FDI to Africa: How to promote sustainable development in the region

By

Albert A. Agyemang-Badu

Spiritan University College, Ejisu-Kumasi, Ghana

Presentation Outline

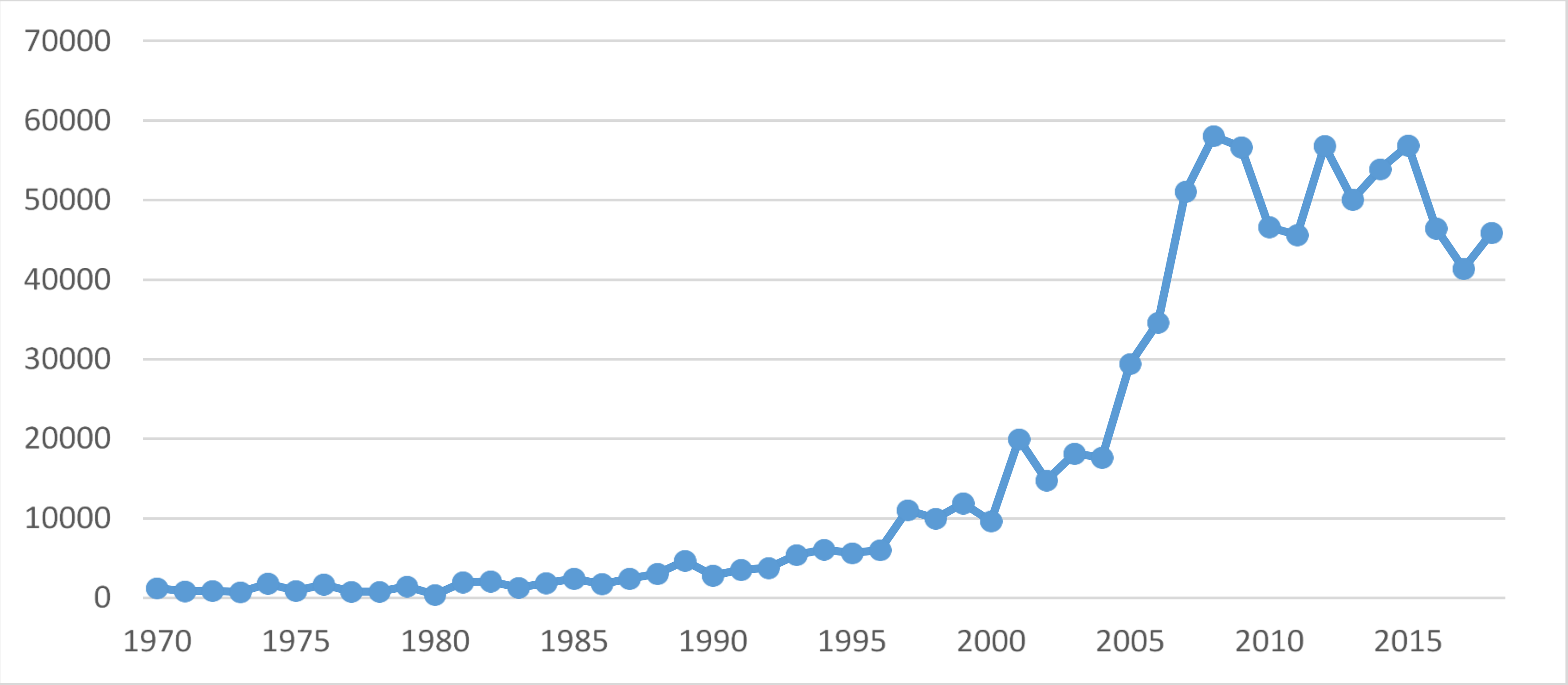
- Introduction
- Trends of FDI in Africa
- Theoretical models explaining the internationalization and the FDI
- Strategic approaches of the main investors in Africa
- On the impact of the FDI on developing African countries
- Conclusions and policy recommendations

Introduction

- A lot of research attention have been directed to Africa as a result of the bright prospects of the region in the current geopolitical space.
- The inflow of FDI to Africa is on the rise for a couple of decades now. (UNCTAD, 2019a).
- The continent has not been able to attract MNCs that will enable it to achieve sufficient sustained level of growth.
- In recent times, the concern of FDI is not that it an important source of economic development but also to create long-term sustained development, one of the major goals of the world today (Kardos, 2014).
- This studies is motivated by the fact that few studies exist on FDI and sustainable development issues. The few papers that exist are not exhaustive and only looks at certain aspects of sustainable development and not as a whole.

Trends of FDI in Africa

Figure 1: Trends in FDI inflows to Africa for the period 1970 – 2018



Source: Authors, using UNCTAD (2019)

Trends of FDI in Africa

Table 1: FDI Inflows into different regions of developing economies, 2009–2018

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	20
FDI inflows										
World	1,172	1,365	1,561	1,470	1,431	1,357	2,034	1,919	1,497	1,2
Developing economies	462	622	665	664	653	677	729	656	691	70
Africa	57	47	46	57	50	54	57	46	41	4
LAC	86	161	201	197	184	161	156	135	155	14
Asia	316	413	417	406	415	460	514	473	493	51
% of total world										
Developing economies	39.38	45.59	42.60	45.13	45.60	49.91	35.84	34.21	46.12	54.
Africa	4.83	3.42	2.92	3.87	3.50	3.97	2.80	2.42	2.76	3.5
LAC	7.38	11.79	12.85	13.41	12.88	11.88	7.67	7.05	10.38	11.
Asia	26.99	30.24	26.70	27.62	29.03	33.89	25.29	24.67	32.91	39.
% of GDP										
World	1.94	2.07	2.13	1.96	1.86	1.72	2.73	2.54	1.86	1.5
Developing economies	2.57	2.86	2.61	2.45	2.27	2.26	2.51	2.25	2.18	2.1
Africa	3.41	2.37	2.12	2.39	2.06	2.16	2.50	2.19	1.89	1.9
LAC	2.10	3.13	3.42	3.31	3.01	2.64	2.97	2.70	2.81	2.7
Asia	2.60	2.82	2.40	2.17	2.06	2.16	2.39	2.16	2.06	1.9

Source: Authors, using UNCTAD (2019)

Trends of FDI in Africa

Table 2: Average FDI inflows to Africa by Regions, 1970 – 2018

Period	1970 – 79	1980 – 89	1990 – 99	2000 – 09	2010 – 18
Africa	1,124	2,202	6,636	31,007	49,304
Northern	184	895	2,014	12,084	13,023
Eastern	126	151	749	3,556	13,149
Central	174	337	704	3,909	4,872
Southern	77	114	1,041	4,960	5,136
Western	520	705	2,127	6,499	13,124

Source: Authors, using UNCTAD Stat online data

Trends of FDI in Africa

Table 4: Value of Announced Greenfield FDI projects in Africa by sector, 2009-2018

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Africa	85 267	16 662	35 428	7 764	17 402	13 517	13 192	11 772	5 278	8 579
primary	—	1246	4640	455	7	48	383	—	—	2
manufacturing	—	7506	23107	4013	8013	3929	2491	5991	2864	2890
services	—	7910	7681	3296	9382	9541	10318	5782	2414	5687

Source: Authors, using UNCTAD reports

Table 5: Net cross-border M&As Africa by sector, 2009-2018

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Africa	5 140	8 072	8 592	- 1 254	3 829	5 152	21 259	9 683	3 452	1 569
primary	2579	2516	2933	-1125	135	2566	998	52	30	-59
manufacturing	-110	303	1766	231	3326	330	21716	-345	284	-247
services	2672	5253	3833	-360	368	2256	-1455	9977	3137	1876

Source: Authors, using UNCTAD reports

Trends of FDI in Africa

Table 6: FDI outflows and out-stocks from Non EU countries to Africa, 2001 – 2012

	US		**China**		**Japan**		**India**		**Canada**	**Russia**	
Year	*flow*	*stock*	*flow*	*stock*	*flow*	*stock*	*flow*	*stock*	*stock*	*flow*	*stock*
2001	2439	15 574	..	..	- 183	623	..	..	2 157	..	..
2002	- 578	16 040	..	..	227	1 227	..	..	1 775	..	..
2003	2 697	19 835	75	491	120	2 049	..	..	1 716	..	..
2004	1 612	20 356	317	900	382	1 623	..	..	2 723	..	..
2005	2 564	22 756	392	1 595	44	1 326	..	..	3 255	..	..
2006	5 157	28 158	520	2 557	926	2 700	..	..	3 158	..	..
2007	4 490	32 607	1 574	4 462	1 147	3 865	..	..	5 142	75	..
2008	3 837	36 746	5 491	7 804	1 541	7 287	..	..	4 355	63	..
2009	9 447	43 924	1 439	9 332	- 229	5 738	..	..	3 029	70	1 279
2010	9 281	54 799	2 112	13 042	- 314	6 149	5 116	11 886	4 219	118	1 476
2011	5 127	57 213	3 173	16 244	522	8 065	2 661	13 103	3 040	- 8	1 001
2012	3 706	61 366	2 517	21 730	115	6 874	1 829	13 261	3 617	47	2 167

Source: UNCTAD Stat online data

Trends of FDI in Africa

Table 7: FDI outflows and out-stocks from EU countries to Africa, 2001 – 2012

	UK		**France**		**Switzerland**		**Germany**		**Italy**		**Spain**
Year	*flow*	*stock*	*flow*	*stock*	*flow*	*stock*	*flow*	*stock*	*flow*	*stock*	*flow*
2001	1 658	12 978	1 791	6 235	85	2 625	- 260	3 768	48	-	- 529
2002	3 291	21 785	855	8 372	- 313	2 521	- 328	4 441	42	-	429
2003	5 639	30 410	1 096	11 407	- 184	2 672	- 319	5 576	51	-	2 156
2004	10 735	33 510	1 346	12 760	- 299	2 268	1 367	6 842	111	-	755
2005	10 624	35 874	4 639	16 104	1 390	2 671	- 625	6 697	139	-	1 006
2006	- 432	29 651	3 115	23 112	646	6 330	267	7 585	1 657	-	1 571
2007	9 456	37 095	4 653	35 385	1 326	9 741	2 470	9 293	166	4 866	1 163
2008	1 620	30 765	16 311	39 126	3 505	13 071	1 018	8 694	1 780	6 652	1 856
2009	10 266	47 853	-3 049	50 837	845	9 607	1 247	11 391	1 723	9 594	661
2010	12 086	47 189	4 643	55 792	1 551	12 370	1 163	13 521	1 508	10 349	- 449
2011	-5 105	47 694	2 010	53 036	1 313	11 176	1 870	13 067	3 919	13 200	503
2012	7 450	58 937	2 096	57 984	-1 100	10 000	258	8 576	3 564	15 845	- 637

Source: UNCTAD Stat online data

Trends of FDI in Africa

Table 10: Comparison of annual average GDP growth rate and FDI as a percent of GDP in Africa by Regions, 1971 – 2018

Period	1971 – 79		1980 – 89		1990 – 99		2000 – 09		2010 – 18	
	GDPGR	*FDI%*	*GDPGR*	*FDI%*	*GDPGR*	*FDI%*	*GDPGR*	*FDI%*	*GDPGR*	*FDI%*
Africa	4.18	0.49	2.42	0.44	2.42	1.11	5.24	2.63	3.15	2.18
Northern	6.49	0.26	2.86	0.60	3.24	0.94	4.92	2.82	1.74	1.88
Eastern	2.96	0.40	2.81	0.25	2.88	1.02	5.21	2.75	6.71	4.51
Central	1.94	0.84	2.50	0.88	0.14	1.69	6.52	4.76	2.88	2.03
Southern	3.14	0.26	2.39	0.12	1.58	0.65	3.61	2.10	2.04	1.29
Western	4.55	0.62	1.73	0.53	3.06	1.95	6.89	2.27	4.35	2.14

Source: Authors, using UNCTAD Stat online data

Table 11: Comparison of Annual average GDP growth rate per capita and FDI as a percent of GDP in Africa by Regions, 1971 – 2018

Period	1971 – 79		1980 – 89		1990 – 99		2000 – 09		2010 – 18	
	GGRPC	*FDI%*	*GGRPC*	*FDI%*	*GGRPC*	*FDI%*	*GGRPC*	*FDI%*	*GGRPC*	*FDI%*
Africa	1.42	0.49	-0.41	0.44	-0.17	1.11	2.65	2.63	0.54	2.18
Northern	3.80	0.26	0.10	0.60	1.16	0.94	3.07	2.82	0.40	1.88
Eastern	-0.01	0.40	-0.24	0.25	0.06	1.02	2.29	2.75	3.42	4.51
Central	-0.72	0.84	-0.35	0.88	-2.83	1.69	3.29	4.76	-0.29	2.03
Southern	0.41	0.26	-0.07	0.12	-0.51	0.65	2.34	2.10	0.65	1.29
Western	1.89	0.62	-1.01	0.53	0.35	1.95	4.08	2.27	1.56	2.14

Source: Authors, using UNCTAD Stat online data

Theoretical models explaining the internationalization and the FDI

- One of the first theoretical references goes back to the contribution of Hymer (1976)
- Coase's seminal work (1936) points out the transaction costs that can be avoided by internalizing activities, which can be applied to the productive processes carried out in other countries (Buckley & Cason, 1976).
- Vernon's (1966) approach to the product life cycle theory is useful to explain the internationalization of American multinationals in the 50s and 60s of the last century.
- “OIL” approach (Ownership, Internalization, Location) or eclectic approach, developed by Dunning (1988)

Theoretical models explaining the internationalization and the FDI

- The “LLL” model (Linkage, Leverage, Learning) developed by Mathews (2006) can be compared to the “OIL” model.
- The theory of small-scales technology proposed by Wells (1983) is suited to FDI whose origin is in developing countries.
- The gradualist approach from the Upsala (Johanson & Vahlne, 1977) and Born-Global Firmsby Oviat & McDouglas, 1997).
- All these approaches are not incompatible with each other.
- In general, there is considerable consensus in pointing out Dunning's eclectic model as the best explanatory model of the FDI carried out by companies in developed countries in Africa.

Strategic approaches of the main investors

China

- China in recent years is making significant strides in Africa. It is the largest developing country foreign investor to Africa.
- With the establishment of the China-Africa Development Fund in 2007, its FDI stock in the continent have exceeded Japan consistently.
- Chinese investment are reported to be mainly in the primary extractive sector over the years. This is the Chinese strategy to safeguard natural resources and also to make bold geopolitical statement.
- Chinese investments in Africa are mostly government-sponsored assistance projects as a form of loans making them gain a foothold in African markets.
- China's strategy regarding Africa is clearly set. China wants to establish a solid economic and financial position in this region of the world
- The new Silk Road or Belt Road Initiative (BRI), launched by China in 2013
- Unlike other investors, China does not interfere in internal affairs of the recipient countries, which allows it to be present in almost any country in the world.

Strategic approaches of the main investors

USA

- USA remain Africa's largest FDI partners after EU combined. This is attributed to its long standing relationship with Africa.
- It was strengthen with the introduction of the African Growth and Opportunity Acts (AGOA) in 2000. Investors therefore took opportunity to invest and export from Africa.
- The USA continual interest in Africa is part of the US Trade and Development Agency's agenda to promote private sector participation in development projects in developing and middle-income countries.
- The current US approach, with a permanent presence in Africa through FDI, might seem to be conditioned by the *America First* motto and the less attention paid to issues related to economic globalization.
- The US is aware of China's growing presence in Africa and of the *debt trap* that Africa has incurred due to the collateral of debt based on strategic assets of African countries. In this context, the US administration implemented at the end of 2018 the so-called US IDFC which provides financial resources (USD 60,000 million) for infrastructure projects in emerging economies, with a special emphasis on Africa

Strategic approaches of the main investors

Europe

- EU is the largest region to invest in Africa. Its share of FDI inflows and stock exceed any other region or a single country
- EU is foremost development partner to Africa as a results of its colonial ties. Major EU FDI investment in Africa are mostly from Western Europe including UK, France, Switzerland, Germany, Italy and Spain in descending order.
- EU major trade policy to Africa the “Everything but Arms” (EBA) initiative introduced in 2001 also increased investments in Africa. This agreement opened the EU market to least developed countries that included 33 African countries.
- Currently, the EU is in the process of negotiating a free trade area with African Pacific and (ACP) countries on a trade and development agreement known as the Economic Partnership Agreements (EPAs). This trade agreement is at different states with each regional blocs and member countries.
- Likewise, the initiative called Marshall Plan, sponsored by Germany at the G20 meeting of 2017 (Federal Ministry for Economic Cooperation and Development, 2017), constitutes a clear recognition of a major problem facing Africa and affecting Europe

Impact of the FDI on developing African countries

Positive Effects

I. There is a development and modernization of basic infrastructures that can be undertaken with the capital and / or knowledge by the host countries.
II. Productivity improvement.
III. More economic activity and employment, especially when FDI goes to Greenfield projects.
IV. The MNC that carries out the FDI adds competitive dynamism, which results in better prices and / or quality of products and services for consumers if it does not operate as a monopoly.
V. There is an improvement in the technical training of human resources as a result of the transfer of knowledge from the MNC to its subsidiaries. Likewise, managerial skills of workers are enriched.

Impact of the FDI on developing African countries

Positive Effects

VI. There can be a reduction in inequalities if the most disadvantaged sections of the population have access to new jobs. In many cases this does not happen and the effect is increased in income inequality.

VII. There may be improvements in the Balance of Payments of the host country.

VIII. The FDI does not usually have a negative impact on the environment, except in the case of some investments aimed at the extraction of natural resources in a non-sustainable way.

IX. MNC, given their credit rating and their international connections, can contribute to the host country having easier access to international financial markets.

X. FDI carried out by MNC that do not succumb or promote corruption contribute to improvements in corporate governance and the country's own level of corruption.

Impact of the FDI on developing African countries

Negative Effects

I. Poor business development of local companies with which the MNC can outsource activities.
II. Poor absorption capacity.
III. Low relationship with local suppliers.
IV. Poor legal, regulatory and institutional environment.
V. High levels of corruption.
VI. MNC hardly generate added value.

Conclusions

- Africa now has a privileged position to negotiate with foreign investors, since everyone wants to invest
- This current position of Africa is a great opportunity to achieve the economic and sustainable boost it needs and deserves.
- However, Africa must overcome the obstacles and inconveniences that undermine the possibility of exercising that privileged position. For this, it is necessary to:
  - improve institutional development and lessen the degree of corruption, despite the fact that the number of violent conflicts has decreased in recent years,
  - achieve greater political cohesion among the 54 countries that make up the continent, which would allow it to strengthen the bargaining power with the great superpowers,
  - improve the training level of young Africans so that knowledge from abroad can be absorbed
  - develop local financial markets to achieve greater integration of foreign companies and to boost the financing processes of African business initiatives.

Policy Recommendations

It is essential to work to eliminate the obstacles and drawbacks mentioned above in order to eliminate the vicious circles that sometimes causes African countries not to obtain global benefits from the FDI it receives. In this regard we highlight the following lines of action:

1. Continual increase and deepening of agreements between European and African universities with exchanges of academicians, instructors and students in both directions.
2. Development of programs to explore African financial institutions and markets with an adequate level of depth that are capable of providing local financing to multinational companies and local businesses.
3. Collaboration to implement corporate governance improvements in African companies.
4. Collaboration to explore improvements in a well and smooth functioning of institutions.

Policy Recommendations

- Regarding the initiatives that promote the investment activity of MNC in Africa, in a responsible and sustainable way, we are of the view it would be of interest for investors to further promote the consideration of Environmental, Social and Governance (ESG) criteria applied to African subsidiaries in the follow-up to MNC companies.
- Finally, advisory initiatives and implementation of country risk hedging instruments are recommended for those companies, especially SMEs that start or expand businesses in Africa.
- These initiatives must be contemplated in a context of frank collaboration with African countries and avoiding practices that can recall any hint of colonialism.

Thank You