February 26th, 2003

Economic Development of African Countries through FDI

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Thank you Mr. Chairperson,
Your Excellency Ambassadors, Distinguished Delegates from African countries and International Institutes, Ladies and Gentleman, it is great honor for me to make a brief presentation regarding Foreign Direct Investment in African Countries and the Possibility of Economic Development of African Countries through Foreign Direct Investment, reflecting the successful Asian experiences. In my sense, the most important point for African countries is how to establish a mutually beneficial (complementary) relationship between African countries and their foreign partners in sustainable way over the long-term period?

My presentation includes the following contents.

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I. Introduction

A) Relatively stagnant Economic Development of African countries in comparison with other regions, especially, Asia

We cannot neglect that both African and Asian countries started from mostly same level of per capita GDP after the World War II.

Nowadays, Some Asian countries produce considerably high per capita GDP in terms of US dollar: for example in year 2000 Japan produced and obtained US$38,000 per person. : In Hong Kong and Singapore, they had about US$23,000 per person. : In Taiwan about US$13,000: In Korea, about US$10,000: Malaysia, about US$4,000 and in Thailand, about US$2,000

The countries with highest per capita GDP in Africa in terms of US dollars: Some oil producing countries have obtained several thousand US $ per person: South Africa. US$2,881: Tunisia, US$ 2,055

B) Moderate inward FDI and moderate economic growth in Africa

The recent prominent economic growth and development in Asian countries has been accelerated, in many cases, by inward FDI in the 1980s and 1990s.

Unfortunately, in Africa, the image of high investment risks of the countries, to some extent, have constrained positive FDI by Multinational Corporations (MNCs), especially, in manufacturing sectors.

Therefore, foreign investors in manufacturing sectors, prefer to implement the projects, which produce high profitability and promise quick returns, avoiding large-scale capital expenditure over the long-term period.

African countries should show clearly that they have improved political and economic stability, recovered from civil war and successfully adopted economic reform

C) **Location advantages of host countries in resource-based industries than in labor-intensive industries**

Many African countries have owned abundant petroleum and high value minerals, which means that they have location advantages in resource seeking FDI.

In recent years, some of them have growing and substantial scale of labor forces but their labor productivity is lower than other region, especially, than Asia, which means that they do not necessarily have location advantages in efficiency-seeking FDI

D) **How can African countries enter into the process of transformation to higher value added industries, which happened in Asia in 1980s and 1990s?**

Southeast Asian countries have successfully transformed from the economy led by natural resource export industry to the economy led by manufacturing export industry in the 1980s, through managing and utilizing well inward FDI.

The successful transformation was the result of good combination of host countries' policy to foster manufacturing export industry and Japan's aggressive FDI for building competitive export bases in Southeast Asian countries, especially, electric/electronics industry after the continuous appreciation of Yen and sever trade friction with USA and European Union. In other words, Asian success was deeply depended on the complementary relationship between Asian countries and Japanese firms. Japanese firms extended huge volume of FDI to Asian countries and exported capital goods and intermediate goods. Asian countries received financial resources with new technology and new managerial resources and exported well qualified final products and intermediate goods to Japan and other developed countries.

In the case of African countries, FDI may stimulate the development of export industry in metal products, textile, paper & wood products, rubber products and building materials, if they can build a complementary relationship with MNCs, including small and medium scale enterprises (SMEs).

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II. Outlook of FDI into African countries in comparison with Asian and Latin American Countries

A) Small share of world FDI inflow in African countries in comparison with other developing countries

- FDI in African countries: 2.3% of the world inward FDI (please see Figure 1) in 2001 by WIR2002
- FDI in Southeast and South Asia: 12.8%
- FDI in Latin American and Caribbean countries: 11.6%

Host countries' competitiveness for attracting inward FDI is depending on many factors: production cost, availability of market and profitability, political stability, investment security, predictability and transparency of laws and regulations, availability of good physical and commercial infrastructure, availability of skilled labor, availability and proximity of quality suppliers. The above figures show us that African countries should make foreign investors (MNCs including SMEs) understand the improvement of their business and investment environment.

B) Relatively limited numbers of home countries: mainly, EU countries and USA

- FDI by USA: 37%of FDI flow in the period of 1996 to 2000 from developed countries to African countries
- FDI by France: 18%

- FDI by UK: 13%

C) Concentration of FDI in Natural Resource industries
- FDI in Primary sector (mainly, Oil & Gas): 55% of total inward FDI in Africa.
- FDI in Secondary sector (mainly, Foodstuff, Steel & Iron, Metal Products): 21%
- FDI in Tertiary sector (mainly, Finance, Transportation, Commerce): 25%

The above B) and C) figures by WIR 2002 show that European and US firms have far closer economic relationship with African countries than Japanese firms, especially, in primary and tertiary sectors. Trade and Investment between Japan and African countries was relatively weak than those between Japan and other regions.

D) Japan's FDI in Africa
- 0.6% of total outward FDI flow from Japan to the world in FY 2001 and share in cumulative outflow from 1951 to 2000 was 1.6% (please see Figure 2)
- The largest recipient country: Liberia, 0.4% of the total in FY 2001 (please see Figure 3)
- The second largest country: South Africa, 0.2% (please see Figure 3)

Japan's outward FDI was mainly oriented toward North America, (Western) Europe and Asia. Latin America was the second largest destination of Japan's outward FDI, following Asia. On the other hand, Oceania, Africa and Middle East were rather minor destination for Japanese investors.

This diversification of Japan's FDI can be easily explained.

The most important objective of Japan's FDI in North America and Western Europe was to preserve and develop the local market of host countries, avoiding yen appreciation and trade friction with those countries. In other words, market-seeking FDI was prevailing in North America and Western Europe.

In the case of Japan's FDI in Asia, Japanese firms have two major motivations, which are, first, to utilize well the low production cost (efficiency-seeking FDI) and, second, to preserve and develop the local market of host countries (market-seeking FDI). In recent years, the second motivation has been more strengthened, especially, in China. Resource-seeking FDI is also traditionally popular in Asia, especially, in ASEAN countries.

In the case of Japan's FDI in Latin America, all motivations, including the motivations to preserve local market (market-seeking FDI), to utilize well the low production cost (efficiency-seeking FDI), and to preserve natural resources (resource-seeking FDI) are most important among all motivations as well.

On the other hand, Japan's FDI in Africa was mainly implemented by motivation of utilizing flag of convenience shipping and preserving the natural resources, with the recent exceptional case of FDI in South Africa' auto-parts industry. The FDI motivation in Africa is rather simple, while FDI in Asia and Latin America were rather diversified and complicated. In order to construct mutually beneficial economic relationship between African countries and Japanese firms, economic transaction, including international trade and investment, has to be deepened for each other.

III. How to promote FDI in African countries?

A) FDI motivation by MNCs in general
- Market-seeking FDI
- Efficiency-seeking FDI
- Resource-seeking FDI

B) FDI motivation by MNCs in African countries
- Mainly, resource-seeking FDI
- In some countries, efficiency-seeking FDI, for example,

in South Africa

- Future possibility of market-seeking FDI, as a result of FTA formation

C) The recent process of FDI acceleration in developing countries: impressively described in “flying geese model” but actual situation is developing beyond the model’s assumption

- Efficiency-seeking FDI in labor-intensive industries (for example, electric and electronics assembling industries)---low cost but low skilled workers are gradually transformed into higher skilled workers with higher wages in the process of the industry
- Higher wage and income in host countries through economic development accelerated by inward FDI, which produce growing local markets, growing higher value-added industry and declining labor-intensive industries
- Agglomeration of supporting industries (for example, parts suppliers) accelerated by inward FDI---the typical examples of the agglomeration is accumulation of electric/electronics parts suppliers in Malaysia, Singapore, Thailand, East China (Shanghai and Chang Jiang Delta Area) and South China (Hong Kong and Pearl River Delta Area) and also accumulation of automobile parts suppliers in Bangkok Area and Shanghai Area.
- Development of internationally competitive manufacturing industries in higher value-added industries because of location advantages of host countries in supporting industries, growing local markets, higher skilled workers and (to less extent) labor-intensive industries
- More inward FDI, which is attracted by growing competitive industries in host countries and growing local markets

- Higher wage and income in host countries through economic development accelerated by inward FDI, which produce growing local markets, growing higher -value added industries and declining labor-intensive industries

(Repeated)

- Good cycle of inward FDI and competitive higher-value added industries in host countries, which actually happened in Asia in the 1980s and 1990s

D) How to promote FDI in African countries?
- How to attract inward FDI in labor-intensive industries
- How to attract inward FDI in alternative industries, for example, natural resource industries
- How to upgrade the competitive industries to higher value added industries

IV. The Lessons from Economic Development through FDI in Asia

A) Why Asian countries can enter into the good cycle of economic development and inward FDI? It is noteworthy that, even among Asian countries, some countries are far more successful than other countries in the process of economic development through inward FDI:
   (1) Creating competitive labor-intensive industries,
   (2) Constructing good market access because of the export base in Asia by Japanese and US firms was intended for serving Japanese and Western markets,
   (3) Building well-prepared infrastructure in economic and social sectors with various form of financial cooperation, including ODA: Japan's ODA for improving the region's economic and social

infrastructure, for example, Eastern seaboard industrial park in Thailand and New Shanghai Airport in China

(4) Developing sophisticated strategies of host countries through utilizing well inward FDI for economic development of host countries

B) Establishing complementary (mutually beneficial) relationship between host countries and MNCs (multinational corporations) in Asia

C) Constructing good business (investment) environment:
   (1) Good governance,
   (2) Political and social stability,
   (3) Well-developed Infrastructure with financial and technical cooperation by developed countries,
   (4) Well-established and transparent legal framework,
   (5) Positive FDI promotion and liberalization policy as a development strategy,
   (6) Trade and FDI liberalization through regional, inter-regional and multilateral frameworks

D) Establishing target industries and target partners, which can develop competitive export industries through attracting inward FDI, and can push up per capita income and industrial/technological capacity of host countries

E) Fostering local industries and local firms in good cooperation and/or alliances with MNCs, for example, OEM, ODM, EMS enterprises in transaction with MNCs, which have internationally accepted brand names

F) How to establish R&D capabilities: It is noteworthy that basic R&D activity is not easy in Asian countries, too. However, constructing their own R&D capabilities shall be important target for African countries as well as Asian countries over the long-term period.

V. Conclusion

A) **Seeking successful development program through FDI and target industries with good partners** in each African country: I personally hope Japanese firms can be good partners with African countries. Competitive labor-intensive industry and stable exchange rate was the key of the success in Asian Miracle. Reflecting the Asian case, African countries are recommended to develop some industries, which have comparative (competitive) advantages and can create large volume of employment and can make access to the large export market over the long-term period.

B) **Inter-regional FTA as well as intra-regional FTA**, which may be effective because MNCs are spreading their business networks, including their affiliates and independent contractors, globally. They are seeking the most effective production bases globally. Responding to their needs may be an easy way for African countries to utilize well their comparative (competitive) advantages and to make good access to developed countries' market.

C) **Financial and Technical Cooperation by developed and other developing countries**, which can supply good business (investment) environment and well-prepared infrastructure. As I already explained, many Asian countries managed well the combination of FDI and ODA. I personally believe that Japan's Ministry of Foreign Affairs, Ministry of Economy, Trade and Industry, JICA, JETRO, JBIC, NEXI and all other institutions as well as Japanese firms are eager to cooperate with our African Friend. Thank you so much for your patience