...which can be enhanced by host countries, ...

The exploitation of that potential will also depend on African host country policies, home country initiatives and the international community. To realize the potential for increased FDI flows, more needs to be done by African governments. The measures to be taken are country-specific and depend on an individual country's political as well as economic situation and on the progress it has made in the improvement of its investment climate, in the liberalization of its FDI policies and in its promotion activities:

- Some countries will have to make every effort to create the basic conditions of a favourable investment climate, such as ensuring political and economic stability. These measures should be followed or accompanied by efforts to promote private-sector development and public-private sector dialogue to ensure the proper functioning of markets and complementarily between states and markets and to engage in more prudent macroeconomic management.

- Countries that have put these conditions in place will have to focus on the further improvement of the FDI climate, for example, on the simplifying of administrative procedures and learning from best practices elsewhere. Countries that want to do away with "red tape" might wish to follow the example of Mozambique, which commissioned a study by the International Finance Corporation (IFC) in 1996 to identify and provide an overview of the existing bureaucratic impediments (IFC, 1996). In order to further improve their regulatory environment for FDI, African countries might also consider the initiation of Investment Policy Reviews (IPRs) in collaboration with UNCTAD. Currently, six African countries (Egypt, Ethiopia, Mauritius, Uganda, the United Republic of Tanzania and Zimbabwe) are undertaking -- at various stages -- such IPRs together with UNCTAD (box 4).

- Other countries that have FDI potential but receive FDI far below what they may be able to attract might also need to focus on improving promotional efforts and look at ways of attracting FDI to particular industries or projects. Those countries that have already established promotion agencies need to review the effectiveness of their work. Unexploited investment potential on the part of new home countries should be identified and targeted in promotional efforts. This refers in particular to investors from Asia as well as to TNCs from some smaller OECD countries. It is important to note that -- as the examples of successful investment promotion agencies in Europe and Asia have shown -- it is crucial to concentrate promotional efforts on a limited number of home countries and industries.

- Since investment promotion activities are costly and most countries suffer from the same negative perception that most investors have of Africa as an investment location, African countries should consider joint efforts to attract FDI. This would include joint activities to promote the entire region as an investment location. The agencies of all SADC countries have recently started to move in this direction: at a meeting in Centurion, South Africa, in June 1998, they took the initiative to form a SADC Committee of Investment Promotion Agencies; a meeting of the SADC ministers of finance in July 1998 approved the establishment of the committee. One of the committee's tasks is supposed to be the provision of input into the SADC Finance and Investment Protocol, to bring the region in line with global provisions in investment agreements and to facilitate cross-border investment.

- As market size is one of the most important FDI determinants, effective efforts to enlarge markets through the creation of regional markets could make the continent more attractive, especially for market-seeking FDI projects. There are already some encouraging initiatives in this area: for example, the 14 member states of SADC signed a trade protocol in August 1996, which aims at creating a free trade area within eight years. East and West Africa have also made considerable progress in advancing sub-regional integration aimed at facilitating trade and investment, for example, in the framework of the Common Market for Eastern and Southern Africa (COMESA). In North Africa, too, initiatives to integrate markets

Box 4. UNCTAD's Investment Policy Reviews: the case of Egypt

UNCTAD's IPRs are intended to help governments to improve the investment climate in their countries and to familiarize the international private sector with it. The reviews are considered during a session of the UNCTAD Commission on Investment, Technology and Related Financial Issues. In the case of Egypt, the review was initiated at the request of the General Authority for Investment and the Free Zones (GAFI). With the analysis and recommendations emanating from the IPR, UNCTAD hopes to promote awareness of the investment environment, to contribute to an improvement of policies and to catalyse increased investment in Egypt which is traditionally one of the most important recipients of FDI in Africa. In 1997, for example, it was only second to Nigeria, with receiving more than $890 million of FDI inflows. The most important target sector for FDI has been manufacturing which is growing rapidly from a low base and in 1998 accounted for 50 per cent of total FDI flows. Within manufacturing, the most important industries are chemicals, building materials, engineering, food, metals and textiles. The second largest FDI sector -- both in absolute value and growth -- is tourism. Despite the problems after the Luxor incident, the Egyptian tourism industry has recovered, and the upgrading of the industry's base involves foreign investors through the privatisation programme as well as through various non-equity investment forms.

As noted in the IPR, Egypt has recently undertaken a number of measures in order to foster its role as a major recipient of FDI and increase its attractiveness as a location for foreign companies: the privatisation process has been accelerated and the capital market has been strengthened, while at the same time the Government has undertaken a number of measures at the macro-economic level to boost economic growth and increase economic stability. Also, the Government of Egypt has made efforts to set up an adequate investment regulatory framework and show commitment improving the country's business environment. The streamlining of investment entry procedures in Investment Law No. 8, enacted in 1997, is assessed in the IPR as another positive step towards a more investment-friendly environment.

/...

(Box 4, concluded)

However, as the IPR suggests, there is still room for improvement as regards FDI. This applies in particular to the attraction of export-oriented FDI. So far, most investment projects have helped to create jobs and expand output, but have contributed little to increase exports. FDI in export intensive manufacturing industries such as electronics has -- so far-- been rather low. However, according to the results of an UNCTAD survey among domestic and foreign firms located in Egypt, undertaken in the framework of the IPR, Egypt's proximity to other nearby markets, its strategic business location, its preferential access to third markets and the availability of low cost labour are seen -- in addition to other factors-- as competitive strengths of Egypt, providing the country with a significant potential to become a base for export-oriented FDI. According to the IPR, the creation of an investment framework more conducive to export-oriented FDI should be embedded in the development of an overall strategy that ensures a maximization of the economic contribution of FDI in Egypt.

The IPR suggests a number of key elements of such a strategy:

- Upgrade foreign affiliates by enhancing backward and forward linkages of domestically-oriented FDI.
- Promote the export development of formerly domestic-market oriented foreign affiliates into the regional market (Arab states and Africa).
- Tap niches in the world market by upgrading production based on traditional advantages (low labour costs) and by expanding production in high technology manufacturing and extend value scope (e.g. marketing, R&D).
- Harness fastest growing services by encouraging the introduction of services for domestic industries and by developing linkages with services TNCs and R&D development.
- Pursue technology upgrading by attracting the missing assets and promoting outward FDI from Egypt into the Middle East and North Africa region.

Source: UNCTAD, 1999.

are under way. Egypt and Morocco, for instance, have recently signed a bilateral free trade agreement and there are plans to create a free trade area including the Maghreb countries.

- Countries that attract sufficient amounts of FDI relative to their size, should perhaps pay more attention to the quality of FDI they receive, and take steps to enhance the developmental impact of FDI. In fact, their investment promotion agencies could increasingly become development agencies as well.