SPECIAL FEATURE

FOREIGN DIRECT INVESTMENT IN AFRICA REMAINS BUOYANT, SUSTAINED BY INTEREST IN NATURAL RESOURCES

Inflows of foreign direct investment (FDI) to Africa last year remained stable, at US$ 18 billion, according to UNCTAD´s World Investment Report 2005: Transnational Corporations and the Internationalization of R&D (1) , released today. The levels were relatively high in historical terms but still a mere 3% of such investment globally.

The report features a special section on transnational corporations and the internationalization of research and development.

FDI in Africa´s natural resources was especially pronounced in 2004, buoyed by high oil and mineral prices on world markets, the report states. Investment inflows increased in 40 of the region´s 53 countries and declined in 13. North Africa attracted about 30% of the total, or US$ 5.3 billion - about the same as in 2003 - with the focus on natural resources. FDI flows to Central Africa and East Africa were also relatively stable, but West Africa boasted an increase of 14%, to US $3.6 billion. Southern Africa fell by 18%, to US$ 1 billion. Egypt saw the biggest rise on the continent, as liberalization and privatization attracted new foreign investment in a wide range of industries.

Nigeria, Angola, Equatorial Guinea and Sudan - all rich in natural resources - joined Egypt as Africa´s top FDI recipients, all of them registering inflows of more than US$ 1 billion. The five countries together accounted for almost half of African FDI in 2004 (fig.1). FDI flows to many small African countries, by contrast, especially those poor in natural resources and classified as having least developed economies, were less than US$100 million each last year. Many of these nations, especially the least developed countries (LDCs), have small domestic markets, lack skilled workers and struggle with supply capacity problems. The report finds that these difficulties have hampered some of the market-access initiatives put into place at the international level to encourage investment in export-oriented industries.

As in 2003, FDI inflows to many African countries last year were tilted towards the primary sector, particularly the petroleum industry, the report notes. The oil sector accounted for more than 60% of FDI to Angola, Egypt, Equatorial Guinea and Nigeria, and also made up large shares of such investment in Algeria, Libya and Sudan.

Spurred by higher prices for natural resources, transnational corporations (TNCs) maintained relatively high levels of investment in new exploration projects in Africa and increased their cross-border activities in mergers and acquisitions in the mining industry, says the new UNCTAD report. Several large deals were concluded in that industry, where cross-border M&As totalled US$ 3 billion last year - more than three times the 2003 total.

On the outward side, Africa´s FDI outflows more than doubled in 2004 but, at US$ 2.8 billion, remained very low by global standards. Over half that total came from South Africa, reflecting the fact that all four African TNCs on UNCTAD´s list of the top 50 TNCs based in developing countries (see UNCTAD/PRESS/PR/2005/039) are from South Africa (fig. 2).

While the persistence of critical developmental problems in many African countries has hampered their ability to attract and retain FDI, the overall situation lends itself to a cautiously positive view on the prospects for FDI in Africa. The significant rise in commodity prices that began in 2004 - and the resulting high profitability of investments in the sector - should fuel continued increases in foreign direct investment on the continent this year, the report predicts