FDI landscape in Africa: Recent trends and implications

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Introduction

- FDI - cross-border transfer of tangible or intangible assets made by a resident in one economy with the objective of establishing a lasting interest in an enterprise that is resident in another economy (ownership or controlling interest the company)
- FDI positive effects - economic growth, job creation, technological innovation and capacity building (management know-how), poverty reduction etc.
- Negative effects - economy crowding effect, profit repatriation, balance of payment effects, environmental issues etc.
- These effects are dependent on the existing internal (political, economic, social and cultural) conditions
- FDI inflows are influenced by market size/opportunity, expected return on investment, access to/availability of resources, political stability, legal certainty/rule of law/policy and regulatory framework etc

Figure 1: Top 5 FDI recipient economies in Africa, 2015

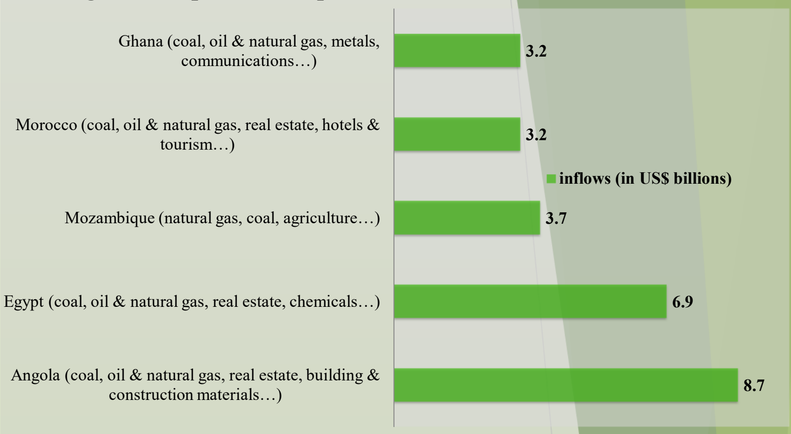
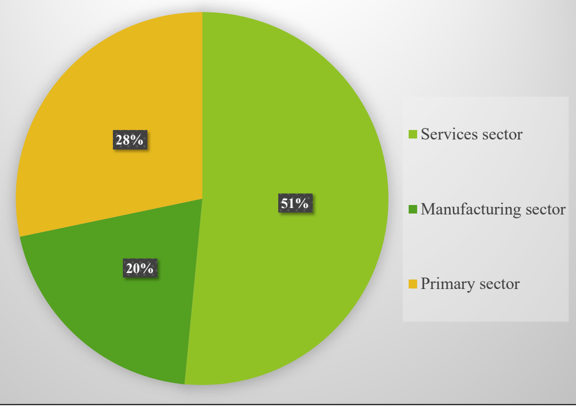


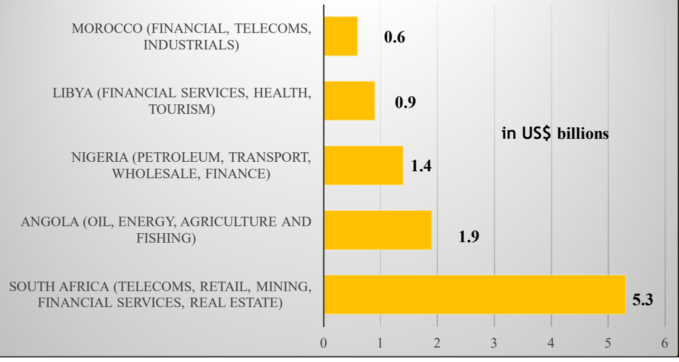
Figure 2: Sectoral distribution of FDI in Africa (%), 2015



Materials and methods

- Quantitative data analysis through critically analysing, interpreting figures and numbers from the UNCTAD, WB, IMF, ITC, AfDB, AEO, EY Africa etc.; and
- Desktop literature review of reports, books, articles and others with a view to finding rationale behind the emergence of the main findings

Figure 3: Top 5 FDI home economies in Africa, 2015



Results

- For the past two decades Africa has experienced increasing FDI inflows from the EU, the US, China, Brazil, India and other developed countries
- Main reasons are the rising consumer market and middle class, abundance of natural resources, access to overseas markets via preferential agreements (e.g. via AGOA, EPAs)
- In 2015, global FDI flows increased by 38%, (highest level since the 2008-9 global economic and financial crisis).
- Africa's share of global FDI is only 3.1%, the lowest among other developing regions
- In the same year, FDI to Africa decreased by 7% to US$54billion in 2015 largely due to lower commodity prices, political risks, and other things
- Other determinants of FDI across the continent include cost of doing business and production, political instability, legal uncertainty, slow removal of investment barriers, and insufficient infrastructure
- FDI is concentrated in a few countries. **(See Figure 1)**
- Traditionally, Africa has been attracting FDI in the extractive sector (oil, minerals and gas) and in agriculture (primary sector) – resource-seeking investment
- However, in recent years, the continent is receiving considerably larger amounts of FDI in the services sector (tertiary sector) – market-seeking investors - as compared to the manufacturing (secondary sector) and primary sector. **(See Figure 2)**
- Intra-African FDI is rising (especially in the services sector – ICT, banking, business services etc.) **(See Figure 3)**
- Despite such FDI growth, slow economic growth, unemployment and poverty still common in Africa (FDI impact in sectors differs, policies that yield FDI benefits are lacking, types of FDI available in the continent)

Conclusions

- Need to increase FDI from within and outside Africa to boost productive capacity and diversify economies, to create jobs, enhance economic growth and support its development and transformation objectives
- Need to attract development-oriented FDI inflows is key to the development of strategic sectors, e.g. infrastructure, manufacturing, services sector, and to bolster its industrialisation initiatives
- Need to implement policies to encourage FDI in the manufacturing sector to ensure rapid growth or expansion of the sector (promote sectoral and spatial growth)
- Liberalisation of the services and manufacturing sectors is important to allow foreign equity ownership (FDI inflows)
- This presentation aims to set a background and contribute to the CFTA investment chapter scheduled for the second phase of the CFTA negotiations.

Literature cited

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- http://iab.worldbank.org/Data/ExploreTopics/Investing-across-sectors#
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