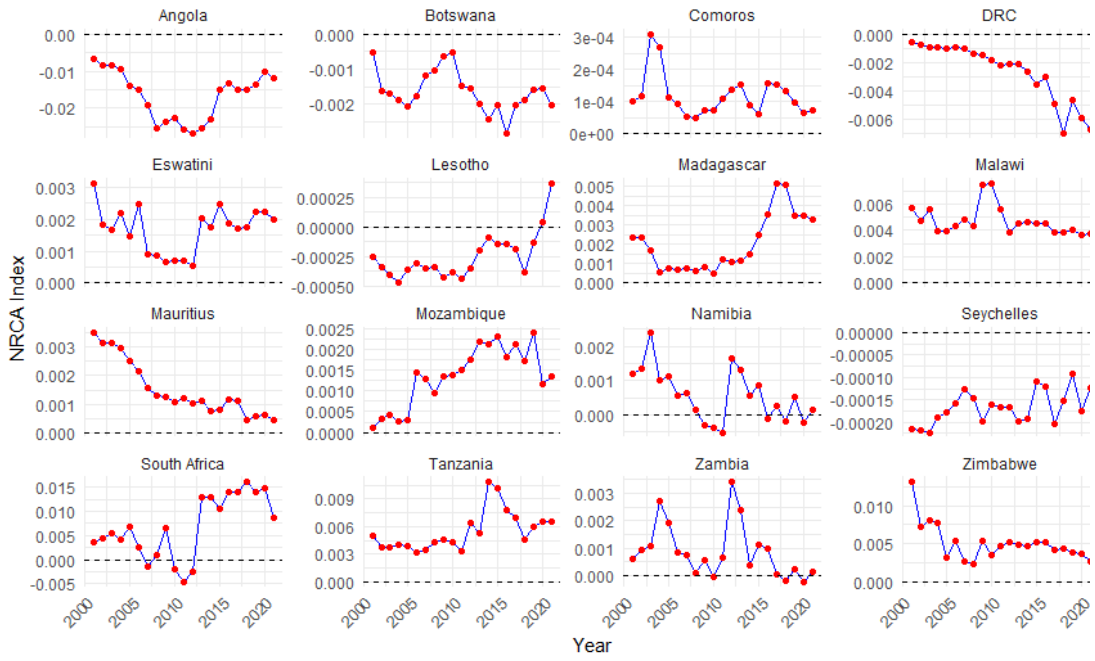
Objective 1: To assess the performance of the agricultural sector in SADC countries in terms of productivity efficiency and export competitiveness.

Malmquist Total Factor Productivity (TFP) indices were computed for 15 SADC countries over the period 2001–2019 using a multifactorial production function. Most TFP indices clustered between 0.5 and 1.5, with technical efficiency change identified as the primary source of productivity growth, while no country recorded gains from technological progress. Mauritius, South Africa, and Zambia were the only countries to achieve consistent productivity growth across all three sub-periods, whereas Angola, Botswana, Madagascar, Namibia, and Tanzania experienced overall productivity regression. These results indicate that agricultural growth in SADC has been driven largely by improvements in efficiency

and cropland expansion rather than technological advancement, pointing to a structurally unsustainable pattern of development.

Export competitiveness, measured using Normalised Revealed Comparative Advantage (NRCA) indices for 16 SADC countries over 2001–2021, shows that eleven member states maintained overall competitiveness in agricultural exports.

Figure 3: Trends in competitiveness of SADC countries.



Source: Author's compilation from various data sources.

This competitiveness is primarily associated with sectoral specialisation in high-demand products such as fruits, avocados, nuts, spices, and groundnuts. South Africa recorded the highest mean NRCA index, although with noticeable volatility over time. In contrast, mineral-dependent economies such as Angola, Botswana, and the Democratic Republic of Congo recorded negative indices, consistent with Dutch disease effects. When compared to global benchmarks such as Brazil and the Netherlands, SADC countries exhibit competitiveness levels that are substantially lower, reflecting structural constraints in value chain integration, processing capacity, and technological development.

Objective 2: To examine the sugar industry in SADC as a sectoral case study of agricultural competitiveness and investment dynamics.

The sugar industry provides evidence of how FDI shapes sectoral competitiveness. In Southern Africa, sustained FDI inflows, predominantly intra-regional, have driven large-scale expansion of sugarcane cultivation and modernisation of milling infrastructure, enabling countries such as Eswatini, South Africa, and Zambia to maintain competitive sugar exports over two decades. The principal mechanism was infrastructure rehabilitation and production scale-up rather than farm-level yield improvements.

In contrast, East and West African sugar industries remain non-competitive, constrained by inadequate investment, heavy state intervention, and institutional weaknesses. Competitive shifts in North Africa, with Morocco, Algeria, and Egypt transitioning to comparative advantage, further illustrate that competitiveness is not static and responds to changing investment conditions. A critical data limitation, the absence of reliable sector-disaggregated FDI data for sugar, precluded formal econometric testing at the sub-sector level and motivated the broader agricultural FDI analysis in subsequent chapters.

Objective 3: To examine the relationship between sector-specific agricultural FDI and agricultural production and export performance in selected SADC countries.

Using linear mixed-effects panel models on sector-specific agricultural FDI data for selected SADC countries, the analysis finds that FDI has a positive and statistically significant effect on both agricultural production and export performance. The effect is stronger and more consistent for exports than for production, indicating that FDI is more closely associated with improvements in export performance.

The results further show that the impact of FDI is conditional on domestic absorptive capacity. The interaction between FDI and human capital indicates that the effect of FDI declines as capability levels increase, suggesting the presence of threshold effects rather than continuously increasing returns. Trade openness shows a positive relationship with exports, while infrastructure does not significantly influence the effect of FDI, indicating that these factors operate through separate channels. The negative coefficients on initial output and exports point to convergence effects, indicating

diminishing returns to input expansion and reinforcing the importance of technological progress for sustained growth.

Table 1: Agricultural production/export estimates from variant Mixed-effects model specifications

Variables	Agricultural Production			Agricultural Exports			
Random effects							
Intercept	2.709	2.247	2.520	32.806	42.643	28.262	42.710
Residual	10.273	10.256	10.320	24.413	23.830	24.591	23.939
Fixed effects							
Intercept	103.009*** (24.186)	103.548*** (23.374)	90.966*** (23.058)	50.238* (27.510)	25.065 (29.824)	51.923** (25.978)	25.140 (30.424)
L	0.152 (1.501)	0.030 (1.354)	-0.536 (1.395)	-6.355 (8.558)	-3.632 (8.641)	-8.383 (8.117)	-3.691 (8.718)
K	-0.008 (0.048)	-0.017 (0.048)	-0.006 (0.048)	0.239* (0.127)	0.249** (0.121)	0.232* (0.128)	0.250** (0.122)
y / ex	-22.130*** (4.893)	-22.386*** (4.778)	-18.002*** (4.138)	-13.179*** (3.538)	-17.021*** (3.534)	-11.650*** (3.421)	-17.053*** (3.638)
HC	8.312** (3.829)	8.901** (3.563)					
FDI	0.004 (0.005)	0.107* (0.059)	0.0002 (0.011)	0.048*** (0.013)	0.060*** (0.014)	0.058*** (0.021)	0.061* (0.034)
HC*FDI		-0.070* (0.040)					
ER				0.008 (0.006)	0.010* (0.006)	0.007 (0.006)	0.010 (0.006)
INFR				-0.256 (0.244)		-0.253 (0.247)	
TOP			0.093** (0.045)		0.312** (0.150)		0.314* (0.168)

Variables	Agricultural Production	Agricultural Exports
INFR*FDI		-0.001
		(0.001)
TOP*FDI	0.00004	-0.00001
	(0.0002)	(0.0004)

Source: Author's compilation.

Objective 4: To examine the relationship between aggregated FDI and agricultural export competitiveness across African countries, including potential cross-border spillover effects.

Extending the analysis to 52 African countries using a spatial autoregressive panel model, the results show that FDI has a positive direct effect on agricultural export competitiveness at the continental level. Agricultural export competitiveness exhibits significant spatial interdependence, indicating that outcomes in one country are linked to those in others. However, there is no evidence of systematic negative spillovers associated with FDI across neighbouring countries.

Where cross-country competitive pressure is observed, it is associated with differences in production scale rather than FDI-driven displacement. This suggests that gains from investment in one country do not systematically reduce competitiveness elsewhere. The results are consistent across landlocked and coastal countries and across major regional economic communities, indicating that country-specific production capacity plays a more important role than geography or regional grouping in shaping the effects of FDI.

Table 2: SAR model with time fixed effects

Variables	Coefficient	Direct effect	Indirect effect	Total effect
FDI	0.00701***	0.00703***	−0.00151*	0.00552***
	(0.00239)	(0.00240)	(0.00079)	(0.00196)
RQ	0.25377***	0.25438***	−0.05465*	0.19972***
	(0.08367)	(0.08388)	(0.02832)	(0.06881)
TFP	0.26076**	0.26138**	−0.05616	0.20522*

Variables	Coefficient	Direct effect	Indirect effect	Total effect
	(0.12941)	(0.12967)	(0.03418)	(0.10580)
AgricGDP	0.20941***	0.20991***	−0.04510**	0.16481***
	(0.06073)	(0.06085)	(0.02156)	(0.05164)
Spatial autoregressive parameter (ρ)	−0.27061**			
	(0.13364)			
Country fixed effects		Yes		
Time fixed effects		Yes		
Observations		1,092		
Countries		52		
Log likelihood		−753.79		
Pseudo R^2		0.5865		
AIC / BIC		1559.59 / 1689.48		
Wald test (spatial term)		$\chi^2(1) = 4.10$ ($p = 0.043$)		
Pesaran CD test		−1.34 ($p = 0.182$)		

Source: Author's compilation.

3.0 Discussion

The results indicate that agricultural performance in SADC is constrained by structural factors rather than by an absence of productive activity. Production growth is driven primarily by improvements in technical efficiency and the expansion of cultivated land, with limited evidence of sustained technological progress, consistent with earlier findings for sub-Saharan Africa (Djoumessi, 2022). At the same time, agricultural export competitiveness is present but remains uneven and concentrated in a narrow range of products, reflecting persistent weaknesses in value-chain development, agro-processing capacity and export upgrading (Odjo & Badiane, 2018). These patterns suggest that agricultural systems in the region are operating below potential, with structural constraints limiting both productivity growth and the ability to compete in higher-value markets.

Within this context, FDI plays an important but conditional role. Evidence from the sugar industry shows that sustained and well-directed investment can support competitive outcomes when it is aligned with organised production systems and supporting infrastructure. However, marked differences across regions indicate that similar sectors can perform very differently depending on the consistency of investment, the institutional environment and production arrangements, rather than investment volumes alone (Chudasama, 2021; Dunne & Masiyandima, 2017; Scoones et al., 2017). This highlights that the effects of FDI are shaped by the conditions under which it is implemented, reinforcing the view that investment effectiveness depends critically on sectoral and institutional context (Anyanwu & Yaméogo, 2015).

The econometric results reinforce this interpretation. FDI is positively associated with both agricultural production and exports, with a stronger and more consistent relationship observed for export performance, suggesting that FDI contributes more directly to trade outcomes than to fundamental changes in production structures (Adegboye et al., 2020; Ayenew, 2022). The results further show that the impact of FDI depends on absorptive capacity. The interaction with human capital indicates that FDI effects vary with domestic capabilities, in line with the absorptive-capacity framework (Agyei & Kodongo, 2022; Cohen & Levinthal, 1990), while the absence of a significant moderating role for infrastructure suggests that these factors operate through largely separate channels. Evidence of convergence effects also points to diminishing returns from growth based on factor accumulation alone, underscoring the importance of technological upgrading for sustained productivity growth.

The spatial analysis extends these findings by accounting for cross-country interdependence in agricultural export competitiveness. While export performance is spatially interconnected across countries, there is no evidence that FDI generates systematic negative spillover effects on neighbouring economies. Instead, differences in competitiveness are primarily associated with variation in production scale and underlying structural capacity, rather than with investment-induced displacement (Boly et al., 2019; Hoekman & Sanfilippo, 2023). These findings indicate that the effects of FDI are largely shaped by domestic conditions and that improvements in one country do not inherently reduce competitiveness in others.

4.0 Conclusion

This thesis examined the impact of FDI on agricultural trade performance in SADC using productivity analysis, competitiveness measures, panel econometric modelling, and spatial analysis. The findings show that agricultural productivity in SADC has improved mainly through efficiency gains rather than technological progress, while export competitiveness remains uneven and concentrated in specific products. The sugar industry case demonstrates that foreign investment can support sustained competitiveness when embedded in organised value chains and supported by appropriate institutional and production structures.

Empirical results further indicate that sector-specific agricultural FDI has a positive effect on production and, more strongly, on exports in selected SADC countries, with outcomes shaped by domestic absorptive capacity, particularly human capital. At the continental level, the spatial analysis shows that although agricultural export competitiveness is interconnected across countries, aggregated FDI does not generate systematic negative spillovers, with differences in competitiveness driven instead by production scale and structural capacity. These findings indicate that FDI can support agricultural trade performance, but its effectiveness depends on domestic conditions rather than investment inflows alone.

4.1 Policy implications

At the national level, governments in SADC should move from broad FDI attraction strategies towards more targeted approaches that prioritise export-oriented agricultural value chains, particularly in processing, storage, logistics, and value addition. Given that the benefits of FDI depend on absorptive capacity, policy should focus on strengthening human capital through targeted technical training aligned with the needs of agribusiness, including mechanisation, post-harvest handling, and compliance with export standards. Without adequate skills, the benefits of investment are likely to remain confined within foreign-owned firms rather than spreading to the wider domestic economy. Governments should also strengthen institutional frameworks, including contract enforcement, land access, and investment stability, and continue to support outgrower systems and value-chain linkages.

At the regional level, SADC policymakers should prioritise reducing non-tariff barriers such as border delays, inconsistent standards, and transport inefficiencies that constrain intra-regional agricultural trade. Improving regional connectivity through transport corridors and shared logistics infrastructure is important for enabling participation in export markets, particularly for smaller and less diversified economies. Greater coordination in investment monitoring and the harmonisation of certification and standards regimes across the region would further strengthen the capacity to attract agricultural FDI and to translate investment inflows into improved trade performance.

For foreign-owned agribusiness firms, the results highlight the importance of investing in workforce training, supplier development, and contract farming arrangements to strengthen linkages with domestic producers. Such efforts can enhance the diffusion of skills and production practices, improve the reliability and quality of local supply chains, and support the integration of domestic producers into export-oriented value chains. By building stronger local linkages, foreign firms can contribute to broader development outcomes while also reinforcing their own long-term competitiveness and operational stability within host countries.

4.2 Limitations

The analysis is constrained by the availability of disaggregated agricultural FDI data, which limited the sample size for the panel analysis. Data limitations also restricted the coverage of competitiveness indicators for the sugar sector. In addition, the use of aggregate FDI data in the spatial analysis does not distinguish between agricultural and non-agricultural investment. The use of a static spatial model further limits the ability to assess the evolution of spillovers over time.

4.3 Areas of future research

Future research should consider dynamic spatial models to examine how spillovers evolve over time. Greater availability of disaggregated FDI data would allow for a more detailed analysis of investment by sector and type. Further work could also examine the role of investment origin and differences between types of FDI in shaping agricultural performance and export outcomes.

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