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### ...investment opportunities discovered by firms in new home countries, ...

Traditionally, most of the FDI in Africa originated in a few countries of Western Europe and in the United States: France, Germany, the United Kingdom and the United States accounted for the lion's share of total inflows from the member countries of the Organisation for Economic Co-operation and Development (OECD) to Africa in 1983–1987 (annex table 4). The situation was similar with regard to FDI stock, with the difference that Japan took the place of Germany. In 1992, four countries accounted for three-quarters of FDI stock (UNCTAD, 1995, p. 32). Although traditional home countries as a group have significantly increased their FDI in Africa since 1983–1987 (annex table 4), these increases have not been sufficient to sustain Africa's share in total FDI flows into developing countries, which, as shown earlier, has fallen. Had it not been for increased inflows from other, non-traditional investor countries, the fall would have been even steeper. It is to be hoped that these new investors, who have recently discovered the investment opportunities the continent has to offer, will become sustainable sources of FDI in Africa.

Within the group of OECD countries, new investors include countries such as Canada, Italy and the Netherlands, and to some extent also Norway, Portugal and Spain. They have emerged as important sources of FDI in Africa over the past 10 years (annex table 4). Between 1988–1992 and 1993–1997, these six countries increased their share in African inflows from some 8 per cent to more than 22 per cent, making up for the declining share of some traditional home countries such as Japan and the United Kingdom. In this connection it is also interesting to note that, in 1983–1987, there were only six countries for which accumulated flows to Africa for that period exceeded \$100 million, while nine countries exceeded this amount in 1988–1992 and eleven in 1993–1997.

Investors from other developing-country regions, particularly South-East Asia, have also emerged as new actors on the African FDI screen. Although many of the big investment projects are undertaken in South Africa -- as illustrated by the example of Telekom

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Malaysia, which has formed a consortium with SBC International of the United States to invest \$1.2 billion in the privatized South African Telkom -- South-East Asian investors have also shown interest in other African countries. Thus, investors from Asia have also contributed to the recent FDI boom in Morocco, with transnational corporations (TNCs) from the Republic of Korea being at the forefront of that development (box 1). While the recent economic turmoil in Asia might have a temporary slowing-down effect on its FDI in Africa, developing countries from that continent, and especially the newly industrialized economies, will remain a new source of inward FDI for Africa in the long run.

### **Box 1. Morocco: sustained increase in FDI inflows**

During the 1990s, broad macroeconomic reforms have created a favourable investment climate in Morocco. The privatization programme and the liberalization of the FDI regime have also contributed to making the country more attractive to foreign investors. As a result, FDI inflows to Morocco increased from an annual average of \$231 million in 1988–1992 to an average of \$562 million in 1993–1997 (annex table 5); in 1997, they amounted to \$1.1 billion. The single largest FDI project has been undertaken by Corral (Sweden), which invested some \$380 million in the petroleum sector when buying into the privatized SAMIR corporation. Another \$270 million of FDI went into energy, while banking attracted some \$178 million of investment.

Prospects for sustained FDI inflows are promising. Recent announcements of large investment projects include a \$400 million investment by Daewoo (Republic of Korea) and ABB-CMS' investment of \$1.6 billion.

Morocco has established itself as one of the largest recipients of FDI in Africa and it is at the forefront of changing the image of Africa.

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**(Box 1, concluded)**

According to the national investment authority, the success is due to, among other things, improvements in the macroeconomic framework, the establishment of a sound institutional and legal framework for FDI (including the liberalization and simplification of administrative procedures) and the provision of incentives, as well as the modernization of the stock exchange, reforms of the banking sector, the privatization programme and the establishment of export processing zones.

*Source:* UNCTAD, based on national sources.

Following the example of developing Asia, where FDI from developing countries of the region accounted for a significant share of the rapid growth of inward FDI, some African firms, particularly but not only from South Africa, are becoming TNCs and are investing in other African countries (annex table 6). Although African TNCs remain relatively small in both number and size (their total outward FDI stock was almost \$43 billion in 1997, representing 13 per cent of total outward stocks of all developing countries in that year), they have become important regional and subregional players, demonstrating that there are firms in Africa that can compete internationally, not only through trade but also through production in foreign markets. There is a small but growing number of mergers and acquisitions between firms from South Africa and firms from other African countries, leading to the emergence of new TNCs or an increase in the size of existing ones (UNCTAD, 1997c). Among the continent's biggest TNCs are the Anglo American Industrial Corporation Ltd. and Barlow Rand Ltd. (both based in South Africa), Conserverie Chérifiennes, a Moroccan firm in the food business and Consolidated Copper Mines of Zambia (UNCTAD, 1997d).<sup>6</sup>

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### Box 2. South Africa: an emerging growth pole for southern Africa?

Ever since South Africa emerged from apartheid in 1994, hopes have been high that it could become a “growth pole” for the region, contributing positively through both trade and FDI to the development of its neighbours, especially those associated with it in the Southern African Development Community (SADC). With GDP exceeding \$129 billion in 1997, South Africa’s economy is about three times larger than the combined GDP of the other 13 SADC member countries: thus, a small increase in South Africa’s import demand from its neighbouring countries has a disproportionately large economic impact. Initially, because of South Africa’s political and economic isolation during the apartheid era, trade with its neighbours remained modest. However, after 1994, it began to expand rapidly, fuelled by increases in South Africa’s demand for primary and intermediate goods and the expansion of its manufactured production. As regards FDI, expectations were that South African TNCs could help growth in these economies through the provision of FDI capital, technology transfer, and contributions to human resource development and to export revenues to these economies. In addition, FDI flows could offset the rising trade deficits of many of South Africa’s neighbours and fuel trade further.

**Box table. South Africa’s FDI stock in selected African countries, 1993–1997**  
(Millions of dollars)

Country	1993	1994	1995	1996	1997
Botswana	34	38	73	65	60
Lesotho	17	16	42	30	40
Namibia	32	37	204	180	191
Swaziland	26	28	48	48	113
Zimbabwe	35	35	43	30	46
Others	663	746	657	643	860
Total	806	900	1 067	996	1 310

*Source:* UNCTAD, based on unpublished data provided by the South African Reserve Bank.

*Note:* FDI stock denominated in South African rand increased much more than in dollars from 1993 to 1997 because of a significant devaluation of the rand against the United States dollar since 1994.

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**(Box 2, concluded)**

So far, little information is available on the actual role of South African TNCs in the development of the region. In terms of capital contribution, South African FDI in southern Africa had already increased significantly before 1994. Most of these investments were by mining companies, often accompanied by investments by financial firms providing financial services to farmers. More recently, South African TNCs have also been investing in food processing, retailing and other services in the region. Privatization programmes are also attracting investment from South Africa. South African Breweries, for example, purchased Cervejas de Moçambique when it was privatized in 1995. All in all, the company now operates in 11 African countries and employs about 7,000 people.

The indications are that South Africa's potential as a regional growth pole through trade has not yet been fully realized. A growth pole strategy depends crucially on two factors: the first is free access to the South African market for products from neighbouring economies. In 1995, South Africa started a process of progressive import-tariff reductions in accordance with its obligations as a member of the World Trade Organization (WTO): its average import protection in manufacturing is due to be reduced from 19 per cent in 1994 to just 8 per cent in the year 2000. However, the exclusion of some sectors from liberalization will reduce the effects of this change, including its effects on neighbouring countries. As regards trade liberalization within SADC, in 1996 all member countries signed the SADC trade protocol that provides for the creation of a free trade zone among member countries by the year 2004. The protocol, however, which foresees a transition period of 8 years to complete the implementation of all agreed liberalisation measures, will come into effect only after the required number of countries have ratified it (Business Map, 1998, p. 31). The second condition is faster demand growth in South Africa. South Africa's GDP growth rates of below 4 per cent in recent years have proved to be too modest to exert a significant influence on SADC partner countries.

*Source:* UNCTAD, 1997c.

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### 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 Egypt (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.