

THE GEOGRAPHY OF AFRICAN MULTINATIONAL ENTERPRISES. A STRATEGIC PERSPECTIVE.

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AMENET THIRD INTERNATIONAL CONFERENCE ON REGIONAL INTEGRATION - ACCRA 2021.

22-23, FEBRUARY, 2021



Africa's growth remains uneven



MULTINATIONAL ENTERPRISE. DEFINITION

A Multinational Enterprise (MNE) has (owns, totally or partially) and control (**directly**) subsidiaries in at least one foreign country.

A domestic firm becomes multinational by making/doing direct investment abroad (FDI) and create a local organization in the host country, a subsidiary.

FDI implies the transfer of intangible and physical specific assets to the host country subsidiaries (**Ownership competitive advantages**, managed within the MNE system). These specific assets jointly with location specific factors of host countries add value to the economy (both are complementary to each other) and allow to generate profits for the investor (MNE).

The FDI is a vehicle of **direct** business **integration** between the country of origin and host country. And indirectly throughout export-imports and alliances made by subsidiaries. Subsidiaries in general are very active in foreign trade of the host country.

WHY FDI ?

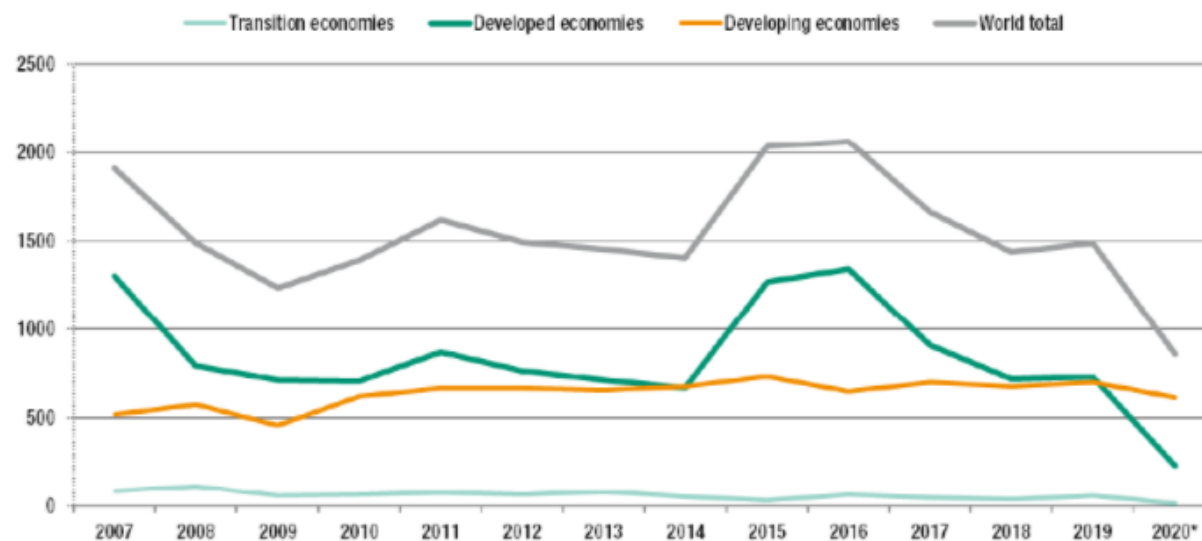
Market-seeking (to access to foreign market opportunities);

Resource-seeking (natural or created resources);

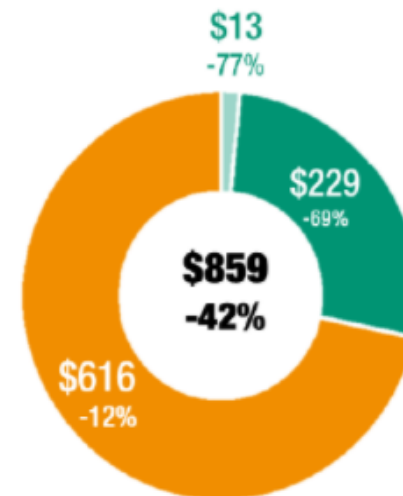
Efficiency-seeking (to exploit cost structures, efficiencies or scale economies abroad);

Strategic asset-seeking (to access assets that will enable the firm to enhance their competitive advantages to compete in a particular market. (**knowledge/technology- and relationship-seeking motivations**), complementary related to location country-specific advantages, and institutions.

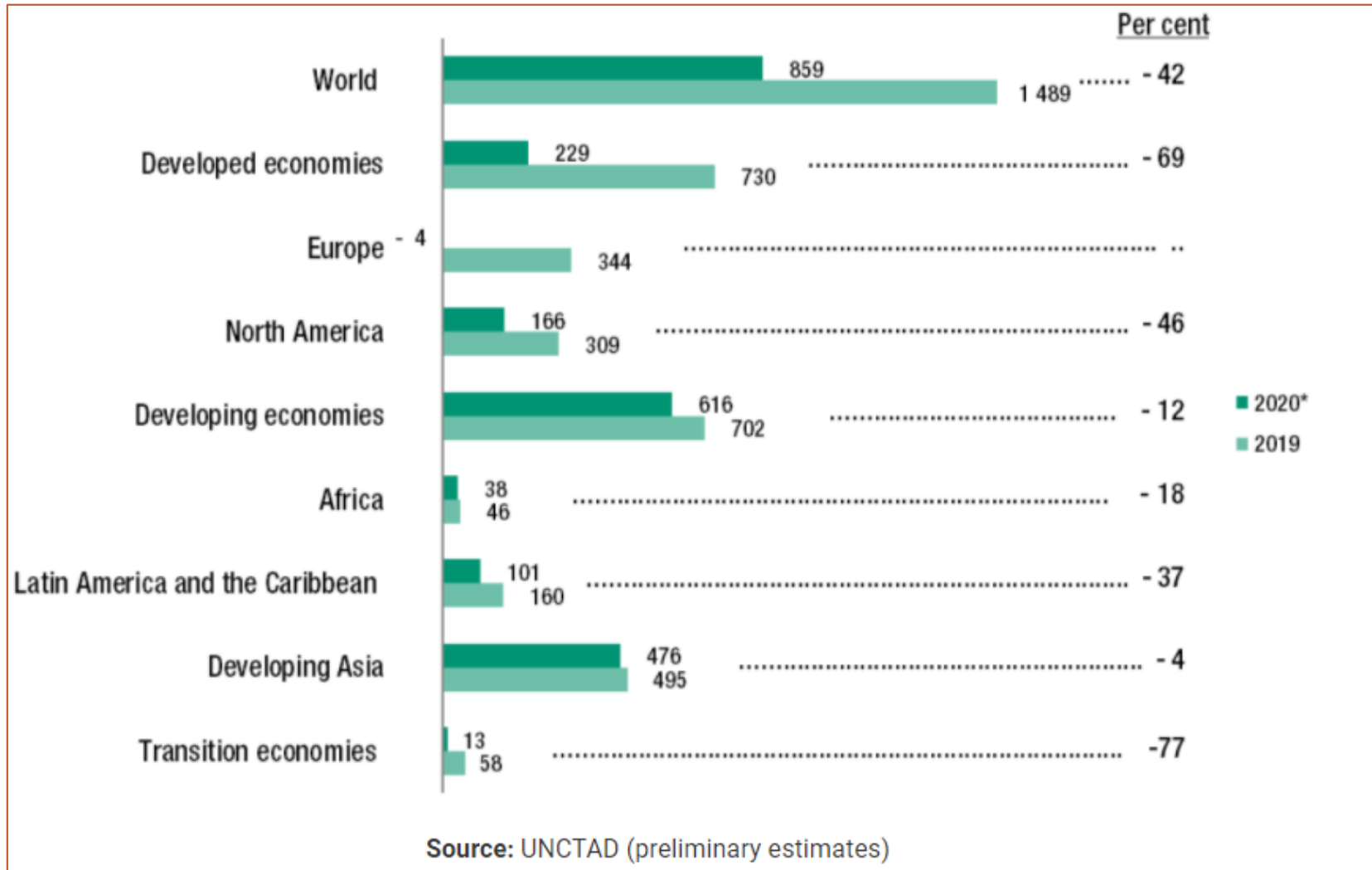
FDI inflows: global and by group of economies, 2007–2020 (billions of US dollars)



Source: UNCTAD (preliminary estimates)



FDI inflows by región, 2019 and 2020 (billions of US dollars)



AFRICAN REGIONS

North Africa Algeria, Egypt, Libya, Morocco, Sudan, Tunisia.

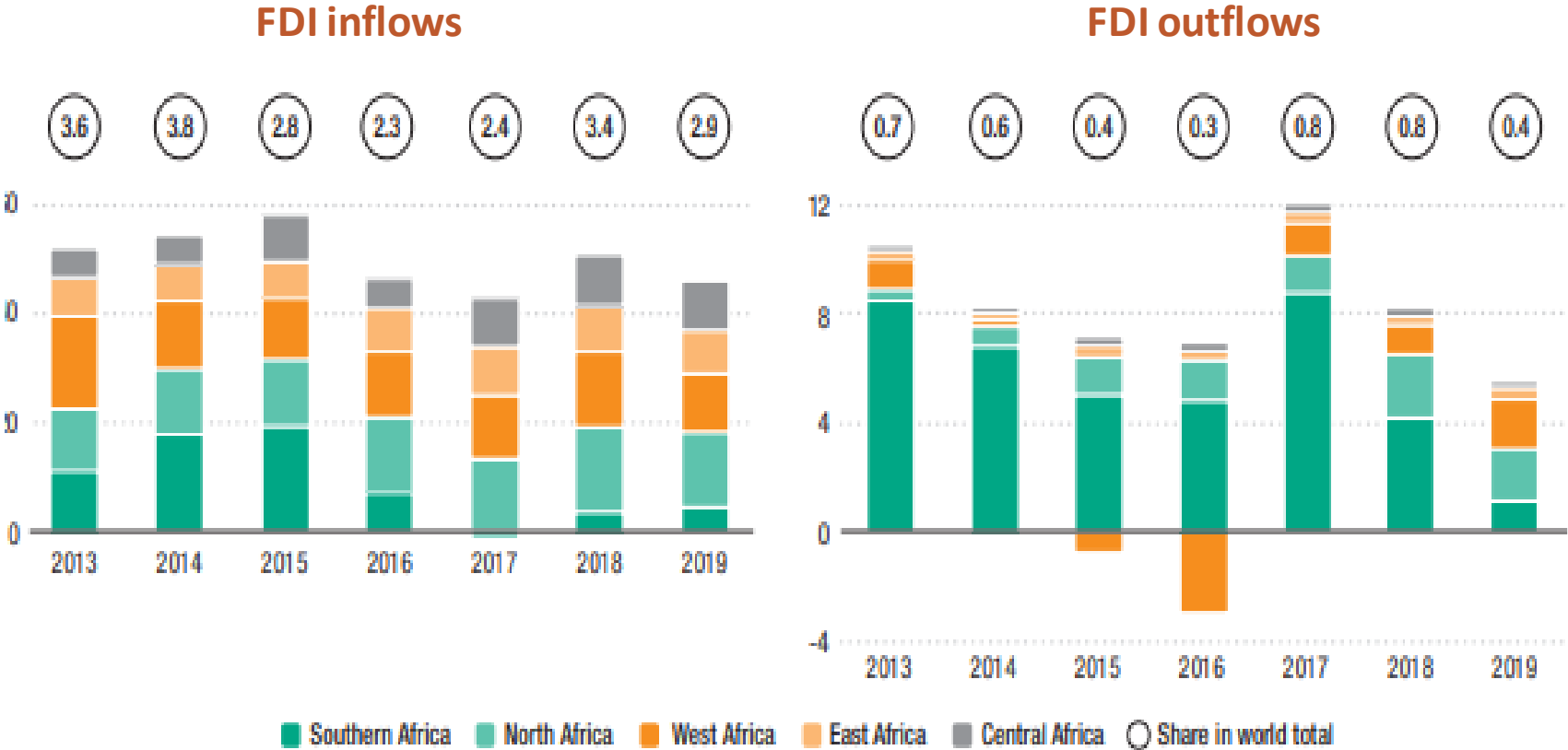
West Africa : Benin, Burkara Faso, Cabo Verde, Côte d'Ivoire, Gambia, Ghana, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo

Central Africa Burundi, Camerun, Central African Republic, Chad, Congo, Congo (Democratic Republic of), Equatorial Guinea, Gabon, Rwanda, Sao Tome and Principe.

East Africa Comoros, Djibuti, Eritrea, Ethiopia, Kenya, Madagascar, Mauritius, Seychelles, Somalia, Uganda, United Republic of Tanzania.

South Africa Angola, Butswana, Eswatini, Lessotho, Malawi, Mozambique, Namibia, South Africa, Zimbabwe.

FDI inflows and outflows, 2013-2019 (Billions of dollars and per cent)



Outflows: top 5 home economies

(Billions of dollars and 2019 growth)

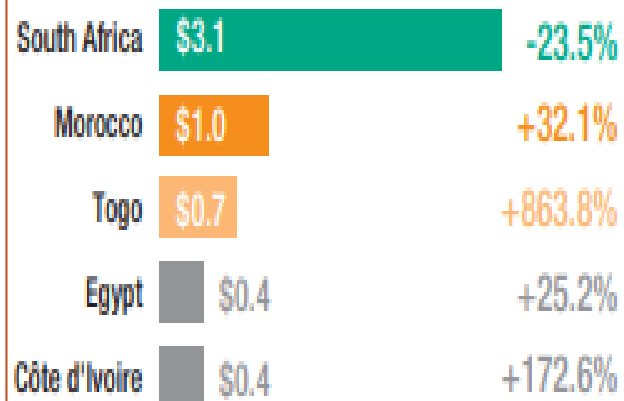
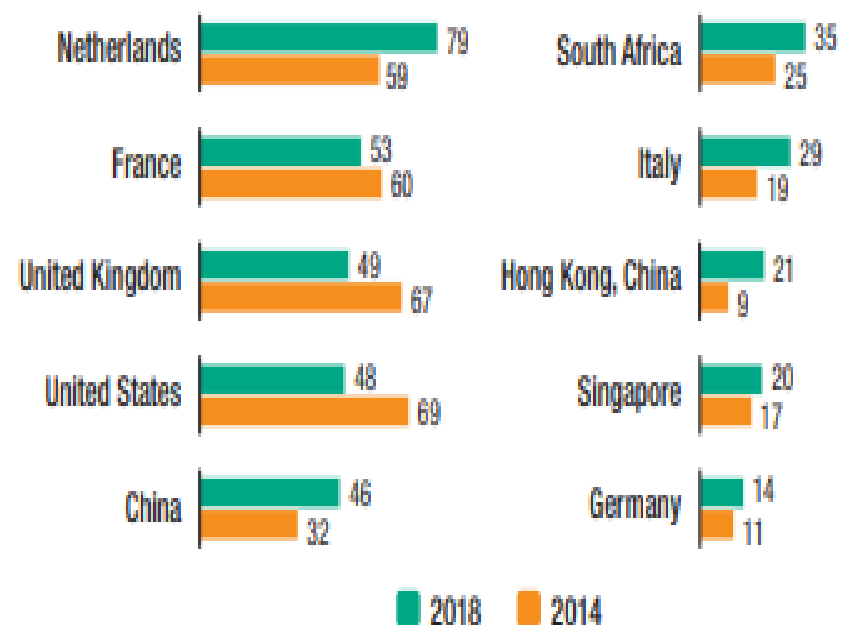


Figure A.

Top 10 investor economies by FDI stock, 2014 and 2018 (Billions of dollars)



Source: UNCTAD.

Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. Final boundary between the Sudan and South Sudan has not yet been determined. Final status of the Abyei area is not yet determined.

**AFRICAN COUNTRIES STOCK INWARD AND OUTWARD DIRECT INVESTMENT
THOUSEND OF MILLIONS DOLLARS**

	<u>OUTWARD</u>				<u>INWARD</u>		
	<u>2000</u>	<u>2010</u>	<u>2019</u>		<u>2000</u>	<u>2010</u>	<u>2019</u>
AFRICA	40	138	285		153	604	954
North Africa	3	26	39		46	201	302
West Africa	6	18	21		33	91	200
Central Africa	2	2	4		5	39	100
Eart Africa		2	4		7	37	100
South Africa	28	90	217		62	235	252

NET INVESTMENT POSITION (NOI) OUTWARD LESS INWARD			
	2000	2010	2019
AFRICA	-113	-466	-669
North Africa	-43	-175	-263
West Africa	-27	-73	-179
Central Africa	-3	-37	-96
Eart Africa	-7	-35	-96
South Africa	-34	-145	-35

AFRICA FDI INWARD AND OUTWARD STOCK. 1990-2018

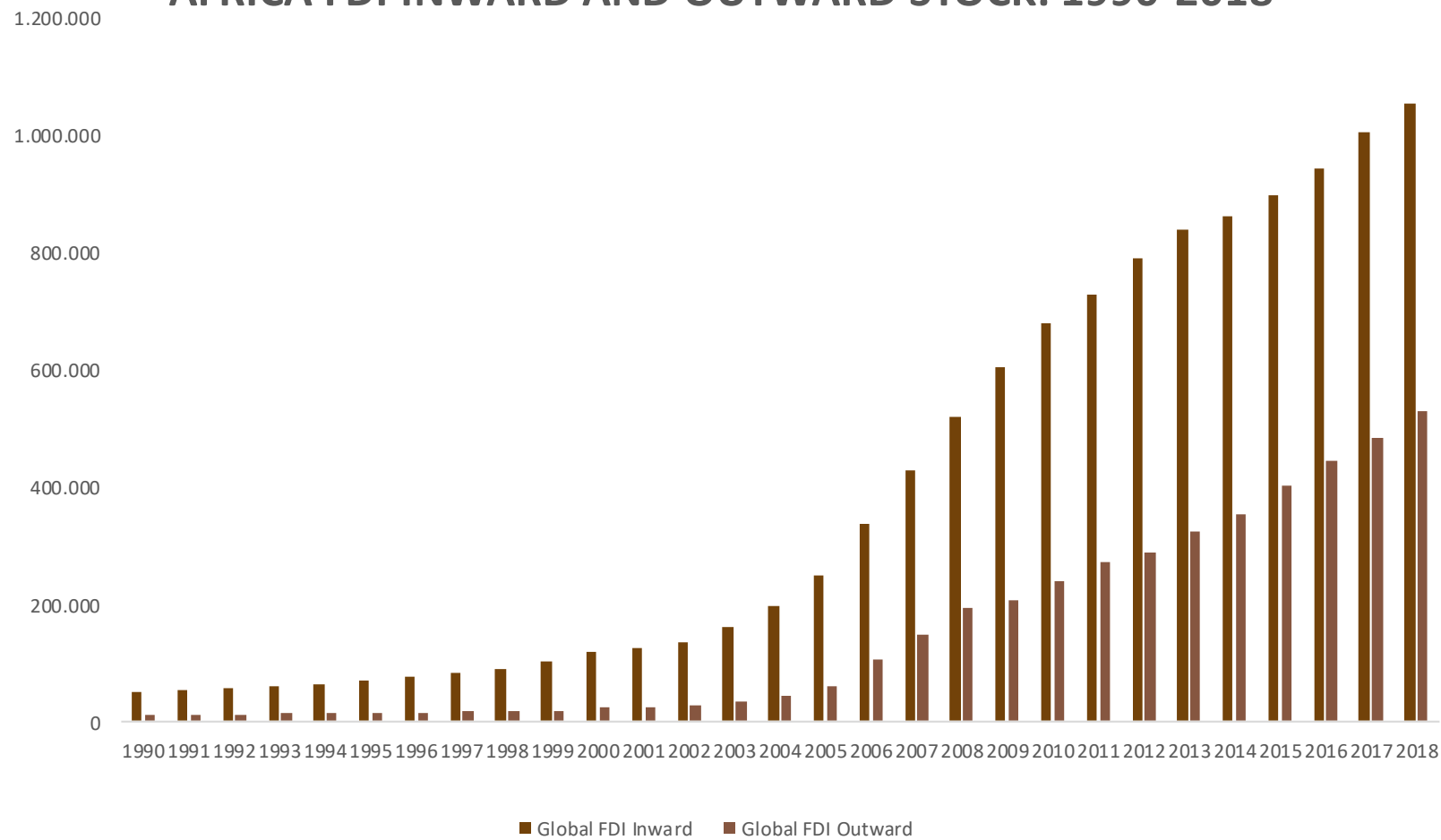
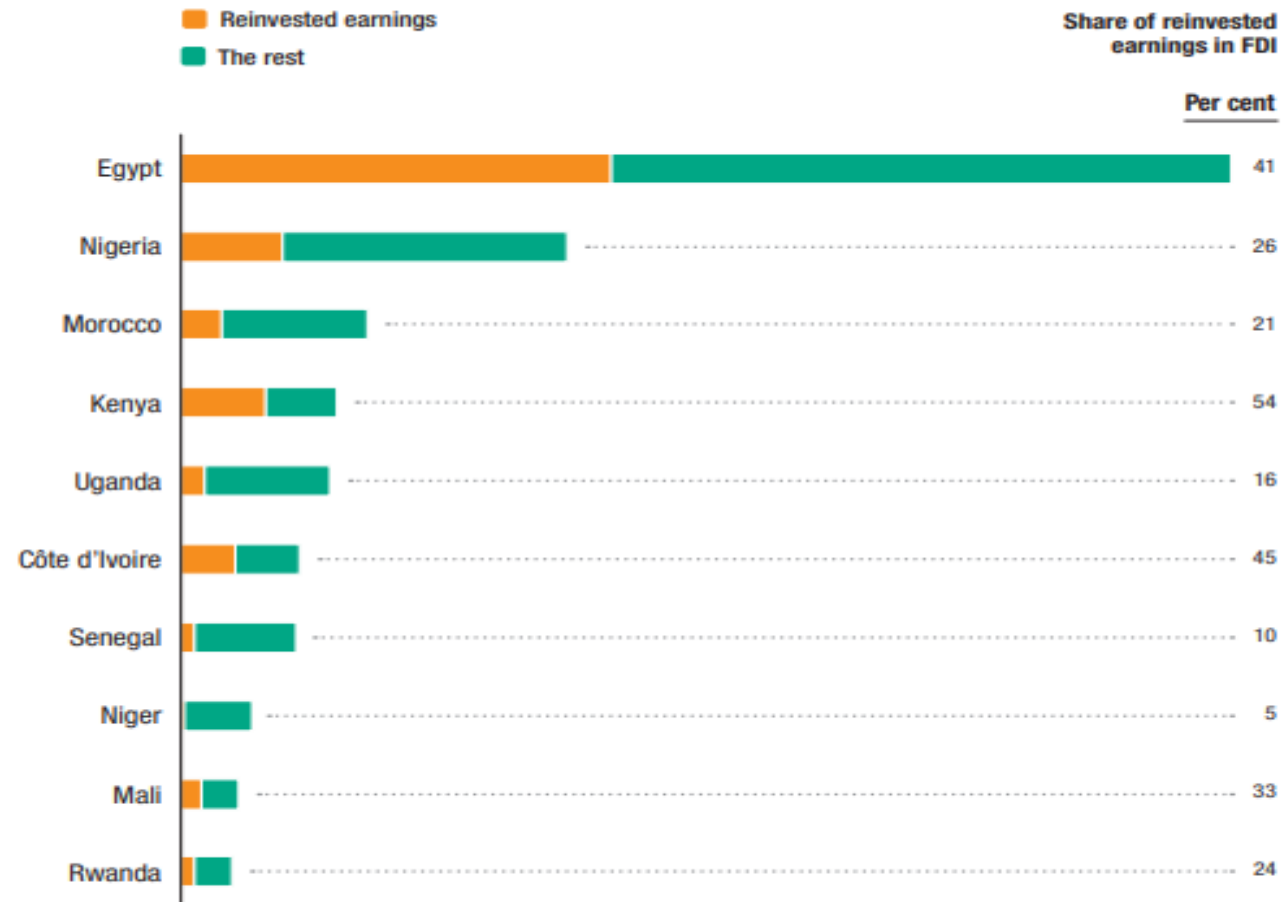


Figure II.3. Africa: FDI inflows and reinvested earnings, 2019 (Volume and per cent)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

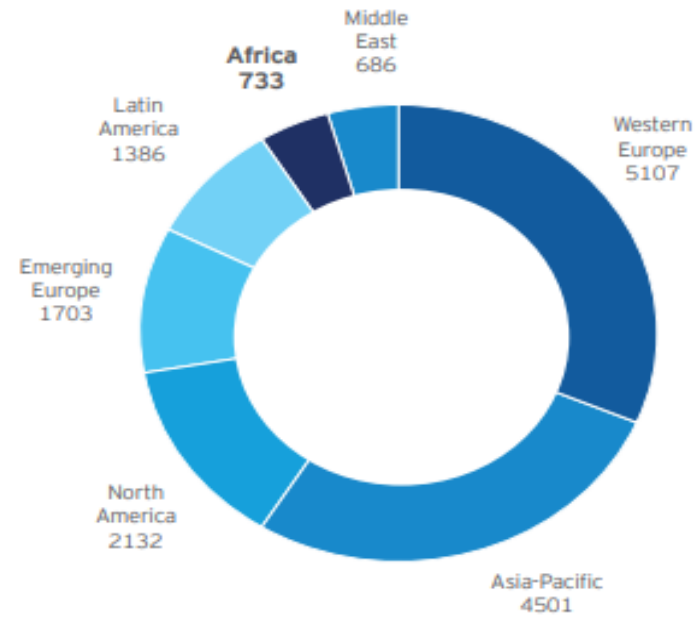
Note: The figure covers only economies that report reinvested earnings separately.

Table II.1. Africa: five largest export industries and announced greenfield projects (Per cent)

Industry	Exports (Share of African)	Value added in exports (Share of global)	GVC forward participation	GVC backward participation	Value of announced greenfield FDI project change in Q1 2020
Extractive	32.8	11.3	83	17	-82
Petroleum and chemicals	10.6	1.6	51	49	-75
Electrical and machinery	6.6	1.9	68	32	-36
Automotive	6.5	0.6	45	55	-29
Agriculture	6.4	5.5	76	24	18

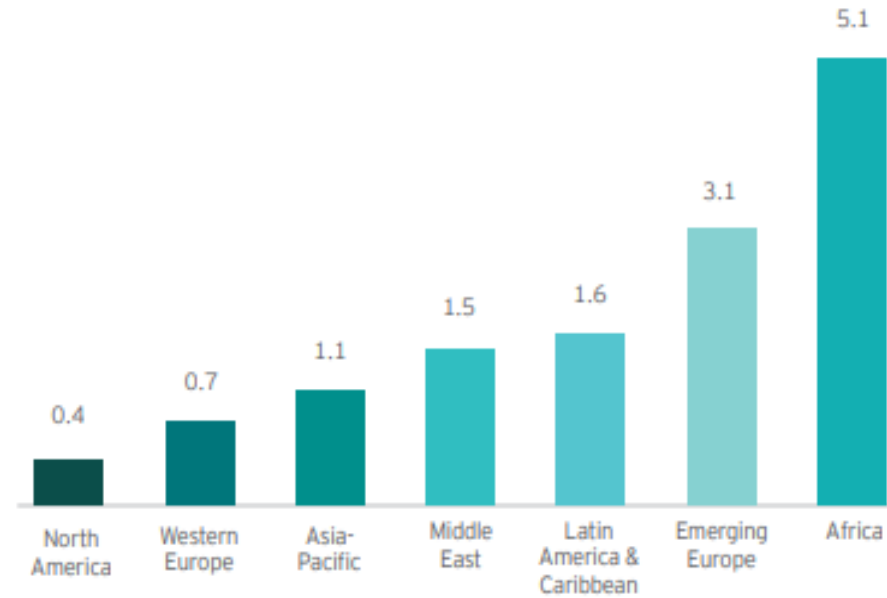
Source: UNCTAD, based on Eora26 database for GVC data and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) for greenfield project announcements.

FDI: Average projects per year 2014 - 2018



Source: FDI Intelligence, EY analysis

FDI to GDP (US\$bn, based on 2018 GDP data)



Source: FDI Intelligence, EY analysis

Microsoft to spend \$100 million on Kenya, Nigeria tech development hub

Microsoft Corp will invest \$100 million to open an Africa technology development center with sites in Kenya and Nigeria over the next five years. Global tech giants, including Alphabet Inc and Facebook, have been increasing investment on the continent in recent years to take advantage of growing economies with rising access rates to the internet by a youthful population.

Microsoft will hire more than 100 local engineers by the end of the first year to work in the new Africa facility in both countries to customize its applications for the African market and to develop new ones for the continent and beyond. Microsoft expects to hire 500 engineers by the end of 2023.

Microsoft said this investment in Africa Development Centre infrastructure and employment of qualified local engineers is expected to be worth \$100 million in the first five years. This follows the March launch of its first Azure data centers on the continent, in Cape Town and Johannesburg, in South Africa.

Source: <https://www.africanews.com/2019/05/14/microsoft-to-spend-100-million-on-kenyanigeria-tech-development-hub/> 14 May 2019

Prominent sectors

FDI projects by sector: 2018 Total projects 710



Source: FDI Intelligence, EY analysis

GEOGRAPHICAL DISTRIBUTION OF THE TOP 250 AFRICAN FIRMS

<u>Country of origin</u>	<u>Number Firms</u>	<u>Country of origin</u>	<u>Number Firms</u>
South África	100	BRVM	5
Egypt	41	Botsuana	5
Morroco	29	Tanzania	4
Nigeria	19	Ghana	3
Tunissia	12	Malawi	2
Kenia	12	Uganda	2
Mauritius	8	Zimbawe	2
Namibia	5	Zambia	1

Source: African Business 2020

INDUSTRIAL DISTRIBUTION OF THE TOP 250 BIGGEST AFRICAN FIRMS

Sector of Activity	Number Firms	Sector of Activity	Number Firms
Finance	61	Distribution	5
Insurance	10	Pharmaceuticals	4
Capital Markets	11	Hospitality	4
Metals & Mining	21	Healthcare	4
Telecom & tecnology	19	Tobacco	4
Food Product	17	Energy	3
Retail	16	Electricals Equipment	3
Beverages	13	House	3
Real Estate	10	Consumers Services	3
Constrution	9	Paper & Forest Produs	2
Chemical	8	Media	2
Oil & Gas	6	Transport	2
Conglomerates	6	Otrher(*)	2

(*) Luxury godos, personal products

Table 10. Extra-regional FDI Footprints of African MNEs

MNE	Economies of the South	Economies of the North
Elsowedy (Egypt)	Hong Kong (China), India, Kazakhstan, Malaysia, Pakistan, Russia	Spain, Netherlands, Slovakia, Slovenia, Czech Republic
Orascom Construction Industries (OCI) (Egypt)	Afghanistan, Brazil, India	Belgium, Cyprus, Netherlands, Switzerland, United States
Office Chérifien des Phosphates (OCP) (Morocco)	Argentina, Brazil, India, Pakistan, Turkey	Belgium, United States
Sonatrach (Algeria)	Bolivia, Brazil, China, Peru, Singapore, Republic of Korea, Turkey	Belgium, France, Germany, Greece, Italy, Portugal, Slovenia Spain, Netherlands, United Kingdom, United States
Sonangol (Angola)	Iraq, Cuba, Hong Kong (China), Indonesia, Singapore;	Portugal, Switzerland, United Kingdom, United States
Attijariwafa (Morocco)	China	Belgium, France, Germany, Italy, Spain, the Netherlands, United Kingdom
Banque Centrale Populaire (BCP) (Morocco)	China	Belgium, France, Germany, Gibraltar, Italy, Netherlands, Spain, Switzerland, United Kingdom, United States
Ecobank (Togo)	China, United Arab Emirates	France, United Kingdom
First Bank (Nigeria)	China, United Arab Emirates	France, United Kingdom

Source: Case Data.

LIABILITIES OF ORIGIN.

Liabilities of foreignness: environmental unfamiliarity, differences between host and home country.

Liabilities of africaness: some MNE have migrate by moving their headquarters to developed countries(Barnard, 2014)

South Africa MNE such as SABMiller, Old Mutual, Anglo American migrates by **moving their headquarters**.

Sunu, the case of non-life insurance entry into English speaking countries in West Africa in 14 countries. In July 2020 **moved its international headquarters** from Cote d'Ivoire (headquarters since 1999) **to France**. The strategic relocation to headquarters in France can be interpreted as a seeking institutional support from more advanced and stable financial services sector, something Africa is lacking (Verhoed, 2017). Where is the nationality located of the firm, Is African or French company?.

Searching for financial and economic reputation

The **financial services** MNEs, by nature, usually are related to African foreign trade and investment.

African banks' expansion into Europe, North America and other major host countries: relationship-seeking motivations with the **diaspora of African immigrant communities and organizations** with links to Africa.

Extra-regional FDI moves of African MNEs was **Joint Ventures(JV)** and international alliances: Sonatrach's JV in Peru enabled it to enter into strategically advantageous collaboration with partners, including Tecgas NV, Pluspetrol (Argentina), Hunt Oil (United States), SK Corporation (Republic of Korea), GDF Suez-Tractebel SA (Franco-Belgian), and Grana y Montero SAA (Peru) (Ibeh, 2018).

African MNE listed in Stock Exchanges

Enhance their reputation globally by **listing their shares on overseas stock exchanges or appointing foreign directors** onto their boards. Reputation is particularly important when a company seeks to enter foreign markets.

Of a sample of the **80 Nigerian** companies, approximately **19% were listed in Stock Exchange (domestic and others)**. Most of these cross-listed companies were listed on the **London Stock Exchange (LSE) and Euronext Paris** exchanges (26.5% each) as well as in the **NigerianSX**. Another 20% were also listed on the **Johannesburg Stock Exchange**. Others were also listed on the **New York Stock Exchange, the Ghana Stock Exchange, the SIX Swiss Exchange, and the Frankfurt Stock Exchange**.

INTERNATIONAL INSTITUTIONS AND AFRICAN FDI

The **African Continental Free Trade Area (AFCFTA) agreement** creates the largest **free trade area** in the world measured by the number of countries participating. The pact connects 1.3 billion people across 55 countries with a combined gross domestic product (GDP) valued at US\$3.4 trillion (July, 2020). It is an **incentive for intra-regional trade**.

Negotiations on the **protocols on investment, competition and intellectual property rights**, which constitute Phase II of the process, (December 2020).

In terms of content, the protocol on investment is likely to draw on the Pan-African Investment Code, which was finalized in 2015.

The resulting draft legal texts are to be submitted to the January 2021 session of the African Union Assembly for adoption.

This will be an **important institutional development for FDI purposes**. Also we have to be awarded the increasing importance of the digital economy, with its vastly enhanced facilities for borderless digital internationalization.

All developed countries has institutions with links to Africa, as well as international organizations (for example African Development Bank) that may have influence on FDI.

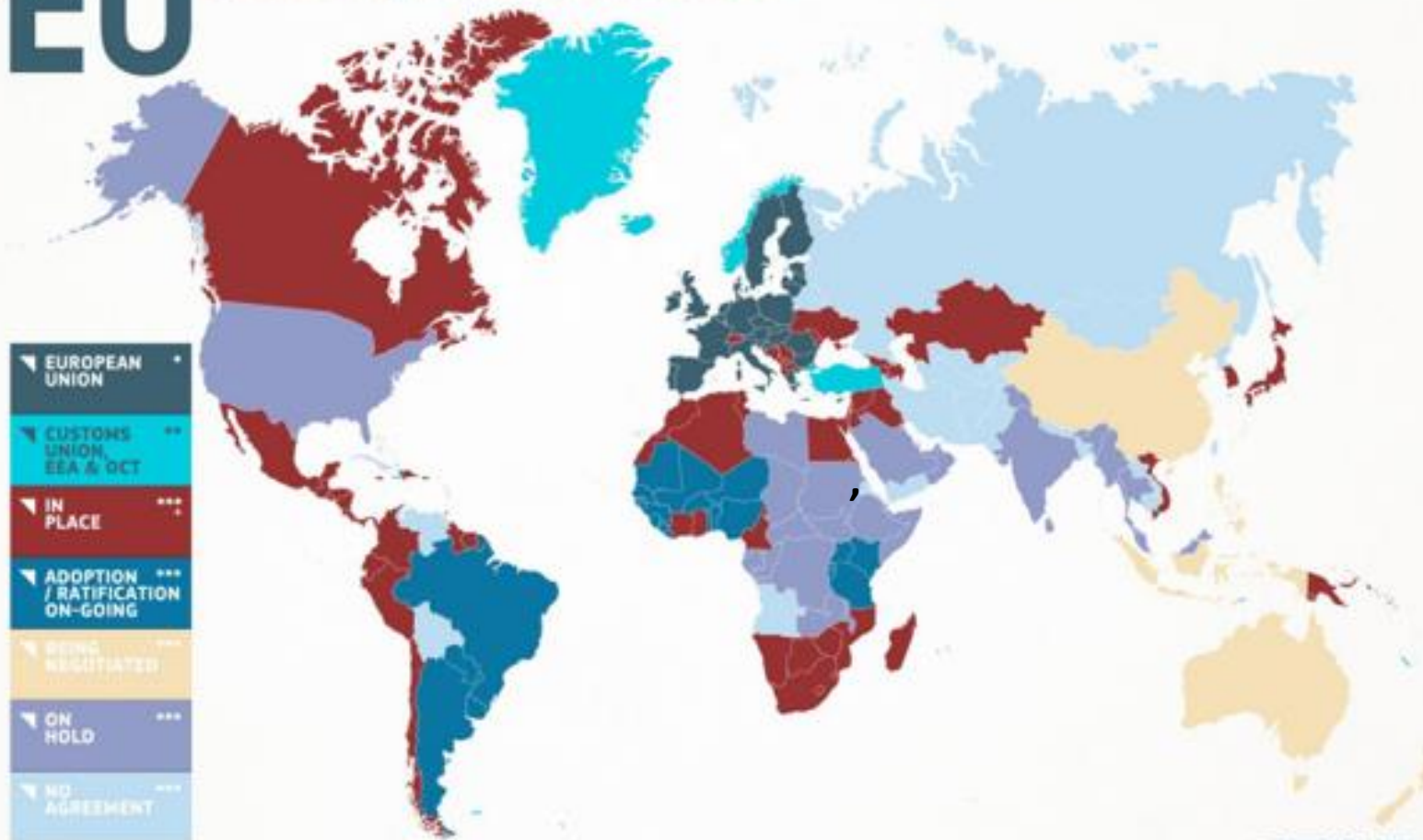
Cotonú Agreement. General framework for relations between EU , ACP- África, Caribbean and Pacific countries.(79 LDCs ; 48 African countries).

Table II.2. Major developed and emerging economies' investment initiatives for Africa

Country	Name of initiative	Highlights	Key projects
United States	Prosper Africa Initiative (2019)	Projects in the form of equity, debt financing, risk insurance and technical development through the International Finance and Development Corporation, which has a global investment cap of \$60 billion	Announcement of \$5 billion in investment in Ethiopia by 2022 in newly privatized industries
China	Forum on China–Africa Cooperation (October 2010, latest summit in 2018)	\$60 billion financing package, including \$10 billion in private investment	\$12 billion coastal railway in Nigeria, \$4.5 billion Addis Ababa–Djibouti railway, and \$11 billion megaport in Tanzania
United Kingdom	United Kingdom–Africa Investment Summit (January 2020)	Deals worth about \$8.5 billion to set the groundwork for post-Brexit economic and investment ties between the United Kingdom and African countries	Tullow Oil announcement of investment of \$1.5 billion to continue oil production in Kenya
Russian Federation	Russia–Africa Summit and Economic Forum (October 2019)	50 agreements for a total of more than \$10 billion, in mainly infrastructure and natural resources development project	Announcement of \$2.2 billion investment to build oil refinery in Morocco by VEB, a state development corporation
France	Choose Africa (December 2019)	\$3 billion in financing for start-ups and SMEs in Africa until 2022, in the form of credit, technical support and equity financing	FISEA equity investment in Agri VIE II, a venture capital fund for agribusiness in Sub-Saharan Africa

Source: UNCTAD, based on initiative websites.

EU trade agreements 2020



* The United Kingdom withdrew from the European Union and is a third country as of 1 February 2020. During the transition period, which ends on 31 December 2020, Union law, with a few limited exceptions, continues to be applicable to and in the United Kingdom.

** European Economic Area (EEA) / Overseas Countries and Territories (OCT).

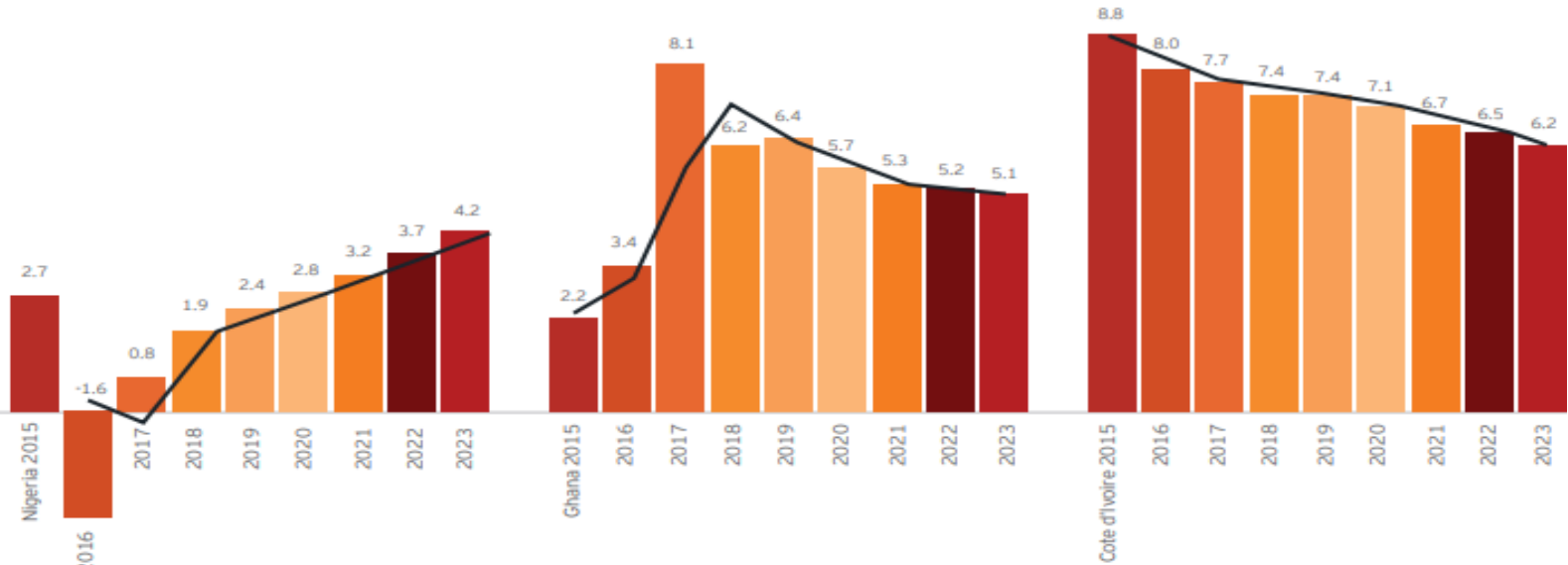
*** Free Trade Agreement (FTA), Deep and Comprehensive Free Trade Agreement (DCFTA), Investment Agreement, Enhanced Partnership and Cooperation Agreement (EPCA), Partnership and Co-operation Agreement with preferential element (PCA).

† The agreements with Chile, Tunisia, and Eastern and Southern Africa are currently being updated; the updated agreement with Mexico is under ratification.

#EUtrade

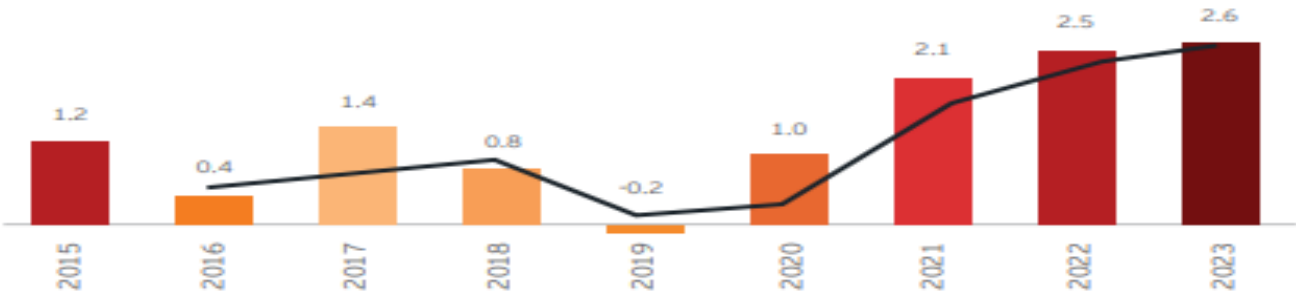


GDP growth: West Africa, selected economies



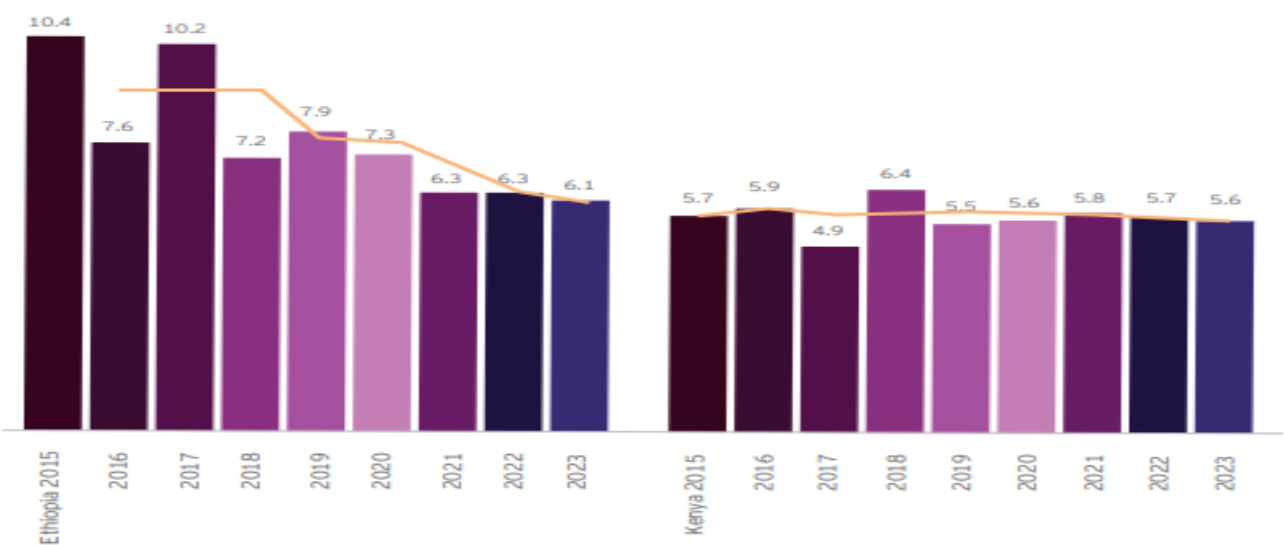
Source: FDI Intelligence, EY analysis

GDP growth: South Africa



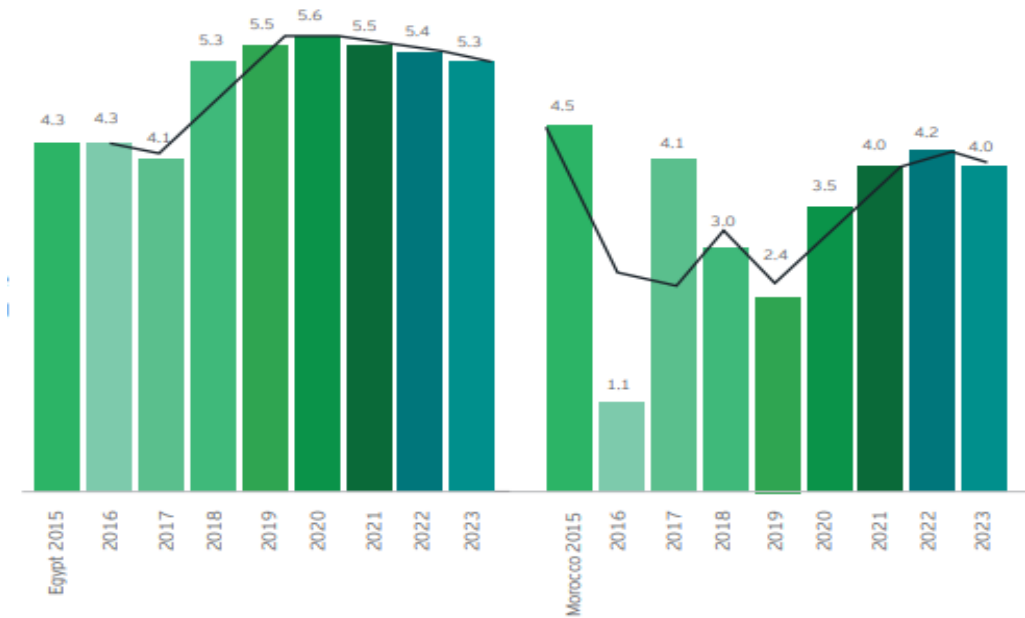
Source: FDI Intelligence, EY analysis

GDP growth: East Africa, selected economies

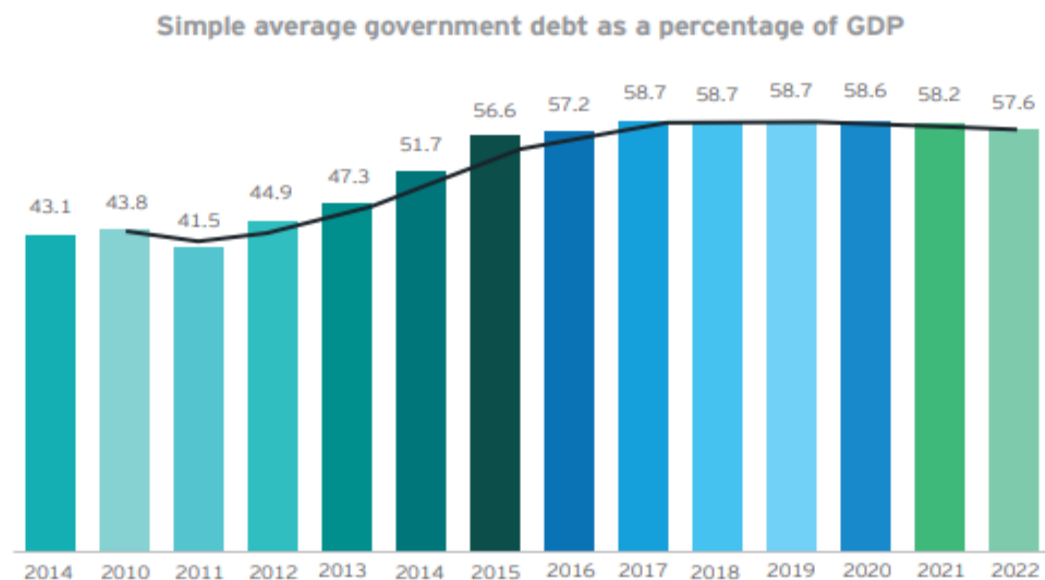
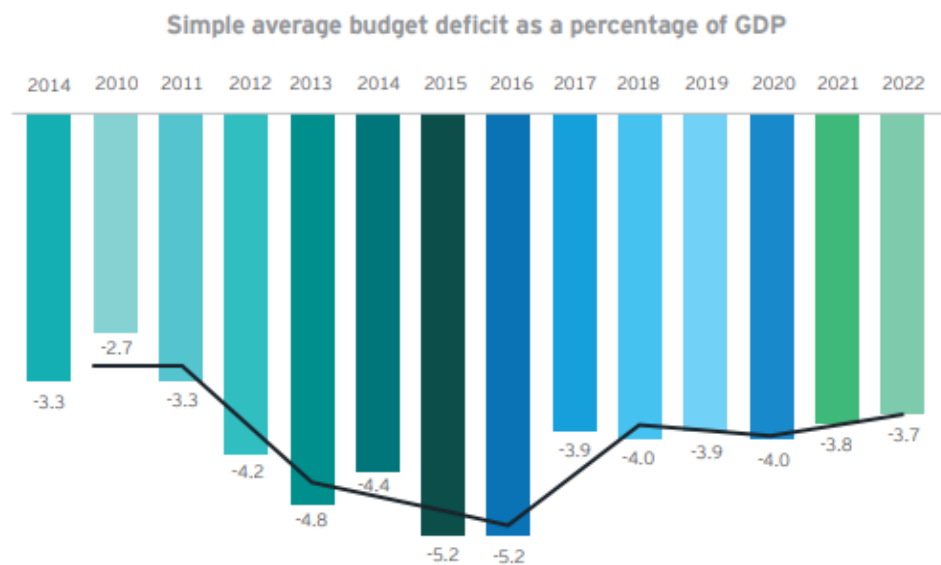


Source: FDI Intelligence, EY analysis

GDP growth: North Africa, selected economies



Source: FDI Intelligence, EY analysis



Countries included in the study are Egypt, Morocco, Angola, DRC, South Africa, Kenya, Nigeria, Ghana, Ethiopia and Cote d'Ivoire.

Source: Oxford Economics, EY analysis

AFRICAN FDI Location Factors

POSITIVE.

New capabilities of African economies: fast digitization progress, specially mobile phones also used for financial services . Intense urbanization process; it is estimated that more than 80% of the growth population will be in cities (McKinsey).

Increase number of African firms that follow regional strategies. Increase of democracy in the region, governance is improving and corruption has slightly reduced.

High potential of economic growth and development

African multinational companies had higher standards of corporate governance than other local firms. They served as yardsticks for good corporate governance practices.

Internationalization may help African firms to disengage from home country shortcomings.

NEGATIVE

poverty (it is estimated that 70 % of the world poverty live in Africa), infrastructures deficits; corruption; high level of debt of some countries

The impact of local contextual challenges and corporate governance practices; corruption, crony capitalism, and patronage and nepotism in corporate appointments. to disengage from home country shortcomings

Weak outlook for 2021 except for technology and healthcare

THANKS FOR YOUR ATTENTION!