Investment in Africa

The Challenges Ahead

by Supachai Panitchpakdi, Secretary-General, UNCTAD

Making investment work for long-term development is a challenge facing both resource-rich and income-poor countries.

Foreign direct investment (FDI) has boomed in Africa over the last 12 months — with record-breaking inflows of $38.8 billion in 2006, a 26.5% rise — and this revival looks set to continue. Africa's challenge is to seize this opportunity to help boost domestic productive capacities, enabling broader economic and human development over the long term.

FDI should be used to create as many virtuous linkages as possible with the domestic economy, by encouraging infrastructure development and skills transfer and by facilitating domestic employment and enterprise generation, in addition to earning export revenues.

More information is on the UNCTAD web site

Look for the following at http://www.unctad.org

- Foreign Direct Investment
- Asian Foreign Direct Investment in Africa: Towards a New Era of Cooperation among Developing Countries
- Economic Development in Africa series
- UNCTAD XII (Accra, 2008)

Investment from the South

Last year's revival of FDI inflows suggests that Africa has moved into a new position on investors' radar screens. But the continent's share of global flows is still low and the distribution rather uneven — ten countries receive almost 90% of the total. What's more, foreign investment has been concentrated in minerals, oil, gas and other commodities. A relatively small proportion goes to more labour-intensive activities, where investment is also needed.

Key sources of inflows are increasingly diverse, with rising investment from elsewhere in the South — led by China, India, the Republic of Korea, Malaysia and Taiwan Province of China. This, along with the phenomenal growth in Asian–African trade, may benefit Africa if these trends allow Africa to develop much-needed infrastructure and to diversify its options. At UNCTAD we call this the "new aid-investment nexus" between the two continents.

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Surprising services

Aside from the predominant commodity boom, which attracts the bulk of FDI, the remaining flows are finding their way into an array of industries. African countries are enjoying increases in services FDI, in such sectors as telecommunications, banking and tourism. In other sectors, however, Africa has fared less well.

The textile industry collapsed in some countries after the expiration in late 2005 of WTO's Multi-Fibre Arrangement, which largely put an end to quota advantages for African countries. This experience illustrates how Africa needs to enhance links between its domestic investment and productive capacities to create long-term sources of comparative and competitive advantage, alongside the contribution that can come from trade preferences and FDI.

Avoiding a "race to the bottom"

Other guidelines towards a well-balanced approach to foreign investment include avoiding negative aspects of intraregional competition, such as excessive incentives that can turn into a "race to the bottom". Incentives can be useful in some instances, but greater long-term benefits may arise from harmonizing and coordinating relevant national policies to produce a powerful regional synergy.

Africa also needs policy frameworks to enhance national and regional infrastructure, in areas such as transport, energy and communications services, and to generate domestic employment and skills transfer. Such policies should help catalyse both domestic and foreign investment, making that investment more sustainable in the long run.

Africa will be in the spotlight, literally and figuratively, at UNCTAD's 12th ministerial conference, to be held in Accra, Ghana, in April 2008, where these and other issues relating to investment, trade and development will be discussed.

The "paradox of plenty"

The current boom in commodity prices offers promising opportunities for African governments if they can plough their windfall gains into long-term growth, diversification, financing of domestic investment and poverty reduction. How developing countries avoid the proverbial resource curse or "paradox of plenty" will be examined in this year's *World Investment Report*. To be released in September 2007, it will focus on the role of FDI in the extractive industries.