CHAPTER II

REGIONAL TRENDS

DEVELOPING ECONOMIES

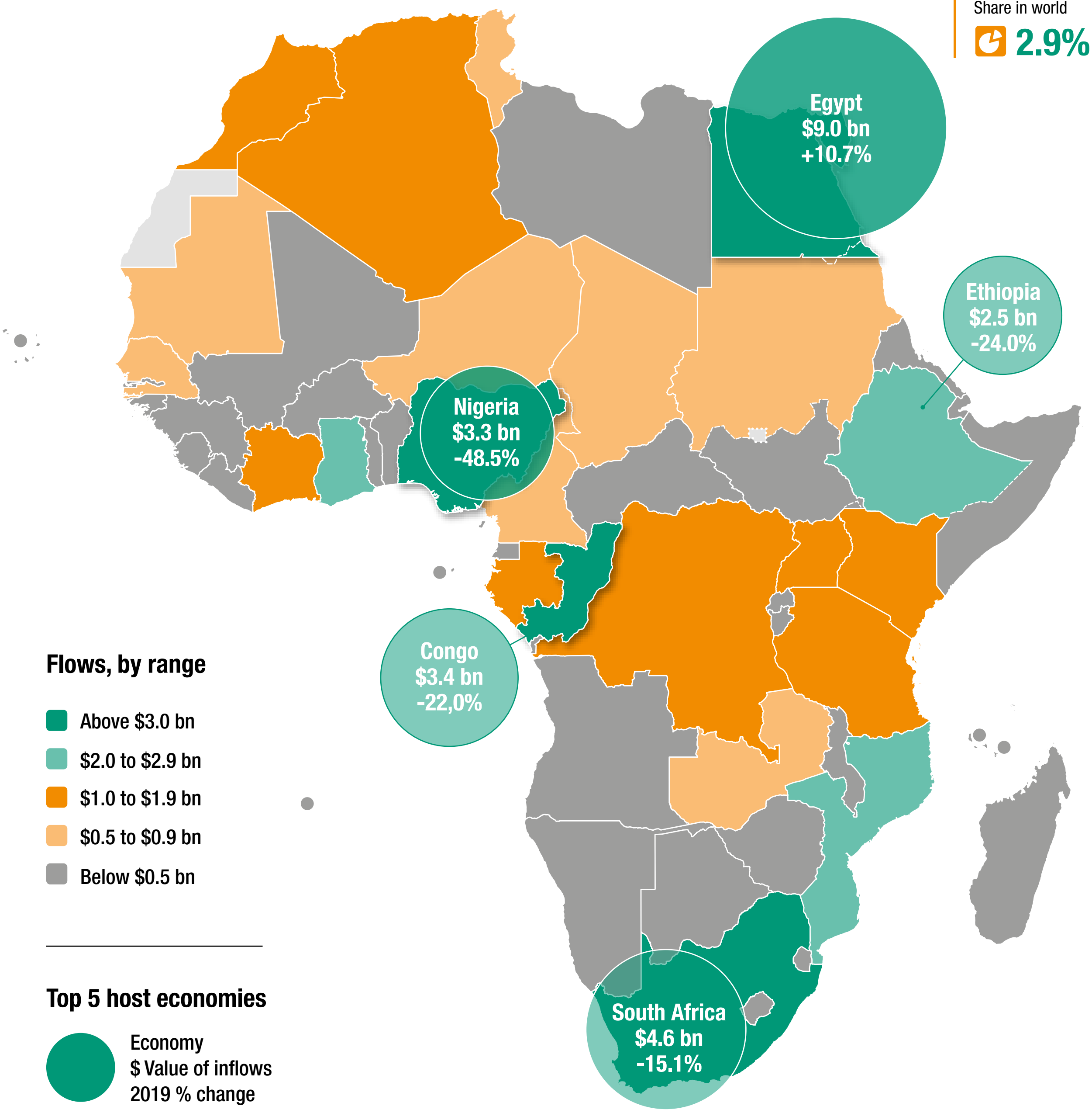
AFRICA

FDI flows, top 5 host economies, 2019 (Value and change)

2019 Inflows
45.4 bn

2019 Decrease
-10.3%

Share in world
2.9%



Flows, by range

- Above $3.0 bn
- $2.0 to $2.9 bn
- $1.0 to $1.9 bn
- $0.5 to $0.9 bn
- Below $0.5 bn

Top 5 host economies

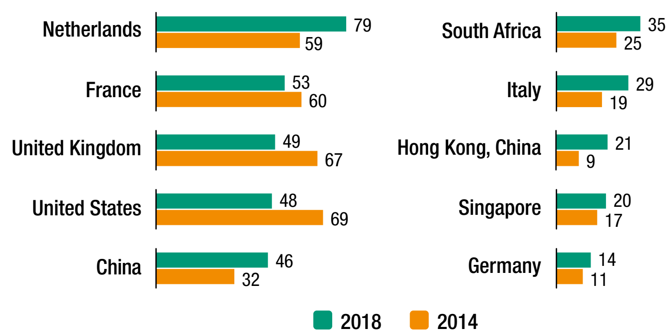
Economy
$ Value of inflows
2019 % change

Outflows: top 5 home economies

(Billions of dollars and 2019 growth)

South Africa	$3.1	-23.5%
Morocco	$1.0	+32.1%
Togo	$0.7	+863.8%
Egypt	$0.4	+25.2%
Côte d'Ivoire	$0.4	+172.6%

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.

HIGHLIGHTS

- Pandemic, low oil prices set to push down FDI
- State-backed partnerships, regional integration could mitigate effects
- In 2019, FDI flows already declined by 10 per cent

Figure B. FDI inflows, 2013–2019 (Billions of dollars and per cent)

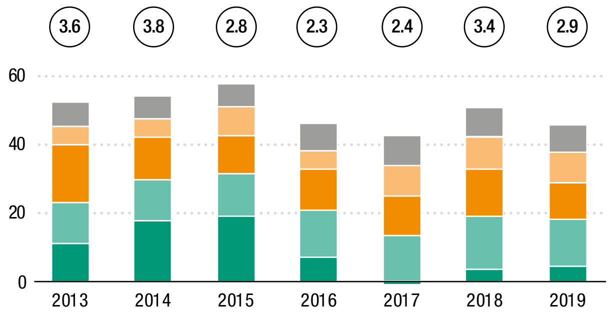
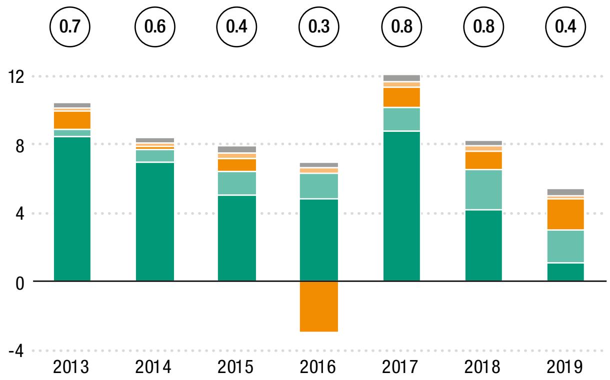


Figure C. FDI outflows, 2013–2019 (Billions of dollars and per cent)



Southern Africa | North Africa | West Africa | Southern Africa | East Africa | Share in world total

Table A. Net cross-border M&As by sector/industry, 2018–2019 (Millions of dollars)

Sector/industry	Sales		Purchases	
	2018	2019	2018	2019
Total	**1 570**	**5 312**	**3 651**	**-33 445**
Primary	**-59**	**120**	**205**	**1 583**
Mining and quarrying	-59	114	205	1 621
Manufacturing	**-247**	**1 747**	**-67**	**-897**
Food, beverages and tobacco	426	685	-73	-
Coke and refined petroleum products	-973	1 044	-	-
Pharmaceuticals, medicinal chemical and botanical products	50	9	-	-999
Services	**1 876**	**3 445**	**3 513**	**-34 131**
Trade	-	4	-253	22
Transportation and storage	-	532	3	-46
Information and communication	37	-126	497	-34 663
Financial and insurance activities	1 615	-68	2 970	324
Business services	215	3 095	274	184

Table B. Net cross-border M&As by region/economy, 2018–2019 (Millions of dollars)

Region/economy	Sales		Purchases	
	2018	2019	2018	2019
World	**1 570**	**5 312**	**3 651**	**-33 445**
Developed economies	**-1 606**	**4 311**	**2 266**	**-33 988**
European Union	1 483	3 263	2 455	-34 909
Netherlands	108	-60	-45	-35 938
United Kingdom	1 840	3 087	1 535	1 209
Switzerland	-1 713	1 087	-	70
United States	-1 405	-136	-	38
Developing economies	**2 914**	**-55**	**1 386**	**-617**
Africa	1 175	15	1 175	15
Morocco	-	21	783	-
South Africa	1 033	4	31	7
China	554	95	-	108
India	26	-171	134	48

Table C. Announced greenfield FDI projects by sector/industry, 2018–2019 (Millions of dollars)

Sector/industry	Africa as destination		Africa as investor	
	2018	2019	2018	2019
Total	**77 104**	**76 637**	**8 885**	**12 056**
Primary	**17 032**	**2 829**	**42**	**113**
Mining and quarrying	16 782	2 640	2	113
Manufacturing	**33 053**	**32 621**	**2 969**	**6 973**
Chemicals and chemical products	11 159	6 189	1 226	3 710
Coke and refined petroleum products	6 483	7 727	-	1 413
Food, beverages and tobacco	4 660	2 448	25	280
Motor vehicles and other transport equipment	2 563	4 015	43	-
Services	**27 019**	**41 186**	**5 874**	**4 970**
Construction	4 779	9 576	1 393	86
Electricity, gas, steam and air conditioning supply	5 712	10 228	664	1 017
Information and communication	3923	4639	1316	1817
Transportation and storage	5 203	5 402	490	213

Table D. Announced greenfield FDI projects by region/economy, 2018–2019 (Millions of dollars)

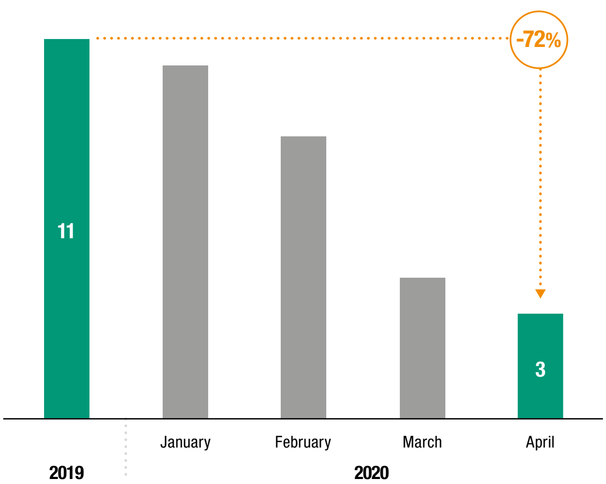
Partner region/economy	Africa as destination		Africa as investor	
	2018	2019	2018	2019
World	**77 104**	**76 637**	**8 885**	**12 056**
Developed economies	**38 793**	**39 993**	**2 215**	**1 166**
European Union	25 725	28 305	1 495	534
United Kingdom	5 569	3 102	113	158
United States	10 565	3 226	254	549
Switzerland	910	2 973	15	-
Developing economies	**35 915**	**36 286**	**6 496**	**10 839**
Africa	5 485	10 002	5 485	10 002
Nigeria	326	2 897	1 330	2 912
China	11 907	11 915	81	231
United Arab Emirates	4 118	5 631	80	89
Saudi Arabia	2 311	4 443	44	190
Transition economies	**2 395**	**358**	**174**	**51**

The COVID-19 pandemic will severely curtail foreign investment in Africa in 2020, mirroring the global trend. The downturn will be further exacerbated by the extremely low oil prices, considering the resource-oriented investment profile of the continent. Foreign direct investment (FDI) flows are expected to decline between 25 and 40 per cent. Depending on the duration and severity of the global crisis, the longer-term outlook for FDI in Africa could draw some strength from the implementation of the African Continental Free Trade Area Agreement in 2020, including the conclusion of its investment protocol. In addition, investment initiatives for Africa by major developed and emerging economies could help the recovery. In 2019, FDI flows to Africa had already declined by 10 per cent to $45 billion. Increased FDI flows to some of the continent's major economies, including Egypt, were offset by reductions in others, such as Nigeria and South Africa. The negative effects of tepid global and regional GDP growth and dampened demand for commodities inhibited flows to countries with both diversified and natural resource-oriented investment profiles alike, although a few countries received higher inflows from large new projects. Investment in Africa through mergers and acquisitions (M&As) increased substantially to $5.3 billion, compared with $1.6 billion in 2018. The rise was driven to a large degree by MNEs from the United Kingdom and Switzerland, which invested $3.1 billion and $1.1 billion, respectively. M&A investment from developing economies declined significantly.

Prospects

FDI prospects for Africa in 2020 remain negative amid the pandemic, the economic impact of which is being compounded by extremely low oil prices. UNCTAD's forecast of a 25-40 per cent decline is based on GDP growth projections as well as a range of investment-specific factors. Projected GDP growth for the continent has already been downgraded from 3.2 per cent to -2.8 per cent, and trade is also set to contract (IMF, 2020a). Due to the widespread economic uncertainty and restrictions in movement, many announced and planned investment projects are likely to be either shelved or put on hold. As of April 2020, the number of cross-border M&As targeting Africa had declined 72 per cent from the monthly average of 2019 (figure II.1).

Figure II.1. Africa: Average monthly number of cross-border M&As, January–April 2020 (Number)



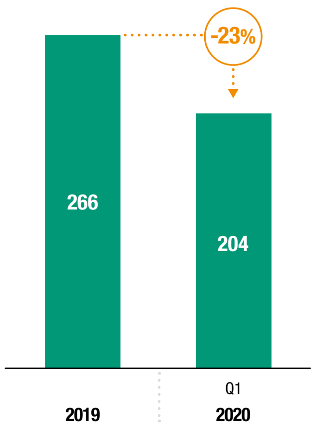
Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

Although the pandemic will affect all industries, several services industries are being hit disproportionally, including aviation, hospitality, tourism and leisure. These industries cumulatively contributed to approximately 10 per cent of the $77 billion in announced greenfield projects in Africa in 2019. Manufacturing industries that are global value chain (GVC) intensive,[1] which accounted for an additional 7 per cent of announced greenfield projects in 2019, are also being significantly affected, which is a sign of concern in regard to efforts to promote economic diversification and industrialization in Africa. Overall, there was a notable downward trend in the first quarter of 2020 in announced greenfield investment projects compared with 2019, although the value of projects (62 per cent) has declined more severely than their number (-23 per cent) (figure II.2).

The economic and investment implications for FDI of the pandemic will be further compounded by the oil glut in global markets, which is causing extremely low oil prices as well as declining commodity prices in general.[2] A large part of FDI to Africa is resource-seeking, with 40 per cent of all greenfield project announcements in 2019 targeting industries directly linked to natural resources.

Although Africa is not integrated deeply into GVCs, its five largest export industries will be significantly affected by lower demand for manufactured goods and services because the continent's role is largely as a provider of inputs in key internationalized industries, as indicated by its high rate of GVC forward participation.[3] Already in 2020, the impact of the dual shock of the pandemic and low oil prices has become apparent, as the value of greenfield project announcements in the first quarter fell sharply for both extractive industries (82 per cent) and petroleum and chemicals (75 per cent) (table II.1).

Figure II.2. **Africa: Average quarterly number of announced greenfield investment projects, 2019 and Q1 2020** (Number)



Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

The expected earnings of African MNEs that are among the world's 5,000 largest MNEs have been revised down by 27 per cent since the start of the pandemic. The expected earnings of MNEs from the five largest investors in Africa (the Netherlands, France, the United Kingdom, the United States and China) have also been downgraded significantly. Reinvested earnings of MNEs account for a notable share of FDI inflows in the major recipient economies on the continent, including Egypt (41 per cent) and Nigeria (26 per cent) (figure II.3, on the next page). Therefore, the downward revision of earnings projections will have a tangible impact on investment flows to Africa in 2020.

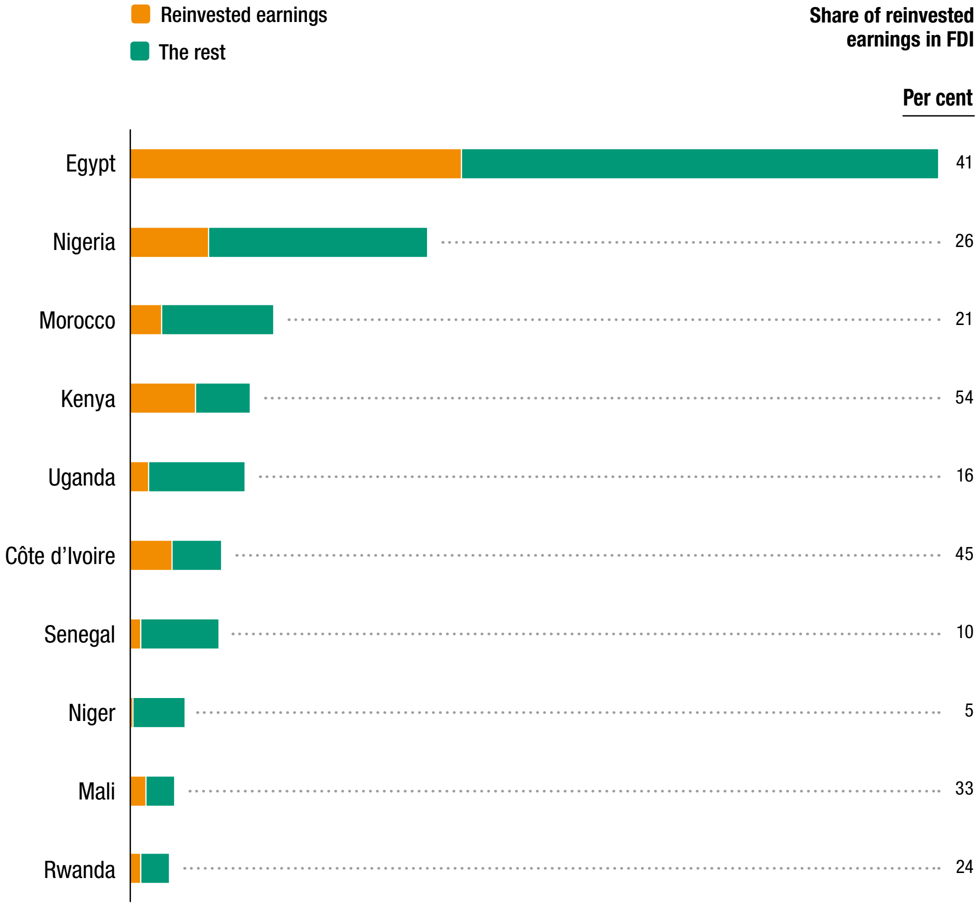
Despite the immediate negative prospects for FDI to Africa, some mitigating factors could limit the extent of the investment decline and help stimulate a recovery in 2021 and beyond. One is the higher value being assigned to investment ties to the continent by major global economies, primarily the United States and China but also the United Kingdom, the Russian Federation and France (table II.2). Some of the investment initiatives supported by these countries are focused on infrastructure, especially those from China. Others also target natural resources and manufacturing capacity. The new French initiative, Choose Africa, for example, is designed specifically for small and medium-sized projects that contribute to local manufacturing capacity and employment generation.

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.

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.

Similarly, in 2020, the United States announced plans to promote private investments in Africa, including through the new Prosper Africa initiative and the $60 billion (global investment cap) International Development Finance Corporation. Under the programme, the United States aims to invest up to $5 billion in Ethiopia in the next three years in industries that are being opened for privatization, such as telecommunication, geothermal energy, logistics and sugar. Despite being affected by the joint impact of the pandemic and low oil prices to some degree, investments from all of the aforementioned countries, which have varying degrees of political backing, could be relatively more resilient.

The expected commencement of trading under the African Continental Free Trade Area Agreement in 2020 could also provide support to FDI in the continent. The formal implementation of the treaty after years of deliberation could offer some cushion against the negative economic and investment impacts of the pandemic and low oil prices in the medium to long run. Intracontinental investment, in particular, could receive a positive stimulus, especially after the finalization of the investment protocol in the second phase of the negotiations, which are scheduled for December 2020. Seen together, the growth of State-backed investment initiatives and the implementation of the Agreement indicate that the investment downturn in Africa could be mitigated in 2021 and beyond, although State-backed investment initiatives and the operationalization of the Agreement could now both run into temporary delays.

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 a venture capital fund for agribusiness in Sub-Saharan Africa

Source: UNCTAD, based on initiative websites.

In the short term, curtailing the extent of the investment downturn and limiting the economic and human costs of the pandemic is of paramount importance. Longer term, diversifying investment flows to Africa and harnessing them for structural transformation remains a key objective. There is a risk that progress made in that direction may now be disrupted. The current global crisis is already leading MNEs to re-evaluate locations of supply chain activities to make them more resilient. Considering Africa's largely forward participation in major GVCs (see table II.1), moving up the value addition ladder through FDI will require intense and coordinated efforts. The pharmaceutical and health care industries could provide opportunities for countries on the continent to promote domestic value addition.

Inflows in 2019

FDI inflows to North Africa decreased by 11 per cent to $14 billion, with reduced inflows in all countries except Egypt. *Egypt* remained the largest FDI recipient in Africa in 2019, with inflows increasing by 11 per cent to $9 billion. Economic reforms instituted by the Government have improved macroeconomic stability and strengthened investor confidence in the country. Although FDI was still driven by the oil and gas industry, investments have been made in the non-oil economy as well, notably in telecommunication, consumer goods and real estate. One of the largest investments was by an Israeli consortium, which acquired a 39 per cent stake in East Mediterranean Gas, an oil and gas pipeline service provider, for more than $500 million. FDI flows to *Morocco* decreased by 55 per cent to $1.6 billion in 2019. FDI to the *Sudan* fell by 27 per cent to $825 million in 2019, primarily in oil and gas exploration and in agriculture. In *Tunisia*, FDI flows decreased by 18 per cent to $845 million due to slow economic growth (1 per cent in 2019). Most FDI went to the industrial sector ($450 million), followed by energy ($300 million) and services ($95 million). There was a sharp decline in investment in the services sector.

After a significant increase in 2018, FDI flows to Sub-Saharan Africa decreased by 10 per cent in 2019 to $32 billion. This decrease can mostly be attributed to a decline in investment flows to traditional major investment recipients, including Nigeria, South Africa and Ethiopia.

FDI to West Africa decreased by 21 per cent to $11 billion in 2019. This was largely due to the steep decline in investment in *Nigeria*, after consecutive increases in 2017 and 2018. Inward FDI to Nigeria almost halved, to $3.3 billion, due to a slowdown in investment in the oil and gas industry. The development of a $600 million steel plant in Kaduna state offers some evidence of investment diversification, a long-standing policy objective. FDI to *Ghana* dropped by 22 per cent to approximately $2.3 billion in 2019. Investment was concentrated in oil and gas facilities, mining (including gold and manganese) and to some degree in agriculture (cocoa). However, there are plans for investment diversification, including attracting investment in the country's six-phase Railway Master Plan, which is set to commence in 2020. FDI to *Senegal* increased by 16 per cent to $1 billion in 2019. Owing to historical ties, France has been the biggest investor in Senegal, but recently there have been important investments from other countries, including China, Turkey and the United Arab Emirates. In 2019, Turkish steelmaker Tosyali launched the Tosyali Economic Zone with the aim to develop a steel industry cluster. A ceramics factory built by Twyford (China) was inaugurated with a cumulative investment of nearly $50 million in Thies, Senegal. Investment to *Côte d'Ivoire* increased by 63 per cent to $1 billion on the back of sustained economic growth, with investments in natural resources, agriculture and services.

FDI flows to East Africa decreased by 9 per cent to $7.8 billion in 2019. Inflows to *Ethiopia* contracted by a fourth to $2.5 billion. FDI was adversely affected by instability in certain parts of the country, including regions with industrial parks. Yet Ethiopia remained the biggest FDI recipient in East Africa. China was the largest investor in 2019, accounting for 60 per cent of newly approved FDI projects, with significant realized investments in manufacturing and services. Inflows to *Uganda* increased by almost 20 per cent, to $1.3 billion, due to continued development of major oil fields and an international oil pipeline, as well as projects in construction, manufacturing and agriculture. Inflows to *Kenya* dropped by 18 per cent to $1.3 billion, despite several new projects in information technology (IT) and health care.

FDI flows to Central Africa decreased by 7 per cent to nearly $8.7 billion. FDI to the *Democratic Republic of the Congo* decreased by 9 per cent to $1.5 billion. Foreign investment continued to be directed towards mining, especially of cobalt, of which the country is the world's leading producer. Demand for other metals used in electric vehicle batteries, such as lithium, nickel and copper, also continue to underpin investment flows to the country despite profound political and economic challenges.

FDI to Southern Africa increased by 22 per cent to $4.4 billion. This was mainly caused by the slowdown in net divestment from Angola. FDI flows to *Angola* in 2019 remained negative (-$4.1 billion) due to repatriations in the oil sector. There were some important foreign investment deals in the country, such as the $100 million investment by a unit of the Indonesian State-owned PT Pertamina (Persero) in an offshore oil block.

FDI inflows to *South Africa* decreased by 15 per cent to $4.6 billion in 2019. FDI to this country is mostly directed to mining, manufacturing (automobiles, consumer goods) and services (finance and banking). Although traditionally the major investor partners have been countries from the European Union (EU), China is slowly expanding its investment footprint in the country. Despite the decline in 2019, the level of FDI inflows in South Africa was encouraging after the low inflows between 2015 and 2017 (an average $2 billion a year). However, a significant part of FDI consists of intrafirm financial transfers; there is still a dearth of new greenfield investments.

MNEs from developed economies accounted for almost 80 per cent of the nearly $5.3 billion in M&A investments in Africa in 2019. Those from the United Kingdom invested the most in M&As ($3.1 billion), followed by MNEs from Switzerland ($1.1 billion). In contrast, M&As from developing economies declined significantly, registering a net divestment of $55 million (table B).

On the basis of FDI stock data through 2018, firms from the Netherlands ($79 billion) overtook those from France ($53 billion) as the largest foreign investors in Africa (figure A). More than two-thirds of investment stock held by the Netherlands is concentrated in only three countries, Egypt, Nigeria and South Africa. The investment stocks held by the United States declined by 15 per cent to $48 billion owing to profit repatriation[4] and divestment. Meanwhile, the investment stocks of the United Kingdom and China increased by 10 per cent to $49 billion and $46 billion, respectively. In the coming years, owing to a number of political and economic factors, these two countries are set to become even more important investors in Africa. There was also evidence of a rise in intracontinental investment, with the stock of investment in Africa held by South Africa increasing by $7 billion in 2017 to $35 billion in 2018.

Outflows in 2019

FDI outflows from Africa decreased by 35 per cent to $5.3 billion. South Africa continued to be the largest outward investor, despite the reduction in its outflows from $4.1 billion to $3.1 billion. Outflows from Togo increased 10-fold, from a mere $70 million to $700 million. In North Africa, outward FDI from Morocco increased to approximately $1 billion from $800 million. A significant part of FDI outflows from African countries entail intracontinental flows, as indicated by some major investments by South African and Moroccan MNEs within the continent. Togo's outward investment also included notable projects within the West Africa region.