UNCTAD
Foreign Direct Investment in Africa: Performance and Potential
New York and Geneva, 1999
[Doc. symbol: UNCTAD/ITE/IIT/Misc.15]

Although it is true that the overall economic performance in Africa was unfavourable for a long time...

The image of Africa as a location for foreign direct investment (FDI) has not been favourable. Too often Africa has been associated only with pictures of civil unrest, starvation, deadly diseases and economic disorder, and this has given many investors a negative picture of Africa as a whole. While this picture is not based on fiction, and in some countries these unfortunate conditions prevail, it is not a true picture of the majority of African countries.

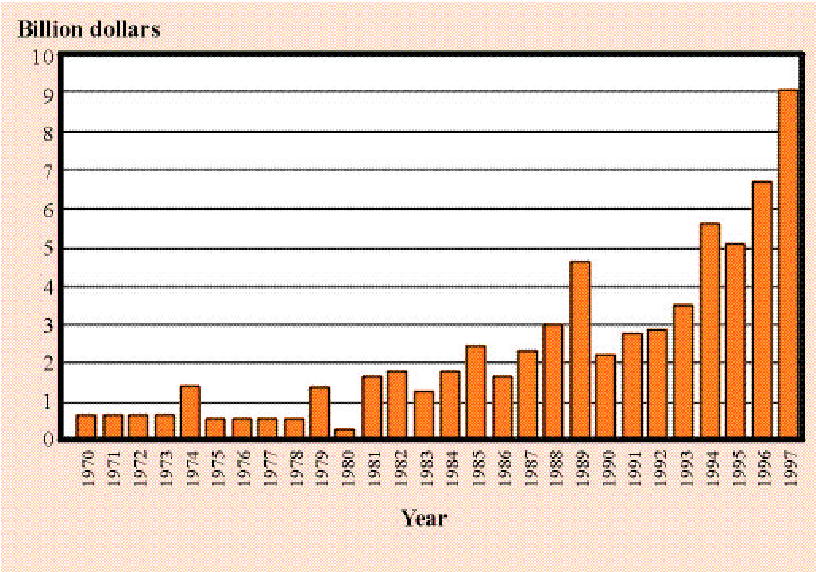
In the economic area, the continent as a whole has not fared as well as other developing regions in the past 20 years or so. Economic growth in Africa has been low, as real gross domestic product (GDP) per capita increased by an average of only 1.5 per cent a year during the 1980s and by 0.4 per cent a year between 1990 and 1994 (UNCTAD, 1997a, p. 288).[1] Growth for the whole of Africa has lagged behind that for other developing regions, with economic stagnation or even decline of output characterizing the experience of a number of African countries; from 1990 to 1994, for example, 15 African countries had negative average rates of growth. Since, 1994, however, this trend has been reversed; per capita income rose for several consecutive years, including in sub-Saharan Africa.[2]

...and Africa did not benefit from the FDI boom that began in the mid-1980s, ...

Weak economic performance over a long period of time was also reflected in the poor record of the continent as regards foreign direct investment inflows. Despite a certain stabilization of inflows since 1994 at a higher level than at the beginning of the 1990s (figure 1), the continent is still struggling to make up for the ground it lost during much of the 1970s and the 1980s.

Figure 1. FDI flows into Africa, 1970–1997

(Billions of dollars)



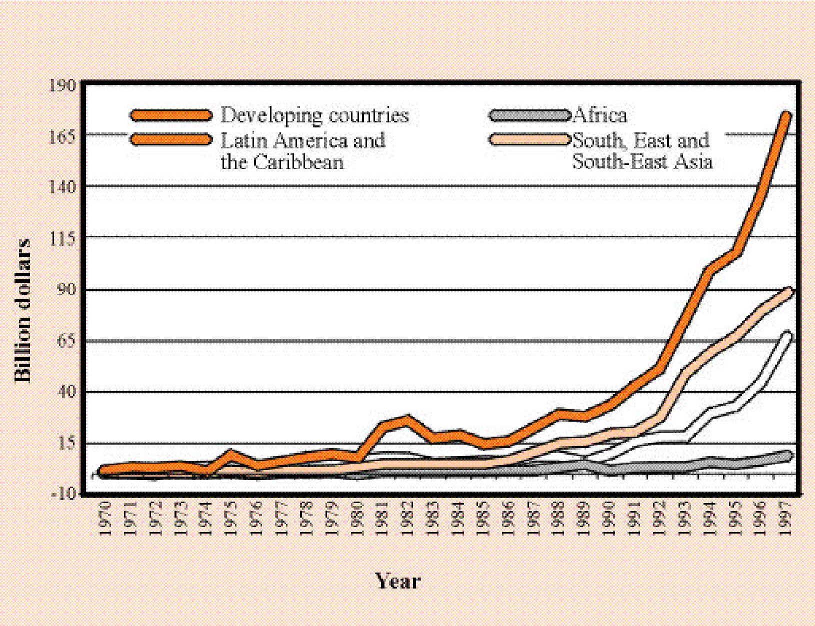
Source: UNCTAD, FDI/TNC database.

For most of the time since 1970, FDI inflows into Africa have increased only modestly (figure 2), from an annual average of almost $1.9 billion in 1983–1987 to $3.1 billion in 1988–1992 and $6.0 billion in 1993–1997.[3] While inflows to developing countries as a group almost quadrupled, from less than $20 billion in 1981–1985 to an average of $75 billion in the years 1991–1995, inflows into Africa only two folded during that period. As a result, Africa's share in total inflows to developing countries dropped significantly (figure 3): from more than 11 per cent in 1976–1980 to 9 per cent in 1981–1985, 5 per cent in 1991–1995 and to 4 per cent in 1996-1997.[4] Its share in total outflows from the European Union, Japan and the United States – the so-called "Triad", the most important source regions for FDI flows -- was even lower during 1987–1997 period (annex table 1) as other developing regions became more attractive as investment locations: until 1996 it never exceeded 2 per cent, increasing to 2.4 per cent in 1997.

The deterioration of Africa's position is also reflected in the ratio of FDI to GDP. In 1970, Africa had attracted more FDI per $1,000 of GDP than developing countries in Asia and Latin America and the Caribbean (table 1). Although both the value of its FDI inflows and the FDI/GDP ratio grew for most of the time between 1975 and 1997, by 1990, Africa had fallen behind other developing regions and has stayed behind since then.[5] The gap became even more pronounced during the 1990s, when the worldwide surge in FDI flows into developing countries largely bypassed the region.

Figure 2. FDI flows into Africa, developing countries and selected regions, 1970–1997

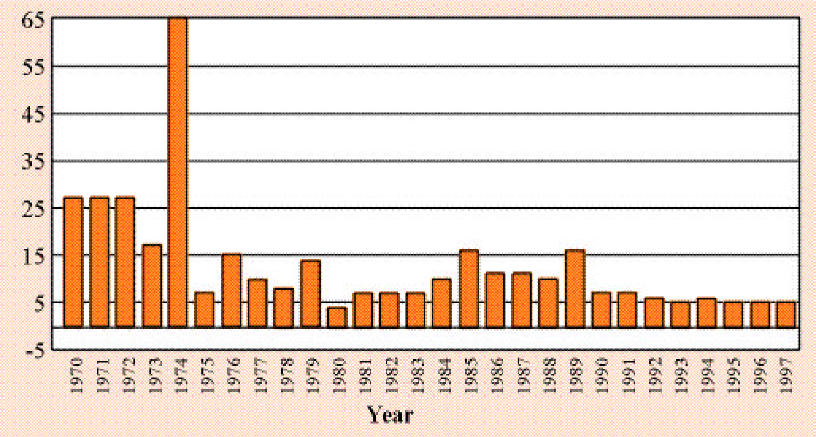
(Billions of dollars)



Source: UNCTAD, FDI/TNC database.

Figure 3. The share of Africa in total FDI flows into developing countries, 1970–1997

(Per cent)



Source: UNCTAD, FDI/TNC database.

Table 1. The relative importance of FDI inflows: Africa, Latin America and the Caribbean, and South, East and South-East Asia, 1970–1997

(FDI in dollars per $1,000 of GDP)

Year	Africa	Latin America and the Caribbean	South, East and South-East Asia
1970	7.9	6.7	2.7
1975	3.1	10.5	4.0
1980	0.8	10.0	4.3
1985	6.0	10.1	4.6
1990	5.1	8.5	12.4
1991	6.5	13.6	12.5
1992	6.6	14.4	14.9
1993	8.1	12.7	23.6
1994	13.2	18.4	25.6
1995	10.9	19.8	24.2
1996	13.6	24.8	25.7
1997	14.7	33.8	28.3

Source: UNCTAD, FDI/TNC database.

Notes

1 The relevant figures for South Africa are 1.3 per cent for 1980-1990 and -0.1 per cent for 1990-1994. In general, South Africa is included in all data for Africa published in this booklet unless otherwise stated.

2 GNP per capita for sub-Saharan Africa grew by an annual average of 1.9 per cent in the period 1995-1996 and 4.4 per cent for the period 1996-1997. For North Africa (including some countries of the Middle East) this figure stood at 4.1 per cent for the annual average 1996-1997, while for 1995-1996 no figures were available (World Bank, 1998 and 1999).

3 FDI flows are not adjusted for inflation.

4 The figure increased temporarily to 11 per cent in 1986-1990.

5 It should be noted, that the FDI per $1,000 of GDP ratio in a number of African countries is most likely inflated, because GDP stagnated or even fell for some years in the past.

6 In the finance and insurance sector, the group of the biggest African TNCs include, as of 1993, Banque Algerienne de Developpement, Nedcor Bank Ltd. of South Africa and Banque Misr of Eqypt (UNCTAD, 1997d).

7 After its success in attracting FDI into its labour-intensive manufacturing industries, Mauritius now faces the challenge of upgrading existing FDI and attracting new FDI into higher value-added production activities (UNCTAD, 1998b, p. 169).

8 For both countries the share of natural resources increased in recent years. However, at least in the case of United States FDI stocks in Africa, the relative importance of FDI in natural resources has significantly decreased since the 1980s: the share of the primary sector in total United States FDI stock in Africa dropped from 79 per cent in 1986 to 53 per cent in 1996.

9 It should be noted in this context that investors perceive, rightly or wrongly, Africa in general as a risky place to invest and that there are some factors, such as the difficulty of reversing investment decisions as a result of weak capital markets, that increase the risk for foreign companies of investing in the continent (Collier and Gunning, 1999, p. 85). However, there is no systematic evidence that FDI in Africa in general is associated with more risks than FDI in other developing regions.

10 The relatively high FDI inflows into Angola and Equatorial Guinea appear to be odd at first sight, given these countries' prolonged difficult political and economic situation. The inflows were attracted by petroleum deposits.

11 For an elaboration, and for proposals of how this can be achieved, see United Nations (1998) and United Nations (forthcoming).

12 For an elaboration and proposals of how this can be achieved, see UNCTAD 1998a.

13 Also, access problems can sometimes be aggravated by the emergence of new international standards in areas such as product quality and environmental protection. Although affiliates of TNCs are in general in a much better position to meet these standards than domestic firms, increased technical assistance for African countries to introduce these standards can help all firms in these countries to access better developed countries markets.