

# **THE INVESTMENT AND GROWTH/DEVELOPMENT NEXUS**

**Colin McCarthy**

## **TOPICS TO BE ADDRESSED**

- **EPA AS AN INSTRUMENT OF DEVELOPMENT – THAT IS, TO ‘CATCH UP’**
- **PILLARS OF SUSTAINABLE GROWTH**
- **THE SAGA OF INDISPENSABLE INVESTMENT**
- **FOREIGN DIRECT INVESTMENT**
- **SOME FUTURE PERSPECTIVES AND QUESTIONS**

## **EPA AS AN INSTRUMENT OF DEVELOPMENT – THAT IS, TO ‘CATCH UP’**

- **WTO acceptable market access (GATT Art. XXIV) through a North/South free trade agreement**
- **But it is more than market integration – it should aim to develop the members of the ACP regional configuration in a regional context**
- **Full EPA supposed to address market access in goods and services and facilitate economic cooperation in a broad sense**
- **Catching-up development and mutually beneficial trade will require building of capacity to produce tradable goods competitively**

# **PILLARS OF SUSTAINABLE GROWTH**

- **Building a productive capital stock through investment**
  - **Production structure**
  - **Infrastructure**
- **Human capital formation**
  - **Education and skill development**
  - **Expanding domestic knowledge systems and ‘absorptive capacity’ of firms (emphasis on science and technology)**
- **Institution building**
  - **Northian rules of the game**
  - **Organisations and appropriate policies**

# THE SAGA OF INDISPENSABLE INVESTMENT

- **Capital formation a prerequisite for growth and development → growing the GFI/GDP ratio**
- **Investment function is complex with many independent variables and also depend on the other two pillars being conducive to investment**
- **Qualifying footnotes to importance of investment:**
  - **Quality of growth will depend on quality of investment; e.g. capital can be substituted for labour through mechanisation which is not socially beneficial**
  - **Rapid urbanisation supporting a demand for mega investment in infrastructure; how will this be financed?**
  - **Investment in production structure should not underestimate importance of the services sector, which can be tradable and support trade in goods**

# FOREIGN DIRECT INVESTMENT

- **Savings gap because of poverty demands FDI to fill the gap**
- **Since mid-1990s FDI as share of capital formation has been increasing in Africa**
- **Again some qualifying footnotes:**
  - **In Africa mostly attracted into isolated enclaves of primary production with limited linkages to rest of economy**
  - **Is it crowding-in or crowding-out domestic investment?**
  - **Overall, social profitability of FDI not necessarily positive**

## **A SOUTHERN AFRICAN PERSPECTIVE**

- **During 1999-2003 Angola and SA consistently among top 10 FDI recipients of FDI in SSA**
- **Angola illustrates the paradox of FDI in Africa**
  - **mineral rent-seeking FDI occurring without other pillars of development in place**
  - **typical enclave type investment with few domestic spillovers**
  - **FDI inflow 57% of GFCF during 2002-04**
- **South Africa is a prominent recipient but also a major origin of FDI in the region and the rest of Africa**
  - **As FDI recipient, M&A an important form**
  - **Long term capital inflows dominated by portfolio investment**

## **SOME FUTURE PERSPECTIVES AND QUESTIONS**

- **How can a full EPA encourage broad-based investment in the region, including investment in provision of services?**
- **SA is an important source of FDI into the region and is specifically investing in service industries**
- **Difficult to deny that SA will have an important role to play in investing in production capacities**
- **Dilemma: SA seems to be an unwilling partner to move beyond reciprocity in trade in goods, i.e. to include the new generation issues provided for in Cotonou Agreement**