Article

Foreign Direct Investment (FDI) in Africa: An Overview of the Key Challenges and Prospects

Nnamdi Azikiwe Journal of
Political Science (NAJOPS).
2012, Vol. 3(1)
ISSN: 2992-5924

NWOYE, Kenneth O.
Department of Political science,
Nnamdi Azikiwe University Awka. Nigeria

Abstract

Economists and governments unanimously agree these days on the crucial importance of foreign direct investment. (FDI). They see it both as the global market's "seal of approval on a country's policies and prospects, and as a force, especially in developing countries for far reaching economic change. This essay attempts to show the key challenges that underpin foreign direct investment in Africa and why it is absolutely necessary to address them.

Introduction

Economists and governments agree these days on the crucial importance and benefits of Foreign Direct Investment (FDI). They see it both as the global markets "seal of approval" on a country's policies and prospects, and as a positive force, especially in developing countries of Africa, for far reaching economic change.

This consensus is somewhat surprising when we remember that FDI remains politically sensitive in many countries of Africa. But the benefits are so great that reservations on this account have been 0increasingly overlooked. The point about FDI is that it is far more than mere "Capital"; it represents a uniquely potent bundle of capital, contacts, expertise and managerial and technological knowledge. FDI therefore, marks the cutting edge of globalization, in its most potent form (Keller 2009).

The outlook for FDI-in total, and country-by-country, is therefore a matter of great interest. Forecasting it, however, is far from easy. The determinants are often complicated and not always susceptible to simple economic measurement or analysis. However, the Economic Intelligence Unit (ElU), a sister Company

Corresponding Author:
Nwoye, Kenneth O. Department of Political Science, Nnamdi Azikiwe University, Nigeria. Email: kennwoye@yahoo. com

of the highly respected magazine, The Economist, has attempted to provide a tentative guide, no matter how imperfect (EIU, 2008). According to the bulletin, the main difficulty in analyzing FDI arises from the fact that FDI depends closely on the business and economic environment-a necessarily broad term that includes so many indicators. Some of these are political and social, and to the extent that they can be measured at all, have to be gauged through complex surveys and data analysis, which are often not available in less developed countries.

On the other hand, the World Bank (2008) observed that there is no other alternative other than to blend together different kinds of information by taking whatever evidence econometrics can yield regarding the forces that drive FDI such as size of host - country market, expected growth, input costs, geography and natural resources and the overall policy framework as well as adding conventional forecast of economic aggregates (World Bank 2008).

Regarding Africa as a whole and Sub-Saharan Africa in particular, the analysis of FDI flows has been particularly difficult due to a number of factors. First, the high level of volatility and turbulence that cuts across these countries in form of political crises and conflicts. Despite commendable improvements in peace initiatives, conflict -prone hotspots remain unusually high just as much as social and political insecurity. The second factor is pervasive corruption that has continued to pose serious challenge to governments and policy makers across the region and finally, poor governance that is characterized by high policy failure, mismanagement and outright mediocrity and incompetence (World Bank, 1992)

What is Foreign Direct Investment?

Foreign direct investment (FDI) has a long and chequered history that is uniquely associated with the evolution of industrial capitalism dating back to the 18th century Ake (1981). Therefore, foreign direct investment can be defined as direct investment that are made by a foreign country or countries in the form of foreign capital, technology and or skills with a view to establish corporate business or financial interest in another country or countries.

Peter Evans (1978) defined foreign direct investment as a complex business, industrial or commercial transaction established by a country or countries with clear intention to accumulate capital as well as expand its operations. He went further to argue that FDI is essentially the organizational embodiment of transnational capital epitomized by transnational corporations (TNC's) and their activities.

On the other hand, Onimode (1981) argued that foreign direct investment essentially represents the transplanting of transnational capital and technology from developed economies to less developed country or countries in order to expand and protect imperial interest and continued expansion of capitalism. Muller (2007:40) noted that foreign direct investment has changed so dramatically in recent years as a result of the forces of globalization driven by monopoly capitalism. In his view, the increasing integration of national economies through trade, information technology, and financial mergers, has made it quite difficult to understand the complex processes of FDI. The complexity of FDI has also attracted the interest of International Monetary Fund (IMF) and World Bank when they observed that the dynamics of globalization has altered dramatically the evolution of FDI especially in developing countries (IMF 2007 World Bank 2008). According to these organizations, FDI has taken different dimensions as a result of the emerging Asian involvement particularly China and India. They concluded that FDI will continue to play a major role in the course of globalization in view of the growing interdependent nature of the world economy. From the foregoing, it is obvious that the relationship between FDI and transnational corporations (TNC's) is an extra ordinarily complex one, being at once a relationship of fusion, complementarity and interdependence. Aja Akpuru Aja (1998) clearly recognized this complex relationship when he observed that

> When mention is made about foreign direct investment... attention is drawn to the primary role of multinational corporations. Multinational corporations have global outreach by virtue of their capacity to control large stock of global capital, technology and market ideology, which are spread to subsidiaries all over the world . The global interconnectedness of MNC's confer on them enormous power and great capacity to influence host economies (Aja Akpuru Aja 98)

Foreign Direct Investment and Africa

Overall, global FDI flows to Africa have not been particularly impressive largely as a result of global economic down turn which negatively impacted on Euro-American investment in the continent. According to the 2009 world investment report from the United Nations Commission on Trade and Development (UNCTAD), global FDI fell from 1.7 trillion dollars in 2008 to 1.2 trillion dollars in 2009 UNCTAD (2009:50)The report estimates that African FDI stood at 88billion dollars in 2008 and fell to 85 billion in 2010 (UNCTAD 2009:52).

On the other hand, the African Development Bank report of 2009 indicated that FDI flows to Africa stood at 90 billion dollars and is likely to increase up to lOObillion dollars owing to the increasing presence of Asian investors led by China, and India (AFDB, 2009:61). According to Allen (2008), the future of FDI in Africa remains mixed largely because of the turbulent nature of the continent particularly Sub-Saharan region where protracted political crises appears to be common. However, Allen concedes that the continent as a whole will see more inflow of money, resources and technology in circulation but the internal distribution and management of the investment flow will continue to be problematic due to volatility and pervasive corruption common across the continent. As tables I and III suggests, most Sub-Saharan countries are still grappling with the problems of instability occasioned by electoral, ethnic and religious crisis which often creates very difficult investment climate and complicates the process of development. For instance, Nigeria has been mired in religious crisis as a result of the activities of Islamic fundamentalist sect known as Boko Haram. Kenya on the other hand, witnessed one of the most violent post election crisis that paralyzed the country for quite some time. The same can be said of the Zimbabwean political and economic crisis which appears unending.

Selected Turbulent and volatile countries (Sub-Saharan Region)

1. Nigeria
2. Sierra-Leone
3. Chad
4. Niger
5. Zimbabwe
6. Kenya
7. DR Congo
8. Djibouti
9. Mauritania
10. Uganda
11. Guinea
12. Guinea Bissau
13. Equatorial Guinea
14. Somalia
15. Liberia
16. Madagascar
17. Ivory Coast
18. Cameroon
19. Burkina Faso
20. Central African

Source: African Report May/June, 2010:50

Selected Sub-Saharan Countries with credible Governance Quality

1. South Africa
2. Botswana
3. Ghana
4. Namibia
5. Senegal
6. Mauritius
7. Angola

Source: African report August/September, 2010:38

Selected Sub-Saharan Countries with Poor Governance Quality

1. Nigeria
2. Gabon
3. Cameroon
4. Dr Congo
5. Burkina
Faso 6.
Niger
7. Ethiopia
8. Kenya
10. Central African Republic
11. Equatorial Guinea
12. Guinea
13. Guinea Bissau
14. Zimbabwe
15. Chad
16. Somalia
17. Djibouti
18. Gambia

Source: New African August 2008:45

Selected Endemic Corrupt Countries, Unranked (Sub-Saharan Region)

1. Nigeria
2. Cameroon
3. Guinea
4. Guinea Bissau
5. Equatorial Guinea
6. Gabon
7. DR-Congo
8. Chad
9. Togo
10. Burkina Faso
11. Zimbabwe
12. Niger
13. Central Africa
Republic

Source: Adapted from Transparency International (2009)

On the other hand, Mbeki (2007) noted that the Euro-American economic crises has drawn increasing attention to the enormous investment opportunities offered by Africa as an alternative investment corridor but he doubts whether the continent is willing and able to take advantage of them. Mbeki is worried that pervasive corruption as well as high level of political and ethnic crises may continue to block foreign investors coming into the continent.

It is therefore obvious that FDI will continue to feature in Africa's overall investment profile but the question remains whether the continent is ready to take advantage of the opportunities. As table IV clearly illustrates, the continent as a whole remains embedded in rampant corruption and poorgovernar.ee.

According to Nwoye, corruption and bad governar.ee creates a symbiotic relationship that generally frustrates virtually every development policy and programme in Africa. This is because very little is being done :o effectively tackle the menace despite the existence of anti-corruption agencies in different countries. It must be emphasized that no amount of foreign investment will prove helpful in the short and long run if rampant corruption and abuse of office remain a common feature of governance in the continent. As table II shows, few African crunrries with credible governance quality have done well for themselves by creating srarle and conducive environment for foreign investment as well as improving the quality of lives of their citizens. In the pages that follow, we explore these challenges in derail.

Challenges And Prospects Of FDI

As earlier observed, FDI remains undoubtedly critical to all countries but more particularly to African countries where it is often touted as the key to economic growth, industrialization and poverty reduction. However, for FDI to help the continent and Sub-Saharan region in particular certain key challenges that impede foreign investment must be squarely addressed in the short and long run. According to Nwoye (2000), one of the greatest obstacles to attracting and sustaining FDI in Africa remains the problem of endemic corruption and mismanagement. In his view, pervasive corruption more than anything else, is the main reason why the continent is in this sorry state. Corruption therefore poses a major challenge in the sense that it scares away foreign investors and complicates the process of doing business. It also creates enormous opportunities for capital flight such that the ordinary Africans do not benefit meaningfully from foreign investment.

In a detailed report by the Emerging Market Investor (EMI), a highly respected investment bulletin, one of the key problems facing Emerging Markets particularly Africa has to do with rampant corruption and abuse of office (EMI, 2009). The bulletin indicated clearly that corruption cuts across almost all Sub-Saharan countries in varying degrees and severely indicted successive African governments for not doing much to check the menace. As if that is not bad enough, World Bank in one of its study commented in relation to Africa,

> Africa needs to deal with the cancer of corruption. In country after country, it is the people who are demanding action on this issue. They know that corruption diverts resources from the poor to the rich, increases the cost of doing business, distorts public expenditures and most important of all, deters foreign investors World Bank (2008:58)

In the light of the above observation, it is clear that corruption remains a major problem that must be addressed if any serious headway can be made in the area of attracting and sustaining FDI. Sadly, recent evidence suggests that African leaders have not really done much to fundamentally address this menace largely because they are part and parcel of the problem (hancock, 1989). For instance, in an excellent and detailed analysis of the dirty politics of African oil and gas, Shaxson (2007) has carefully documented how the continent leaders colludes with foreign transnational oil giants to ensure that their country's oil wealth remains in few hands. According to him, FDI in Africa whether in the oil and gas sector or in any other sector for that matter, has not really benefited Africans for the simple reason that the political class is irredeemably corrupt and addicted to rent seeking Shaxson (2007:20).

The second major challenge has to do with poor infrastructure common across most African countries but more acute in Sub-Saharan region. Without adequate infrastructure particularly in the area of energy supply, road, rail, and air transportation, it will be very difficult for the continent to make any solid impact in terms of attracting and sustaining FDI. It is important to recognize also that tie global economic down turn has equally affected Africa's overall economic growth especially in the area of infrastructure financing. This will certainly slow down the effort of national and regional economies to expand road and rail facilities as well as improve upon power supply. Despite increasing effort by African governments to explore domestic financing, it is still very inadequate. According to the African Development Bank (AFDB) 2009 survey of selected Sub-Saharan countries, there is still acute problem of infrastructural logistics especially in crises prone countries (AFDB 2009). Even where they exist, they are poorly maintained such that these facilities deteriorate. Outside few countries such as South Africa, Namibia, and Cape Verde, virtually all other African states are finding it extremely difficult to consistently upgrade the quality of infrastructure in their countries AFDB (2009:28).

This fact is corroborated by a recent World Bank report titled "Africa's Infrastructure: A time for Transformation". The report estimates that the continent's infrastructural needs stood at roughly 90 billion dollars a year (World Bank 2010). This is around 20% of the continent's GDP. The report also emphasized that economic growth and FDI cannot be maximized if the problem of chronic weak infrastructure is not seriously addressed urgently particularly in the area of power supply, road, rail and air transportation. Taking the case of Nigeria, one can easily appreciate the enormous damage poor infrastructure has inflicted on the country to the extent that the importation of generators is now one of the most lucrative businesses. This is in addition to the enormous health hazard to Nigerian citizens. In the other areas, such as road, rail, water and air transportation, the country is not doing better despite billions of naira that are budgeted annually to address these problems.

There is also the problem of high level of bureaucratization and its associated inefficiencies common among African countries. The fact is that the continent's bureaucracy has become so bloated and burdensome because of the fact that they are the largest employers of labour. But the overall consequence has been devastating in sense that it breeds pervasive corruption, patrimonialism and poor work ethics. Take for instance; there are over thirty procedures for clearing customs in Nigeria compared to nine in Togo, six in Cotonou and seven in Ghana (Muller 2008). This kind of clumsy administrative process is replicated in many African countries and it is even worse in ministries and parastatals. Despite numerous efforts to sanitize the public sector in the form of privatization and commercialization, it remains notoriously inefficient and lethargic thereby scaring away foreign investors.

The fundamental problem of poor governance that cuts across Africa with few exceptions largely help to engender and complicate the challenges facing FDI. According to Hancock (1989), the poverty of leadership common in Africa has to do primarily with the high level of corruption and mismanagement associated with governance since independence. He noted that successive African leaders, instead of investing in their people preferred to loot and sell off their countries national wealth to serve Euro-American interest just as they did under the slave trade. Drawing from extensive survey in the oil and gas sector in Nigeria, Angola. Equatorial Guinea and Sao Tome and Principe, he concludes that the continent is locked into one of the most devastating mercenary capitalism never seen before and that and no am runt of foreign investment can be helpful bearing in mind that the problem is internal not external. Surprisingly the World Bank (1992) has consistently shared the same view since the 1990's when it woke up to the reality that bad governance lies a: the heart of the continent's political and economic underdevelopment. According to the hank, good governance anchored on strong democratic institution and values is extremely crucial for any meaningful progress to be made in the area of attracting foreign investment and improving the overall quality of lives of citizens.

Finally, another worrisome impediment that generally scares FDI in Africa has to do with pervasive social insecurity and conflicts and its associated disabilities such as poverty, ignorance and disease. The problem of social insecurity has been a recurrent decimal in almost all the African countries since independence. With minor exceptions, the continent as a whole presents a deplorable picture of anarchy and lawlessness whether in the Arab world or Sub-Saharan region. The recent experiences across Afro-Arabic countries such as Libya, Egypt, Algeria, Sudan, is a clear pointer that the continent is not safe. Within the East and West African regions, recurrent and protracted crises have been so pervasive over the past two decades whether in the form of post election or ethno-religious crises as in Kenya, Nigeria, Democratic Republic of Congo, Rwanda, Burundi, Zimbabwe, Ethiopia, Cameroon, Liberia and many other countries.

At the root of all these problems lies the total failure of transparent and accountable leadership that has been the bane of post-colonial Africa. The poverty of leadership across the continent has resulted in enormous political and economic problems and further complicated the process of democratization in recent years

Conclusion

On balance, what are the likely prospects of FDI in Africa in the light of global realities? Taking account of the key challenges raised in the preceding pages, the overall picture of FDI remains mixed. However, there is commendable optimism in recent years regarding investment inflows into the continent. This is as a result of three key factors. The first is that some key non Western economies particularly the Asian Tigers led by China and Latin America led by Brazil have shown increasing interest in the continent. This has compelled some western investors to re-think and re-strategize their involvement in Africa. The second factor is that a new generation of progressive minded African leaders are slowly emerging by creating a more transparent, accountable and enabling environment for business to thrive. The third factor stems from the impact of Euro-American crises that forced western investors to veer their searchlight elsewhere. In this regard, the continent provides the next and last frontier for capitalist expansion, regardless of the daunting challenges.

In the past three decades, more than two thirds of countries in the Sub-Saharan region have had multi-party elections with varying degrees of success and over one third have seen average growth rates above 5% (UNDP,2007). However, the number of those in chronic poverty continues to rise especially in Sub-Saharan region. Indeed, Africa is the only continent that is currently growing poorer (UNDP, 2010).

A decade ago the countries of the world committed themselves to the Millennium Development Goals (MDG's) to halve poverty and infant and maternal mortality by 2015. On current trends, Sub-Saharan region as a whole may not meet this target throughout this decade. (UNDP, 2010)

This mixed picture of encouraging signs and enormous problems provides a basis through which the continents leaders can begin to re-think their strategies and options in the coming years. In this regard, it is obvious that African Leaders, cannot, under present circumstances, do everything. In fact, there is the urgent need for public and private sector participation in creating the enabling environment for FDI to thrive. In short, the way foreign and domestic capital synergizes can certainly impact positively on the extent which local citizens are able to participate in and benefit from FDI. Thus, the organized private sector has a crucial role to play in generating growth but, more importantly the public sector led by the government has greater responsibility to create and sustain the right institutions and policies in order to make FDI attractive and sustainable.

To do this requires addressing the complex barriers that undermine foreign investment particularly in the area of corruption, multiple taxation. Inadequate infrastructure and poor work ethics. It also requires providing sound fiscal and investment policies through appropriate legislative and regulatory framework. All these efforts should be supported by consistent emphases on laying the foundation for sustained growth by ensuring peace and security. It must be emphasized that without enduring peace and security, very little can be achieved in Africa. This entails evolving measures that support civil society-led initiative to enhance governance quality. As empirical evidence shows, the benefits of an improved investment climate can be far-reaching. For example, in Mozambique, South Africa, Angola and

Botswana, consistent improvement in the overall investment climate and governance quality over the years resulted in the doubling of FDI as a share of GDP between 1999 and 2008 (AFDB, 2010). On the other hand, weak infrastructure and poor governance across West African Sub-region adds almost 35% to the overall cost of doing business (AFDB, 2010).

More fundamentally, there is urgent need for the continent to seriously pursue, more than ever before, the idea of regional integration. As a matter of fact, the structural transformation and sustainable economic growth in Africa cannot be possible without regional integration efforts. This is where the African Development Bank (AFDB) has a major role to play, particularly in terms of promoting an enabling environment for regional partnership and entrepreneurship. The Bank should work with African governments in removing obstacles to regional integration as well as providing sound business and corporate governance culture. In short, economic integration plan should be a core objective of the bank and a distinguishing feature of its policies and programmes. For example, financing regional projects that promote self-reliant and sustainable development programmes should be a component of the bank. The bank should also support regional infrastructural projects (roads, railways, energy and water supply) and regional public goods (public health, ICT and environmental preservation). in concert with the governments, can support regional projects in infrastructural development (roads, rail ways, energy and water) and regional public goods (health, ICT and environmental preservation).

REFERENCES

African Development Bank (AFDB) (2009) Annual Economic Survey Dakar: AIDE

African Development Bank (AFDB) (2010) Annual Economic Survey Dakar: AFDB

African Report, May/June, 2010

African Report, August/September, 2010

Aja, AA. (1998) Fundamentals of Political Economy and International Relations. Owerri, Nigeria: Data Globe

Ake, C. (1981) APolitical Economy of Africa Nigeria: Long Man.

Allen, B. (2008) Investment Policies and Problems in Emerging economies.

The Economist, (2008) " Assessing foreign Direct Investment" The Economic Intelligence unit (EIU), August/September Vol 4, no 6.

Emerging market investor (EMI) (2009) "Risk Assessment Survey of Countries" 2009/2010. London: Risk Publications.

Evans, P.(1978) Dependent Development: the Alliance of Multi National, State and Local Capital in Brazil. Princeton, N. J Princeton University press.

Hancock, G., (1989) Lords of poverty London: Macmillan.

Keller, S., (2009) Globalization and foreign Direct Investment. London: verso books

Mbeki, M., (2007) Architects of poverty. Cape Town, South Africa: Picador Africa.

Muller, E., (2008) Foreign Direct Investment and Developing countries. London: Open University press.

Nwoye, K., (2005) State, Governance and the Democratic Process in Nigeria Enugu: Jendiks Publishers.

Onimode, B, (1981) Imperialism and under development in Nigeria: Macmillan Publishers.

Shaxson, N. (2007) Poisoned wells: The Dirty Politics of African oil. London: Palgrave Macmillan publishers.

United Nations Development Programme (UNDP) (2009) Human Development Report New York: Oxford University Press.

United Nations Development programme (UNDP) (2010) Human Development Report. NewYork: Oxford University Press.

UNCTAD (2010) Africa's Infrastructure: A time for transformation General: UNCTAD World Bank (2008) Foreign Direct Investment: A Survey. Washington D.C : World Bank. World Bank (1992) Governance and Development Washington D.C: World bank.