I. Introduction
In recent times, developing countries, especially in Africa see the role of foreign direct investment (referred to as FDI henceforth) as crucial to their development. FDI is seen as an engine of growth as it provides the much needed capital for investment, increases competition in the host country industries, and aids local firms to become more productive by adopting more efficient technology or by investing in human and/or physical capital. Foreign direct investment contributes to growth in a substantial manner because it is more stable than other forms of capital flows. The benefits of FDI include serving as a source of capital, employment generation, facilitating access to foreign markets, and generating both technological and efficiency spillover to local firms. It is expected that by providing access to foreign markets, transferring technology and generally building capacity in the host country firms, FDI will inevitably improve the integration of the host country into the global economy and foster growth. FDI is seen as “a key driver of economic growth and development. FDI not only boosts capital formation but also enhances the quality of capital stock”.

FDI is particularly important because it is seen as a package of tangible and intangible assets and because firms deploying them are important players in the global economy. There is now considerable evidence that FDI can affect growth and development by complementing domestic investment and by undertaking trade and transfer of knowledge and technology. The importance of FDI is envisioned in the New Partnership for Africa’s Development (NEPAD) as it is perceived as a key resource for the translation of the vision of NEPAD for growth and development into reality. This is because Africa, like many other developing regions of the world, needs a substantial inflows of external resources in order to fill the saving and foreign exchange gaps and leapfrog itself to sustainable growth level in order to eliminate its current level of poverty.

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1 Paper for presentation at the ADB/AERC International Conference on Accelerating Africa’s Development Five years into the Twenty-First Century, Tunis, Tunisia November 22-24, 2006.


3 There is skepticism in some quarters about the FDI effects on growth and technological spill over as discussed later in this paper.

4 In the NEPAD framework, the bulk of the financing will have to come from abroad mainly from official sources, from foreign direct investment.
With the exception of a few countries (Sun 2006), the vast majority of the fast growing economies relied heavily on FDI to jump-start and sustain their rapid economic transformation. As a result of the potential role of foreign direct investment in accelerating growth and economic transformation, many developing countries in general and Africa in particular, seeks such investments to accelerate their development efforts. Promoting and attracting FDI has therefore become an important component of development paradigm strategy for developing countries. In the case of Africa, the role of FDI as a source of capital has become increasingly important not only because of the belief that it can help to bridge the savings-investment gap but also because it can provide needed resources for the attainment of Millennium Development Goals (MDGs). The poverty MDG is important for Africa because the poverty rate for the region is very deep and severe in some countries. One of the ways in which FDI can alleviate poverty is not only by increasing growth but also generating employment. The employment offered by multinationals “boosts domestic wages, increase domestic employment, fosters the transfer of technology between foreign and domestic firms and enhances the productivity of the labor force” (Asiedu, 2004). Given the region’s low income and domestic savings level, its resource requirements and its limited ability to domestically raise funds, the bulk of its finance for the future would have to come from abroad, mostly in the form of FDI.

The importance attached to foreign direct investment in the growth and development process has led a number of African countries to put in place various measures - apart from improving their investment environment - that they hope will attract foreign direct investment to their economies. Many countries have put in place different incentives (sometimes called “sweeteners”) to ensure that resources are directed to areas and sectors where they are badly needed to deal with the issues of employment generation and poverty elimination. Indeed, in some cases, there is the risk of “racing to the bottom” as countries compete for FDI. It is not crystal clear whether FDI is being attracted into industries and sectors that have the greatest multiplier effect in promoting sustained growth and indirectly alleviating poverty. It is not often also realized that in order to fully benefit from spillover effects of FDI, there is a minimum threshold of absorptive capacity, which each country must have. Right policies therefore do matter in order to benefit from this aspect of globalization.

The broad objective of this paper is to analyze FDI and economic development in Africa. This is done by analyzing the trends of FDI in Africa, surveying the literature on the theoretical and empirical evidence on the determinants of FDI in Africa and surveying and analyzing the literature on the FDI-growth linkage and drawing out the policy implications for Africa. Specifically, the paper examines/analyzes the following issues:

5 The countries, which have achieved rapid growth with minimum reliance on foreign direct Investment, are Japan and Korea. This feat has been difficult to replicate especially in countries without a buoyant entrepreneurial spirit, an efficient bureaucracy, high level manpower and a conducive incentive regime.

6 This refers to the MDG goal of reducing poverty by half by the year 2015.

7 For details of the various policy changes that are required see Ajayi (2000)
Why FDI in Africa? A Historical Perspective

Trends and Determinants of FDI in Africa - theory and empirical evidence

The FDI-Economic Linkage stressing the FDI-Growth linkage specifying the necessary caveat for the expected growth to be achieved.

Employment effects of FDI

FDI and poverty reduction

What evidence of the role of FDI in Africa?

Potential negative Impacts of FDI

The organization of the rest of the paper is as follows. In section II, we discuss the issue of FDI from a historical perspective – Why FDI in Africa? Section III deals with the trends, concentration, sectoral allocation and the determinants of FDI in Africa from the perspective of theory and empirical evidence. In section IV is analyzed the FDI economic development linkage drawing from available theoretical work on linkages in the literature discussing the necessary caveats wherever applicable. The section also discusses employment effects of FDI, FDI and poverty Reduction. Section V provides evidence on the role of FDI in Africa with respect to employment, wages, technological spillovers etc. Section VI is centered on discussing the negative aspects of FDI. The summary, conclusions and policy implications can be found in section VII.

II. Why FDI in Africa? A Historical Perspective

The desire to attract FDI to Africa is not new within the context of development thinking. Foreign direct investment is important to Africa because of its expected stimulus to economic growth. It is potentially capable of dealing with two of the major problems afflicting Africa, namely, the savings gap and the shortage of technology and skills. Thus, FDI is more than a flow of financial capital but it also includes a lot of managerial and technological know-how, which can aid productivity. Africa must therefore take positive steps to increase its level of FDI. Most African countries after independence instituted policies with generous incentive packages to attract the inflow of FDI (UNCTD 2005). The economic rationale for the incentives to attract FDI derives from the belief that foreign investments produce externalities in the form of technological transfer and spillovers. The transfer of technology may have substantial spillover effects in the entire economy (See Carkovic and Levine (2004). Following the debt crisis of the 1980s and the drying up of commercial bank lending, it was thought by the architects of the Structural Adjustment programs that increased FDI was key to sustained economic recovery. It was from this perspective that the pursuit of responsible macroeconomic policies combined with an accelerating pace of liberalization; deregulation and above all, privatization were expected to attract FDI to Africa (World Bank 1997:51, IMF 1999).

The emergence of the MDGs in 2000 focused policy attention on the resource gap which Africa must fulfill in order to leap itself out of the vicious poverty and cast poverty into the dustbin of history. To fulfill the resource gap, Africa must rely on domestic resources (which to all purposes is meager and not forthcoming), foreign resources mainly ODA and resources from the new Multilateral debt Initiative (MDRI) for those who have reached the completion point under the High Indebted poor countries initiative (HIPC's) program, and FDI. In the face of inadequate resources needed to finance long-term development in Africa and the need to meet the
Millennium Development Goals, attracting foreign direct investment has assumed a greater pride of place than before in the strategies for economic renewal being embarked upon by policy makers at all levels. The belief in attracting FDI as the key to bridging the resource gap has been strengthened by the experience of a small number of fast-growing East Asia newly industrialized economies. A lot of premium is being put on FDI as it is expected not only to enhance productivity but also create jobs and empower the poor etc. Since the Asian crisis, the call for an accelerated pace of opening up to FDI has intensified in the belief that this will bring not only more stable capital inflows but also greater technological know-how, higher-paying jobs, entrepreneurial and workplace skills, and new export opportunities (Prasad et al., 2003).

It is indeed instructive to take a look at the Millennium Declaration of 8 September 2000:

We [the United Nations General Assembly] resolve to halve by the year 2015, the proportion of the World’s people whose income is less than one dollar a day. We also resolve to take special measures to address the challenges of poverty eradication and sustainable development in Africa, including debt cancellation, improved market access, enhanced official Development assistance and increased flows of Foreign Direct Investment as well as transfer of technology. (UN Millennium Declaration, 8 September 2000) (Underlining mine).

What is clear from this quotation as correctly pointed out by Asiedu (2004 p. 371) is that an “increase in technological transfer and foreign direct investment (FDI) to Africa will help the continent achieve its Millennium Development Goal (MDG) of reducing poverty rates by half by 2015”.

The need for international support for Africa’s development has been stressed in several recent initiatives. One of these is the Commission for Africa Report (2005). The Report proposed several measures that could help the continent attract more FDI and enhance its benefits for development. It called for support for an investment climate facility for Africa under the NEPAD initiative and urged the creation of a fund that would provide insurance for foreign investors in post-conflict countries in Africa (UNCTAD, 2004: 14).

III. Trends and Determinants of FDI in Africa

a. Trends
It is alleged that Africa has not benefited significantly in a way that is commensurate to its policies and the rate of return on its investments from the flows of foreign direct investment from the world. The African continent did not benefit from the FDI boom that began in the mid-1980s. In the period 1991-96, while the world average FDI inflow was $401.7 billion, Africa’s average for that period was a mere $7.1 billion, a world share of 1.8 percent. Other regions of the

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9 See Honest Prosper Ngowi (2001)
world received more than Africa. For example, Latin America and the Caribbean received $47.9 billion while Asia and Oceania received $83.9 billion. For the rest of the period shown, these regional groups received more than Africa. See table 1. In 2001, Africa received $20 billion of the flows but still had a share of 2 percent of the world FDI flows. Africa’s share of the developing economies was about 5.0 percent in 1993-98. It reached a peak share of about 9 percent in 2001 and declined to only 6.8 percent in 2002. By 2004, its share of flows to developing countries stood at 7.8 percent. On the other hand, other country groups increased their share: Asia and Oceania increased its share of FDI to developing countries from 48 percent in 1999 to about 63 percent in 2004. See table 3. Global FDI inflows declined since 1999 and picked up again in 2004. It was a steady decline between 2000 and 2003. In 2004, world FDI inflows stood at $648.1 billion while Africa received $18.1 billion of these flows (see tables 1-3). The main factors behind the decline were slow economic growth in most parts of the world and dim prospects for recovery at least in the short term. As to be expected, the decline was uneven across countries and regions. Africa registered a decline of 41 percent. It was also uneven among sectors as flows into manufacturing and services declined while those into primary sector rose.

Africa’s share of world FDI inflow rose from a share of about 0.7 percent in 2000 to a share of 2.4 percent in 2001. In 2002, 2003 and 2004 Africa’s share stood at 1.8 percent, 2.9 percent and 2.8 percent, respectively of world FDI inflows. Africa suffered a dramatic decline in FDI inflows from $20 billion in 2001 to about $13 billion in 2002, a decline of 35 percent. In comparison to other regional groupings, Africa received less. Asia and Oceania received a share that was never less than 10 percent over the years. Indeed, it received a share of 22 percent in 2004 as opposed to a share of about 21 percent in the period 1993-98. Latin America and the Caribbean increased share from about 7 percent in year 2000 to 10.4 percent in 2004 (table 2)). Foreign direct investment flows to 23 of the 53 countries in Africa declined. In 2002, the four countries that attracted large FDI inflow in order of importance were Angola, Nigeria, Chad, South Africa and Mozambique.

The importance of FDI to Africa can be seen from the FDI inflows as a percentage of gross fixed capital formation, and FDI stock as a percentage of the gross domestic product. See Table 4. For the period 2002, 2003 and 2004, FDI flows as percentage of GFCF varied between 13 percent and 15 percent with the highest of 15 percent, being in 2003. We have however highlighted some countries from Africa where the ratio was high. Equatorial Guinea in particular had very high ratios above 200 percent in the periods 2003 and 2004. Looking at FDI stock as a percentage of GDP, FDI stock was about 28 percent of GDP. The countries shown however had higher ratios. In Equatorial Guinea in 2004, the ratio was 123.7 percent. In the case of of Namibia the ratio was only about 33 percent in 2004. In addition to Equatorial Guinea, only Seychelles had ratio above 100 percent.

Looking at FDI Inward stock, it increased steadily over time from $32.2 billion in 1980 to $171.0 billion in 2002. In 1980, Africa had 4.6 percent share of Global FDI Inward stock. This share declined over time till it reached 2.4 percent in 2002. Similarly, Africa’s share of FDI Inward Stock to developing countries declined from 10.46 percent in 1980 to 7.3 percent in 2002.

2002. This share is in contrast to Latin America and the Caribbean region that increased its share of FDI Inward Stock to developing countries from 16.39 percent in 1980 to 32.58 percent in 2002. Even though Asia’s share fell from 72 percent in 1980 to about 60 percent in 2002, it nevertheless attracted to itself the greatest share.\(^\text{11}\)

b. Concentration of FDI

FDI in the oil industry remained dominant. The FDI that goes into Africa is concentrated in a few countries. The traditionally biggest recipients pocket a significant proportion of FDI: Egypt, Angola, Nigeria and South Africa. The inflows that South Africa has enjoyed in recent times have been attributed mainly to the privatization process, the return of companies based in the neighboring countries during the apartheid period and the interest of investors in the South African large domestic market.\(^\text{12}\). Of the increase in FDI flows between 1995-98 and 1987-90, 33 percent went to four oil-producing countries: Angola, the Congo Republic, Equatorial Guinea and Nigeria.\(^\text{13}\). FDI in the oil industry remained dominant in 2002 with Angola, Algeria, Chad, Nigeria and Tunisia accounting for more than half of the 2002 inflows (UNCTAD, 2003 p 9). In 2002, Egypt, Angola, Nigeria and South Africa had a share of 61.9 percent. Given the importance of Tunisia in 2002, with its inclusion, these countries share rose to 70.11 percent. Swings of FDI to these countries have a major impact on the flows of FDI to Africa as a whole. In 2004, Angola, Equatorial Guinea, Nigeria and Sudan (all rich in mineral resources) and Egypt were the top recipients accounting for a little less than half of all inflows to Africa.\(^\text{14}\).

c. Sectoral allocation of FDI in Africa

Africa continues to attract FDI only into sectors where competitive advantages outweigh the continent’s negative factors. These include minerals, timber, coffee, and oil (Mills and Oppenheimer, (2002). In general, the structure of FDI has shifted towards services worldwide. In the early 1970s the sector accounted for only one-quarter of the world FDI stock; in 1990 this share was less than one-half and by 2002, it has risen to about 60 percent.\(^\text{15}\). Contrary to common perception, the concentration of FDI in Africa is no longer in the mineral resources only. Even in the oil exporting countries services and manufacturing are becoming key sectors for FDI.\(^\text{16}\).

\(^\text{11}\) Information computed from UNCTAD, World Investment report (2003).

\(^\text{12}\) For details see Morisset (2000)

\(^\text{13}\) For details see Pigato (2000)


\(^\text{15}\) See UNCTAD (2004), World Investment Report: The Shift towards Services, Geneva p.15

\(^\text{16}\) For more details see “Fact Sheet on Foreign Direct Investment: Focus on the New Africa” downloaded from the internet.
Recently, FDI has been diversifying into other sectors— in particular manufacturing and services. In 1992, 30 percent of FDI stock in Nigeria was in the primary sector, 50 percent in manufacturing and 20 percent in services. Similarly in 1995, 48 percent of FDI inflows into Egypt were in services, 47 percent in manufacturing and only 4 percent in the primary sector. Over time, Mauritius has also been able to attract FDI into the manufacturing sector mainly in textiles and electronics. Morocco’s FDI receipts have risen five-fold in the past decade, most of it in manufacturing and services.

In terms of the sources of FDI, Germany’s FDI has increasingly been going into the manufacturing sector while more than 60 percent of the British FDI stock is in the manufacturing and service sector. Also, the FDI from the United States of America has been going into manufacturing mainly in food and metal products, primary and fabricated metals (UNCTAD, 1999b). The share of United State of America’s FDI stock in Africa that is in the primary sector dropped from 79 percent in 1986 to 53 percent in 1996. (See Ikiara, 2003). A survey of multinational corporations in 2000 indicated that the sectors with the greatest potential to attract FDI in Africa are tourism, natural resources industries; and industries for which the domestic market is important. As it happens in many African countries in recent times, telecommunication is in this category. This has assumed great importance with the privatization of telephone companies in many countries and the emergence of the global system of communication (GSM) in many African countries.

Africa has not been able to attract enough foreign direct investment commensurate with the fact that the rate of return to investment in Africa has been found to be higher than other developing countries. This is because investment in the continent is viewed as a high-risk activity due partly to the negative perception of Africa: perception of its political and economic activities and the poor infrastructure facilities in addition to the absence of adequate legal framework for the enforcement of contracts. Too often, potential investors shy away from Africa because of the negative perception of the continent. This outright condemnation of a whole continent conceals the heterogeneity of the continent and the complex diversity of economic performance and the existence of investment opportunities in individual countries. Indeed some African countries have been able to attract FDI based on their macroeconomic policy framework and the conducive regimes put in place while others have not. There is also the problem of lack of information and deep knowledge about conditions in Africa. Consequent to reforms, Africa has become much more attractive as a location for mining FDI. A number of post-conflict economies in particular Angola and Mozambique have also seen in recent years sharp increases in mineral production. (UNCTAD, 2005).


18 While arguments rage as to the insignificant share of Africa in World FDI flows, there is also the argument that Africa is doing as much as it can given its relative weight in world output. Its share is commensurate to its weight in world GDP.
(d) Theory and Empirical Evidence on the Determinants of FDI in Africa

FDI is in general motivated by both pull and push factors. The push factors, which are external to developing countries, focus mainly on growth and financial market conditions in industrial countries. The pull factors on the other hand are dependent on a host of factors that are dependent on fairly long list of domestic policies and characteristics of host countries. While the push factors determine the totality of available resources, the pull factors determine its allocation between countries. Factors influencing FDI trends include a conducive macroeconomic policy environment, increased liberalization of markets, large domestic markets, low labor cost, liberal trade regimes, availability of natural resources, good infrastructure, business facilitation measures and initiatives by outside bodies to promote investment in Africa. Other factors include investment in human capital, which can bring about educated labor force, which is crucial in attracting private investment, and improving the efficiency of public institutions.

There are many studies on the theoretical determinants of FDI and a large though inconclusive econometric literature on the determinants of FDI. Many studies have among others emphasized governance failures, problems of policy credibility, macroeconomic policy failures, and poor liberalization policies etc. as deterrents to FDI flows. In a survey of the evidences on the various determinants of FDI in Africa, Ajayi (2004) identifies the following:

- Size of the market and growth
- Costs and skill of the labor force
- Availability of good infrastructure
- Country risk
- Openness of the economy
- Institutional environment
- Availability of natural resources
- Concentration of other investors (agglomeration effects)
- Return on investment
- Enforceability of contracts & transparency of the judicial system
- Macroeconomic stability
- Availability of “sweetener” policies.

African countries have in the last decade made considerable efforts to improve their investment climate. Many governments are liberalizing their FDI regimes as they associate FDI with positive effects for economic development and poverty reduction in their respective countries. The economic performance of the region had improved in some cases from the mid-1990s as countries adopted structural adjustment programs that hinged on pushing down inflation and government expenditures and establishing a realistic exchange rate. The upsurge that is expected in FDI inflow as a result of these improvements is, however, yet to occur.

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19 For a list of domestic policies and characteristics determining the pull factors, See Ajayi (2004).

20 See Ajayi (2003)
Over time a number of studies have been carried out to examine/analyze the various determinants of FDI in Africa. In one or two cases, Africa is shown to be different from the rest of the world in terms of the various factors affecting foreign direct investment. The implications of such finding are sweeping. It means in the first place that whatever fundamentals are present in the various economies; it is unlikely to attract FDI. According to Asiedu (2002) policies that have been successful in other regions may not be equally successful in Africa. The second is that economic policy does not matter for FDI\textsuperscript{21}. The findings of various studies on the determinants of FDI in Africa have been contradictory in many cases\textsuperscript{22}.

There seems to be a dearth of empirical work that is solely concentrated on African countries on the determinants of FDI. In most of the studies that have been carried out, only a limited number of African countries are included. For example, Gustanaga et al (1998) consider a total of 49 countries, only 6 of which are in sub-Saharan Africa (SSA); while Schneider and Fry (1985) consider 51 countries of which 13 are in SSA. In Edwards (1990), about half of the 51 countries are in SSA. In their econometric analysis of the determinants of FDI using panel data, Elbadawi and Mwega (1997) argue that while market size is relatively unimportant in explaining FDI flows to Africa, economic growth is an important determinant. They however find that a depreciation of the real effective exchange rate, an increase in a country’s openness to trade, and the expansionary effects of fiscal balance have positive impacts on FDI. It is also shown that an improvement in removing restrictions and providing good conditions for private initiative have important bearing on FDI inflows, while the number of political upheavals has a negative bearing. Terms of trade shocks and the level of schooling are found to have little impact on FDI into Africa. Incidents of war and African regional integration arrangements are found to have limited impacts on FDI flows.

Two recent studies also concentrate on Africa. The first is by Schoeman et al (2000) who analyze how government policy (mainly deficit and taxes) affects FDI. The paper is however limited to South Africa. The second set of papers is by Asiedu (2002, 2004). Using a cross-section data on 71 developing countries, Asiedu (2002) attempts to answer the following sets of questions (i) What factors drive FDI to developing countries (ii) Are these factors equally relevant for FDI to SSA? (iii) Why has SSA attracted so little FDI (iv) Why has SSA been relatively unsuccessful in attracting FDI despite policy reform? Is Africa different? The analysis is focused on only three main variables – the return on investment, infrastructure availability and openness to trade and does not take into account natural resource availability, which is an important determinant of FDI to Africa. The result indicate that:

(i) Countries in SSA have on average received less FDI than countries in other regions by virtue of their geographical location.

\textsuperscript{21} From various studies however we find that policy matters very much in attracting FDI to Africa. The roles of policy in affecting the levels and composition of FDI have been reviewed extensively by Balasubramayam and Salisu (2001) and Pain (2000). Further evidence can be found in Pigato (2000), Morrisset (2000) and Asiedu (2003).

\textsuperscript{22} For details on the effects of selected variables on FDI see Asiedu (2002).
(ii) Both higher return on investment and better infrastructure have positive impact on FDI to non-SSA countries but no impact on FDI to SSA.

(iii) Openness to trade promotes FDI to SSA and non-SSA countries. The marginal benefit from increased openness is less for SSA suggesting that trade liberalization will generate more FDI to non-SSA countries than SSA countries.

The results imply that Africa is different and that factors that have been successful in other regions may not equally be successful in Africa. This implies that the success stories in other places cannot in some cases be replicated in Africa. Three policy implications arise from the results of the empirical work.

(i) African countries need to liberalize their trade regime in order to enhance FDI flows. The full benefit of trade liberalization is only achievable if investors perceive the reform not only credible but irreversible.

(ii) Policies that have worked in other countries cannot be blindly replicated in Africa since these policies may have different impacts on Africa.

(iii) Africa is overly perceived as risky. Consequently, countries in the region receive less FDI by virtue of their geographical location. To dispel the myth, there is need to disseminate information about the continent.

In another paper, Asiedu (2003) employing panel data on 22 African countries for the period 1984-2000 empirically examines the impact of several variables including natural resource endowment, macroeconomic instability, FDI regulatory framework, corruption, effectiveness of the legal system and political instability on FDI flows. The paper debunks the notion that FDI in Africa is solely driven by natural resource availability and concludes that natural resource endowment, large markets, good infrastructure and an efficient legal framework promotes FDI while macroeconomic instability, corruption, political instability and investment restrictions deter investment flows.

The result implies that government in the region can play major roles in promoting FDI to the region through appropriate policy framework, and that FDI to Africa is not solely driven by natural resources endowment but also by other factors. In the short and medium term, government can increase their FDI by streamlining their investment regulatory framework, implementing policies, which promote macroeconomic stability and improve infrastructure. In the long run, more FDI can be achieved by curbing corruption, developing a more efficient legal framework and reducing political instability (Asiedu, 2003).

Morisset (2000) focuses exclusively on Africa and controls for resource natural resource availability. He identified which African countries have been able to attract FDI by improving their business climate. Evidence from the countries show that pro-active policies and re-oriented governments can generate FDI interest. Morisset makes the point that African countries can also be successful in attracting FDI that is not based on natural resources or aimed at the local market but rather on regional and global markets by implementing policy reforms. Using panel data for 29 countries over the period 1990-97, he finds that GDP growth rate and trade openness have been positively and significantly correlated with the investment climate in Africa. On the other hand, the illiteracy rate, the number of telephone lines and the share of the urban population
(measure of agglomeration) are major determinants in the business climate for FDI in the region. Also the political and financial risk as measured by (International Country Risk guide (ICRG) and the International Investors (II) ratings did not appear significant in the regression.

One of the major deterrents to FDI flows in the literature is uncertainty. Uncertainty is also a known factor plaguing Africa’s development strategy. Empirical relationship between FDI and uncertainty in developing countries are very few. There are the studies by Ramasamy (1999) for Malaysia and Lehmann (1999) for developing countries. These studies conclude that a negative relationship exists between uncertainty and FDI in developing countries. Only a few studies address the connection between uncertainty and FDI in Africa. While studies by Abekah (1998), Nnadozie (2000), Bennell (1995) and Pigato (2000) highlighted the roles played by uncertainty, none of them formally address the impact of both economic and political uncertainty in African countries. The study by Lemi et al (2001) examines how uncertainty affects FDI flows to African economies. Analyzed in the study are total U.S. FDI flows, U.S. manufacturing FDI and U.S. non-manufacturing FDI flow to sampled host countries in Africa. Using a generalized autoregressive heteroscedastic model, the study concludes:

(i) The impact of uncertainty on the flow of FDI from all sources is insignificant
(ii) For aggregate U.S. FDI, economic and political uncertainties are not major concerns.
(iii) For U.S manufacturing FDI, only political instability and government policy commitment are important factors, whereas for U.S. non-manufacturing FDI, economic uncertainties are the major impediments only when coupled with political instability and debt burden of host countries.
(iv) Other economic factors such as labor, trade connection, size of export sector, external debt, and market size are also significant in affecting FDI flow to Africa.

The importance of the determinants of FDI in Africa led to the IMF/AERC Special workshop on the same theme (Determinants of Foreign Direct Investment in Africa) in Nairobi in December 2004. The dissemination workshop aimed at making the results of the study available to policymakers took place in Accra, Ghana, 28-29 September 2006. At the dissemination workshop, evidences from country case studies in addition to the Overview from Africa were presented. The aim of the workshop on the determinants of FDI was to identify the various factors affecting FDI in Africa and then to identify which ones have worked for what countries and what countries need to do in order to attract FDI. A total of eight country case studies were commissioned initially from Botswana, Cameroon, Cote d ‘Ivoire, Ghana, Kenya, Nigeria, South Africa and Uganda. From the results of the various countries it was clear that different policies have been used by various countries and the response have been different. It was found out first that there is no unanimously accepted single factor determining the flow of investments. Second, while the list of factors determining investment is fairly long, NOT all determinants are equally important to every investor in every location at all times. Third, some determinants are more important at a given time than another time. The weights attached to factors vary between investors. Fourth, macroeconomic and political stability are necessary but not sufficient. Fifth a critical minimum level of factors is important for the flow of FDI and lastly polices do matter in
each of the countries. Sixth, for countries to derive positive effects of FDI, they must be at the driver’s seat in terms of putting in place an appropriate development strategy.

IV. The FDI Economic Development Linkage

(i) The FDI-Growth Linkage

It is often claimed that FDI is a key ingredient of successful economic growth and development in developing countries – partly because the very essence of economic development is the rapid and efficient transfer and cross border adoption of “best practices”. Foreign direct is especially well suited to effecting this transfer and translating it into broad-based growth, not least by upgrading human capital (Klein, Aaron and Hadjimichael, 2001). It is now well known that in order to bring about a reduction in poverty, growth is a necessary ingredient of this process. Since growth can be fostered by FDI, it is central to the achievement of that important MDG goal which is at the heart of development policy.

Theory provides conflicting predictions concerning the growth effects of FDI. There are several ways in which FDI can play important roles in the overall development process (see Addison and Mavrotas, 2004). First, it is a source of capital accumulation, both physical and human. Given the well-designed nature of FDI projects, it will raise growth and lead to the creation of jobs and hence growth in employment. Through the employment effect FDI can contribute to the MDGs by reducing income-poverty. Second, much needed revenues for government can be derived for government to spend on possible MDG-focused infrastructure and services. The revenue effects are both direct and indirect. The direct aspects relate to the corporate taxes that are paid to government by the enterprises themselves as well as revenue from FDI in the natural resources sector. The indirect aspect of FDI revenues relates to when economic growth is raised and it leads to improvement in the total tax base.

How then does FDI affect growth? While the positive FDI-growth linkage is not unambiguously accepted, macroeconomic studies nevertheless support a positive role for FDI especially in particular environments. Existing literature identifies three main channels through which FDI can bring about economic growth. The first is through the release from the binding constraint of domestic savings through foreign capital inflow. In this case, foreign direct investment augments low domestic savings in the process of capital accumulation. Second, FDI is the main conduit through which technological transfer takes place. The transfer of technology and technological spillovers lead to an increase in factor productivity and efficiency in the utilization of resources, which leads to growth. Third, FDI leads to increases in exports as a result of increased capacity and competitiveness in domestic production. Empirical analysis of the positive relationship is often said to depend on other factor that is called “absorptive capacity” and includes the level of human capital development, type of trade regimes and the degree of openness.

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23 The various papers presented at the conference by the authors, Ajayi, Asante, Khan, Ogunkola, Obwona, Mwega, Siphambe and Akinboade are listed under references to this paper.

24 It needs be emphasized that it is pro-poor growth that is being emphasized in all cases.
According to recent growth theory, long-term economic growth can be explained as the combination of growth in its sources. These are the increases in factor inputs (labor and capital) and in total factor productivity (TFP), which reflects technological advances and other efficiency improvements in the utilization of resources. Using this “endogenous” growth framework, FDI can contribute in a significant way to all three components of growth. FDI increases capital stock and boosts human capital accumulation and speeds up technological advances in host countries. The most significant and direct impacts of FDI are through its role in two major areas. These are in the accumulation of investment capital and the growth of total factor productivity (TFP) of the recipients.

(a) FDI and Capital Formation

There is evidence that investment is a key ingredient to sustained growth. Countries that have grown are those that have devoted a significant proportion of their GDP to investment, in other words, countries that have a high Investment-GDP ratio. Over the last few years, FDI has played a growing role in most developing countries’ total investment (Borenzstein et al, 1995).

As a result of the fact that transnational corporations typically have access to a wide variety of financing options, the risk-adjusted cost of capital is usually lower for them than the domestic firms from developing countries. It is this advantage that allows them to be more responsive than other firms to investment opportunities and incentives. As a result of this foreign firms can invest in projects that domestic firms consider to be too risky or one in which they do not have the capacities. With the lapse of time however, conditions may be created that are conducive to domestic investors beyond their current reach. In such situations, FDI serves to stimulate domestic investment and the total investment in the country is enhanced. Available empirical evidence lends support to such “crowding in” effects of FDI. It has been shown for example that total increase in investment was between 1.5 and 2.3 times the increase in the flow of FDI.

b. FDI and Productivity growth

Rather than re-inventing the wheel, developing countries can import and imitate the best practice from more advanced countries and enjoy unprecedented economic growth in the process. The rapid and efficient transfer and adoption of “best practice” across borders becomes the very essence of economic development. The most important benefit of FDI is that it provides along with financial resources access to a wide range of technological, organizational and skill assets in addition to markets of the parent company. Best practice is transmitted by FDI in two ways. The first is through internal transfer of technology and skills to the foreign affiliates in the host countries and the second is through technological diffusion to a wide constellation of companies and institutions within the host country.

The ultimate impact of FDI on domestic economic growth depends on the diffusion of best practice through the local economy at large. This diffusion takes place through four main channels. These are:

- Backward linkages with local suppliers (sourcing)
- Forward linkages with local producers and distributors,
- Horizontal linkages with local competitors
- Linkage with local institutions
The most important of this linkage is sourcing: the purchase of inputs and services from local instead of foreign suppliers.

**With respect to growth, does FDI help as much as we think?**

The macroeconomic empirical literature finds weak support for an exogenous positive effect of FDI on economic growth. The interaction between FDI and economic growth is not automatic. Indeed the earlier empirical work finds contradictory results. For a number of 72 developing countries between 1960 and 1978, Jackman (1982) finds that FDI had no significant impact on growth once cognizance is taken of the country size. In another study, Rothgeb (1984) finds that FDI was negatively linked to growth for the set of 18 developing countries as a whole, while for the set of Latin American countries, FDI positively affected growth.

Most recent evidence has established a robust link between FDI and growth. In the aggregate cross-country studies, de Mello (1996) finds evidence that FDI gives rise to growth in five Latin American economies. Williams et al (1999) find that for the Eastern Caribbean central bank unified currency Area, FDI appears to crowd in gross investment and has a positive impact on growth. Borenzstein et al (1998) find that FDI is an important vehicle for the transfer of technology, contributing more to growth than domestic investment. Also in an earlier work, Borenzstein et al (1995) show FDI is an important vehicle for the transfer of technology, contributing relatively more to growth than domestic investment. The higher productivity holds only when the host country has a minimum threshold stock of human capital. Also, FDI has the effect of increasing total investment in the economy more than one for one, which suggests the predominance of complementary effects with domestic firms.

Country and industry level-level studies find positive impacts of FDI on economic growth. In the study by Obwona (1999) for Uganda, a positive relationship is found between FDI and growth just as the paper by Chen et al (1995) finds a positive relationship for China. Similarly, Bielschowsky (1994) and Kokko et al (1996) find a positive impact of FDI on labor productivity and growth in Brazilian and Uruguayan manufacturing industries, respectively.

From the literature it is clear that a country’s ability to take advantage of the positive effects of FDI might be limited by local conditions such as the development of the local financial markets, or the educational level of the country. This is called absorptive capacity. Borensztein et al (1998) and Xu (2000) show that FDI brings technology, which translate into higher growth only when the host country has a minimum threshold of stock of human capital. Alfaro et al (2004), Durham (2004) and Hermes and Lensink (2003) provide evidence that only countries with well-developed financial markets gain significantly from FDI in terms of their growth rates. The research by Alfaro et al (2006) shows:

- An increase in FDI leads to higher growth rates in financially developed countries as opposed to the rates observed in financially poor countries
- Local conditions such as the development of financial markets and the educational level of a country, affect the impact of FDI on growth.
- Policymakers should exercise caution when trying to attract FDI that is complementary to local production. The best connection are between final and intermediate industry sectors, not necessarily between domestic and foreign final goods producers
Human capital plays a critical role in achieving growth benefits from FDI.

The non-automatic transmission process of FDI to growth is shown in several other studies. The jury is still out on whether FDI directly causes economic growth without preconditions. Tsai (1995) finds that FDI leads to growth when human capital is augmented. De Millo (1997) finds that FDI leads to growth when there are efficiency spillovers to domestic firms or in other words when domestic firms production processes improve as a result of exposure to more technologically advanced methods of the transnational corporation. Krause (1998) uses an error correction model to find that FDI leads to growth even when the effects of fiscal policy, domestic education expenditures and savings growth are taken into account. It has also been found out that the sectors matter a lot. Alfaro (2003) using cross-country data for the period 1981-1999 shows that total FDI exerts ambiguous effect on growth. FDI in the primary sector tend to have a negative effect on growth while investment in manufacturing has a positive effect. Evidence from the service sector is ambiguous.

The various findings (in particular the mixed results) with respect to the FDI growth linkage have significant policy implications for Africa. First, the fact that the FDI-Growth linkage is not automatic implies that right policies must be designed by various countries to ensure that FDI is directed to areas and sectors where it will have the greatest impact. Second, whether there is a positive FDI-growth linkage depends on the country and sectors of the economy. In other words, there is need for specific country and sector study in order to meaningfully assess the FDI-growth linkage. Third, the issue of absorptive capacity mentioned in terms of human capital development, and financial development are important. Thus policy must be all encompassing in order to derive positive impacts. Thus, the positive impacts of FDI can be achieved but with the right policies. It can therefore be rightly said that whether FDI contributes to development depends on macroeconomic and structural conditions in host countries.

(ii) Employment Effects of FDI.
FDI in addition to serving as a catalyst for rapid economic growth and development, it also plays a major role in other aspects of development. These are employment and environment. FDI creates employment opportunities in the host countries. There are three ways in which employment is created. The first is direct employment for operations in the domestic economy. The second is through backward and forward linkages. Employment is created in enterprises that are suppliers, subcontractors or service providers. The third way in which employment is created is through the growth in the economy that leads to further employment generation in the economy.

There are a number of ways in which Multinational Enterprises (MNE) employment can promote growth and reduce poverty (Asiedu, 2004). First, MNE employment has a direct and indirect impact on domestic employment. FDI often generates new employment opportunities and creates jobs indirectly through forward and backward linkages with domestic firms. From available

UNCTAD (2005 p.64) takes the position that there is little evidence to suggest that FDI in Africa (or elsewhere in the developing world) plays a leading role in the growth process.
evidence, FDI has a multiplier effect on domestic employment. According to the estimate by Aaron (1999), FDI in developing countries created about 26 million direct jobs and 41.6 indirect jobs in 1997. Iyanda (1999) obtains a higher estimate for Namibia: about 2 to 4 jobs are created for each worker that is employed by foreign affiliates. Second, MNE employment boosts wages in host countries. This is because foreign companies pay more than local firms and this usually tends to have a spillover effects. Table 5 from Asiedu (2004) shows that foreign firms pay higher wages, with a wage premium ranging from 10 percent in Cote d’Ivoire to about 130 percent in Morocco. Third, MNE employment fosters technological transfer. One of the most common and least expensive ways by which foreign technology gets diffused in host countries is through labor turnover, as domestic employees especially employee in higher level positions) move from foreign firms to domestic firms. Fourth, MNE employment enhances the productivity of the labor force in the host country. Several studies have shown that productivity in foreign enterprises is higher than in domestic enterprises. It has been shown that in 8 out of 12 industries in Morocco, output per worker was higher in foreign owned firms than domestic owned firms with a productivity difference ranging from about 50 percent in electronics to about 130 percent in non-metallic minerals. Ramachandra and Shah (1998) also report that added value per worker is 59 percent higher for wholly owned enterprises than for local firms in Kenya, 178 percent higher for Foreign Enterprise (FOEs) in Zimbabwe, and 1,422 percent higher for FOEs in Ghana.

(iii) FDI and Poverty Reduction
One of the key issues of concern in Africa is whether FDI can affect poverty. The number of empirical analysis linking FDI to poverty reduction in Africa is scarce. There is abundant study however linking the income of the poor proportionately with the overall growth (see Dollar and Kray, 2000). FDI as we have seen can be a key vehicle to generate growth and hence bring about poverty reduction. For this to happen it must be emphasized that growth need not only be significant but be sustained over a reasonable period of time. The link between FDI and poverty reduction is indirect (Obwona, 2004):

- If FDI contributes to export growth and productivity growth, it offers benefit for the poor. In this case FDI impacts indirectly by providing an enabling environment.
- To the extent that FDI creates and increases employment, it can assist a section of the population to move out of poverty.
- FDI may pay higher wages than local firms which will lead to other firms to imitate what is happening in order not to lose their skilled personnel
- As a result of the presence of foreign companies, the tax base of the host country may increase. The increased domestic revenue can be utilized to provide services from which the poor can benefit significantly.

V. What evidences do we have on the role of FDI in Africa?
From available evidence, what do we know about the roles of FDI in Africa? To answer this question, we look at the roles of a number of foreign companies in a number of countries. Starting with some foreign Investment in East Africa there are some new Results from Firm Surveys. The available country case studies are from Kenya, Tanzania and Uganda. The data shows that foreign firms make a substantial contribution to local development. For example, they:
• Report a higher percentage of revenue for tax purposes
• Employ substantially more workers
• Report higher value added per worker
• Invest more in infrastructure
• Are nearly twice as as likely to have a formal training program and much more likely to provide health insurance or on-site medical care; and
• Export more of their output and are able to purchase imports although they still rely on domestic suppliers for nearly half of their inputs.


• There may be limited technology transfer and spillovers to the domestic firms. Phillips et al. (2000) finds that a 1 percent increase in FDI/GDP leads to 0.8 percent increase in future domestic investment in Africa compared to 1.17 percent in Latin America. In Mauritius, foreign investment has played a positive role in building local technological capacities
• Due to limited vertical and horizontal linkages, there is hardly any technology diffusion.
• In Kenya, foreign investment may not be transferring up-to-date technology, as exporting, skill or foreign ownership are found not to explain differential productivity of manufacturing sub-sectors
• Interaction with foreign partners enhance managerial and technological capabilities but only under certain circumstances: when the top managers and entrepreneurs have some previous experience, when the firms are targeting export markets, and when the top positions are not reserved for expatriates.
• On the job training closely followed by information links established by FDI are the best channels of learning and therefore the largest contributors to value added in the firms. A 1 percent increase in the number of trained workers (or information links established by FDI) resulted into an increase in value added of 60 percent, Biggs and Srivastava.
• MNC affiliates and local firms managed by expatriates have higher skills than other local firms due to access to technology.

VI. Potential negative Impacts of FDI

There are often some doubts about the catalyst role of FDI in the growth process in some quarters (see UNCTAD 2005). It is true that FDI brings both costs and benefits which must be properly evaluated at the point of decision-making on the best policy approach that must be adopted. The evaluation will inevitably be country-specific. It has been suggested (UNCTAD, 2005 p.65) “policy makers in Africa should give more careful consideration to these trade-offs if
they wish to maximize the benefits from FDI”. Thus, the domestic policy framework is of crucial importance in determining whether the net effects of FDI inflows are positive. FDI is not without its negative impacts. While we have explored the positive aspects of FDI, it does not mean that it cannot lead to undesirable outcomes in all cases. In most cases as we shall show, these negative trends are not unavoidable. Indeed they are the results of distortions and inefficiencies in the domestic economy, which can be avoided through appropriate policy tools and a sound regulatory framework (Sun, 2002). The three negative effects that are mentioned in the literature are: The crowding out effect of FDI, the balance of payments problems of FDI and the enclaves economy created by FDI. These are discussed in turn (Sun 2002).

a. The crowding out effect of FDI
It is often said that foreign investors may take away investment opportunities for the local investor.

b. The Balance of payments problems as Result of FDI
To the extent that profits are repatriated they constitute a financial outflow that has to be set against net annual contribution of FDI inflows to a host country’s balance of payment. With the increased liberalization of current and capital account this issue is of less concern. Available evidence for Africa in the 1990s show there was never a negative external balance as a result of FDI. In the long run, FDI cannot be a cause for balance of payments problem except in countries with seriously misaligned exchange rates.

c. Enclave Economies Created by FDI
It is claimed that FDI is often narrowly based with limited overall impact on host countries and benefiting only a small group of the population. There are two areas where such anxieties are expressed. The first is in the mining and other raw material extraction projects. In the former, investment is capital intensive and only a small fraction of the nationals are part of the workforce. This implies that few linkages if any exist, making their indirect impacts on the economy negligible. The second example of the enclave economy is the Export Processing Zone (EPZs). With the amount of concessions and special privileges given for location in this zone, they exhibit limited linkages with the local economy.

VII. Summary and Policy Implications
This paper has attempted to summarize and analyze the various issues surrounding FDI and economic development in Africa. It is difficult to summarize the major issues and findings in the paper without substantially repeating some of the major points made in various sections. At the risk of oversimplification, a number of the highlights of the paper can be pointed out.

In the paper we have tried to underscore the importance of FDI to Africa from the perspective of bringing the constraints of Africa’s low savings rate and the need in recent times to meet the Millennium Development Goals (MDGs).

The various reforms in Africa notwithstanding, Africa has been able to attract only about 2-3 percent of global FDI and about 8 percent of developing countries FDI flows. This rate is low. On the other hand, however, Africa’s share of World output is low. It is therefore as important to ask why Africa has attracted such a low share as to ask why it has been able to attract so much
given its relative unimportance in the global economy as shown by Africa’s share in world output.

FDI flows are influenced by both push and pull factors. The push factors are mainly growth and interest rates in the industrialized countries while the pull factors consist mainly of host country characteristics. The push factors determine total resources available in the form of FDI while its allocation is based on the pull factors.

The list of determinants of FDI is long. The empirical results on the determinants of FDI in Africa have at best been inconclusive. From recent work on country case studies at the IMF/AERC special workshop on the determinants of FDI in Africa, not all determinants are equally important to every investor in every location at all times. Macroeconomic and political stability are necessary but not sufficient for attracting FDI. The various policies in various countries underscore the importance of country-case studies.

A group of countries that are resource-rich pocket a significant proportion of FDI flows into Africa.

The result of the empirical analysis on FDI growth linkage is mixed. There is evidence however that there can be positive relationship between FDI and growth. The relationship for Africa is weak. In order to assess the impact of FDI, there is need for country and sector specific studies. FDI can be made to work but it all depends on the kind of policies that are put in place. FDI has to be seen within the framework of a general macroeconomic framework. The issue of absorptive capacity centering on human capital development, financial markets and other markets are important in order to derive the growth linkage of FDI.

The linkage of FDI to employment, and poverty reduction are important and these are given pride of place in the paper. The employment impact of FDI is shown in the paper. There is no concrete evidence that FDI has had a great impact on poverty reduction in Africa. Its impact can only be based on growth. There is no clear evidence of strong FDI-growth linkage.

The result on the role of FDI in transferring technological spillover is mixed; and this calls for more work to be done in many countries in Africa in order to know the extent to which the technological spillover actually takes place.

FDI is not without its demerits and some of these are pointed out in the paper. In deciding the best policy to adopt, cognizance must be taken of the costs and benefits of FDI. The evaluation of both costs and benefits will undoubtedly be country and sector specific. There will be definite conflicts between host country and transnational corporations involved in FDI. It is important that the host country does not sacrifice its interests on the alter of Transnational companies interests.. These trade-offs must be properly evaluated.

Given all that we do know about FDI in Africa, a new set of issues should now be the central focus. Here there are two of such issues. The first is how FDI can fit into development agenda of many countries in order to bring about faster and sustained growth, and enhance adequate but
sustained technological transfer. Second, the time is now ripe for addressing other issues than that of simply attracting FDI. The issue to address is whether domestic firms are likely to benefit from positive technological changes and linkages brought about by FDI, and how.

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### Table 1: FDI inflows by Region, 1993-2004 (Billions of dollars)

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<th>Region</th>
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### Table 2: Share in world FDI inflows (%)

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<td>57.54</td>
<td>49.86</td>
<td>59.16</td>
<td>60.91</td>
<td>63.25</td>
</tr>
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<td>West Asia</td>
<td>2.52</td>
<td>0.82</td>
<td>1.50</td>
<td>3.26</td>
<td>3.67</td>
<td>3.91</td>
<td>4.20</td>
</tr>
<tr>
<td>East Asia</td>
<td>37.15</td>
<td>33.25</td>
<td>45.89</td>
<td>36.13</td>
<td>43.28</td>
<td>43.36</td>
<td>45.03</td>
</tr>
<tr>
<td>China</td>
<td>27.72</td>
<td>17.33</td>
<td>16.07</td>
<td>21.53</td>
<td>33.89</td>
<td>32.17</td>
<td>25.9</td>
</tr>
<tr>
<td>South Asia</td>
<td>2.09</td>
<td>1.33</td>
<td>1.22</td>
<td>1.88</td>
<td>2.89</td>
<td>3.19</td>
<td>3.00</td>
</tr>
<tr>
<td>South-East Asia</td>
<td>18.21</td>
<td>12.60</td>
<td>8.93</td>
<td>8.63</td>
<td>9.32</td>
<td>10.46</td>
<td>11.02</td>
</tr>
<tr>
<td>Oceania</td>
<td>0.29</td>
<td>0.17</td>
<td>0.12</td>
<td>0.05</td>
<td>0.00</td>
<td>0.06</td>
<td>0.04</td>
</tr>
<tr>
<td>South-East Europe and the CIS</td>
<td>4.75</td>
<td>4.52</td>
<td>3.59</td>
<td>5.42</td>
<td>8.23</td>
<td>14.49</td>
<td>14.97</td>
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<td>South-East Europe</td>
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<td>1.59</td>
<td>1.42</td>
<td>2.07</td>
<td>2.44</td>
<td>5.05</td>
<td>4.63</td>
</tr>
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<td>CIS</td>
<td>3.60</td>
<td>2.92</td>
<td>2.17</td>
<td>3.35</td>
<td>5.79</td>
<td>9.44</td>
<td>10.33</td>
</tr>
</tbody>
</table>

Table 4 FDI inflows as a percentage of gross fixed capital formation and FDI stocks as a percentage of gross domestic product (%)

<table>
<thead>
<tr>
<th>Region/economy</th>
<th>FDI inflows as a percentage of GFCF</th>
<th>FDI stocks as a percentage of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>13.0</td>
<td>15.0</td>
</tr>
<tr>
<td>Gambia</td>
<td>54.6</td>
<td>32.9</td>
</tr>
<tr>
<td>Nigeria</td>
<td>49.2</td>
<td>32.4</td>
</tr>
<tr>
<td>Angola</td>
<td>46.1</td>
<td>82.6</td>
</tr>
<tr>
<td>Chad</td>
<td>73.6</td>
<td>49.7</td>
</tr>
<tr>
<td>Equatorial Guinea</td>
<td>62.6</td>
<td>247.7</td>
</tr>
<tr>
<td>Seychelles</td>
<td>22.5</td>
<td>41.8</td>
</tr>
<tr>
<td>Botswana</td>
<td>33.1</td>
<td>23.7</td>
</tr>
<tr>
<td>Namibia</td>
<td>32.4</td>
<td>15.8</td>
</tr>
<tr>
<td>Swaziland</td>
<td>42.7</td>
<td>-25.7</td>
</tr>
</tbody>
</table>

Table 5: Difference in wages between FOEs and DOEs in selected African Countries

<table>
<thead>
<tr>
<th>Study</th>
<th>Country</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harrison (1996)</td>
<td>Morocco and Cote d'Ivoire</td>
<td>Foreign-owned firms pay higher wages in 3 out of 12 industries in Cote d'Ivoire and 12 out of 18 industries in Morocco. Wage premium ranges from 10% to 90% in Cote d'Ivoire and 30% to 130% in Morocco.</td>
</tr>
<tr>
<td>Mazumdar and Mazaheri (2000)</td>
<td>Cameroon, Cote d'Ivoire, Ghana, Kenya, Tanzania, Zambia and Zimbabwe</td>
<td>100% foreign-owned firms pay higher wages than other firms in Cameroon (25%), Cote d'Ivoire (29%), Ghana (24%), Kenya (22%), Zambia (28%) and Zimbabwe (38%). No significant difference in wages for Tanzania. The wage premium is significantly higher for males.</td>
</tr>
<tr>
<td>Te Velde and Morrissey (2001)</td>
<td>Cameroon, Ghana, Kenya, Zambia, and Zimbabwe</td>
<td>Foreign-owned firms pay higher wages in Cameroon (8%), Ghana (22%), Kenya (17%), Zambia (23%), and Zimbabwe (13%). The Wage premium increases with educational attainments.</td>
</tr>
</tbody>
</table>