ISSN 2705-2559
E-ISSN 2705-2567

REVIEW OF WORLD INVESTMENT REPORTS: The Role of America and China Foreign Direct Investment (FDI) in Africa

BY
Bagudu, Ahmad Ibrahim: Department of Office Technology and Management, Federal Polytechnic, Bali, Taraba State; E-mail: zibagudu@yahoo.com/ 08024467448

Abstract
The main trust of this paper is to examine on the Review of World Investment Reports: The Role of America and China Foreign Direct Investment (FDI) in Africa through collecting a significant data in order to compare and contrast the foreign direct investment between the countries in Africa. The paper revealed some theoretical concepts and framework which was used for assessing and comparing Foreign Direct Investment (FDI) and it was observed the abundance of natural resources in Africa was the primary motivational factors for US and Chinese economic engagement and it effect was found to be more significant for exports of consumption and processed goods in Africa than for imports of primary goods from this same region. Finally, the paper, draws conclusion and suggestions among other, is to create an enabling environment for the foreign direct investment to most companies wanted to transact business in Africa.
Keywords: World, Investment, Reports, America/China& FDI

Introduction

The main task of this paper is collecting a significant data on World Investment Reports reviews and to compare and contrast to the role of America and China FDI in Africa since 2000. The Review of World Investment Report was carried out by transnational corporations (TNCs) as an evident in increasing internationalization of production and consequently globalization. The theoretical concepts and frameworks will be used for examining and comparing Foreign Direct Investment (FDI) in which the report may centers on challenge of development between America and China in developing Africa. Base on that Asiedu (2002) exposed that Africa was left with no option than to open up its economy to attract foreign direct investment (FDI). The World Bank reports inGeorge, Matthew, and Adetunji, (2015) ‘states that China became the second largestFDI destination after the United States of America and was classified as the second largest economy in the world’. It Foreign Direct Investment (FDI) flows to Africa increased from just $200 million in 2000 to $2.9 billion in 2011, turning China into the largest developing country investor in Africa (UNCTAD, in Busse, Erdogan, & Mühlen, 2014) .

It has been observed, the global data on FDI stock in Africa has increased dramatically, from over $33.5 billion to $246.4 billion in 2012 (UNCTAD’s Bilateral FDI Statistics 2014). Therefore we intend to use more relevant data from developed countries FDI in some poor countries of Africa with reference to concepts and context in respect to issues of economic rationality and political influence in FDI patterns.

Term Foreign Direct Investment

The terms Foreign Direct Investment referred to an investment made by a company or entity based in one country, into a company or entity based in another country. Foreign direct investments differ substantially from indirect investments such as portfolio flows, wherein overseas institutions invest in equities listed on a nation's stock exchange. It can be considered as a major stimulus to economic growth in developing countries with the ability to deal with major obstacles such shortages of financial resources, technology, and skills. The foreign direct investment has been a centre of attention for formulation policy in developing countries such as Africa. The Foreign Direct Investment (FDI) refers to investment made to acquire a lasting management interest (usually at least 10 % of voting stock) and acquiring at least 10% of equity share in an enterprise operating in a country other than the home country of the investor.

ISSN 2705-2559
E-ISSN 2705-2567

The term FDI can be broadly classify into two:

1. Greenfield investment also called "mortar and brick" investment
2. Merger and acquisition

The above forms of FDI can be applied depending on whether the investment involves mainly newly created assets or just a transfer from local to foreign firms.According to Okafor, (2015) 'assert that most investment have taken the procedure of acquisition of existing assets rather than investment in new assets as in Greenfield'. In his analysis merger and acquisitions have become a popular approach to investment of companies wanting to be protected, consolidate and advance their positions by acquiring other companies that will enhance their competitiveness. Mergers and acquisitions are defined as the acquisition of more than 10% equity share, involve in transfer of ownership from domestic to foreign hands, and do not create new productive facilities.

In contrary, a research conducted by UNCTAD for the World Investment Report, in Sahoo, (2000) revealed that, for the host country, the benefits of merger and acquisitions are lower and the risks of negative effects are greater when compared to Greenfield investments, especially at the time of entry over the short term and the research has finally concluded on Foreign Direct Investment through Mergers and acquisitions that may:

1. Correspond to a smaller productive investment than Greenfield as the financial resources do not necessarily go into increasing the capital stock
2. Less likely to transfer new or better technologies than Greenfield investment,
3. Do not generate employment at the time of entry into the host economy, and may lead to lay-offs as the acquired firm is restructured,
4. Reduce competition, and may be used deliberately to reduce or eliminate competition and
5. Over the longer term, cross-border Mergers and acquisitions are often followed by sequential investment that does increase the capital stock.

Trend of Foreign Direct (FDI) Inflow in Africa

The Chinese and American engagement in Africa has no doubt led to faster growth and poverty reduction on the continent. Per capita growth rate of the average African economy surged from 0.6% per annum in the 1990s to 2.8% in the 2000 and this can be said that African countries have strengthened their institutions and macroeconomic policies, and that is one factor in the growth acceleration (Liargovas, & Skandalis, 2012). Africa's average share of FDI inflow was $6.2 billion out of the world share of $434 billion on average as from 1991 to 2000 but as of 2001, Africa's share of global FDI inflow was $20.9 billion out of the world's share of $826 billion (Renard, 2011).

When compared using the World Development Indicatorsto other regions show that developed economies had $601 billion, developing economies $215 billion, Latin America $80 billion and Asia $113 billion and they further discovered that most of this FDI is determined by the country's availability of natural resources, institutions and markets (World Bank 2012). The researcher added that, the GDP of Africa has decreased to just 2.0% in 2009, three years after it has reached its peak of 6.6% during the last decade. This indicates that Africa is still left behind even though the GDP increased to 5.1% in 2010. UNCTAD (2011) indicated that, the Foreign Direct Investment (FDI) flows to Africa by regional trend in FDI attraction in Africa shows that Northern Africa dominates FDI attraction in 2006, 2007 and 2010; the region attracts inflow of 50%, 39.3% and 30.72% in these years.

Consequently, a research conducted by African Economic Outlook (2012) opined that, due to the widening up of the economies by countries in the region. South Africa seems to be the next region after Northern Africa in FDI attraction; the region attracts 38.96%, 33.11% and 27.45% in 2008, 2009 and 2010. Western Africa and Central Africa have also done well in attracting inflow. However, Eastern Africa seems to be left behind, the region attracts less than 10% of the total FDI inflow throughout the decade

ISSN 2705-2559
E-ISSN 2705-2567

Why FDI is Seen as Important for Africa

The Economic Report on Africa by the United Nations Economic Commission for Africa as quoted in research conducted by Wedeman, (2005) 'reported that, the advocacy of Foreign Direct Investment is the key to solving Africa's economic problems and in which IMF and the World Bank have suggested that attracting large inflows of FDI would result in economic development.

Their reasons why African countries are keen on attracting Foreign direct Investment in which it may differ to different countries. Some of the reasons are:

1. Trying to overcome scarcities of resources such as capital, entrepreneurship
2. Access to foreign markets
3. Efficient managerial techniques
4. Technological transfer and innovation
5. Employment creation.

Looking at the above, we can evaluate FDI decisions depending on a variety of characteristics of the host country, for instance Bloningen, in Liargovas, and Skandalis, (2012) argued that, foreign direct investment can be attracted in Africa as exchange rate, market size and potential, openness, political stability or risk, labour costs, trade costs, investment costs, trade deficit, human capital, tax, inflation, budget deficit, domestic investment, external debt, government consumption and energy use and the same vain Okafor, (2015) 'concord that, a strong policy and regulatory regime, appropriate institutions, good infrastructure, political and economic stability are important in attracting Foreign Direct Investment.

Gwenhamo, in Okafor, (2015) contend that the best way of identifying foreign direct investment determinant factor is through locational influence and, with such factors a country specific advantages is known, it is vital for developing host countries to direct efforts toward maintaining a stable and desirable investment climate in order to attract FDI.

Chinese Foreign Direct Investment (FDI) in Africa

Africa has long benefited from significant inflows of foreign direct investment from China. Currently, more than US$16b of China's portfolio of global FDI is based in Africa, with an increase in FDI from US$392m in 2005 to US$2.5b in 2012 (Chinese Ministry of Commerce). This course trade is much larger than FDI and the figures exclude usual credit lines in term of Chinese investment in Africa. Some authors of FDI in Africa disclosed that, China has signed agreements with several African governments in order to facilitate investment co-operation and fast-track the inflow of FDI into the continent, for instance Chinese FDI into Tanzania is expected to increase by 50% to US$3b, focusing primarily on the energy/mining sectors and by such existing agreements has led to major FDI projects in Africa (Busse, Erdogan, & Mühlen, 2014). The FDI which focused on infrastructure and mining by the China in Tanzani resulted in higher investment, as it aims to become a net exporter of liquefied natural gas (LNG), agricultural produce, minerals and industrial manufactured products. China has also agreed plans to build a new railway line in East Africa by providing financing of approximately US$3.8b for the first phase of this project.

In contrast to these positive effects, China's engagement in Africa could have negative consequences for economic growth as well. Partly due to China's strong demand for raw materials, African exports are more and more concentrated in the primary sector. This enhances the risk of encountering (or deepening) the resource curse in African countries (Carmignani and Chowdhury, in Busse, et al, 2014). while Busse and Gröning, in Sahoo, (2000) assert that exchange rate overvaluation due to increasing exports of natural resources could crowd out manufacturing products. Extracting and exporting natural resources could lead to rent-seeking and corruption. This matters as most African countries have already weak institutions and China, bound by its "non-interference" policy, and does not tie trade and investment to any reform conditions.

ISSN 2705-2559
E-ISSN 2705-2567

America Foreign Direct Investment (FDI) in Africa

There was a 20% decline in US FDI projects in Africa last year, although the country remained the second largest investor behind the United Kingdom in 2013. However, in 2013, President Obama launched the US$7b 'Power Africa' investment initiative as a potential trigger for further significant US interest in Africa. In August 2014, two of the largest private equity firms in the US, the Blackstone Group and The Carlyle Group, separately formed strategic partnerships with Dangote Industries, the African industrial conglomerate, to invest in Africa

China's and America Reported FDI Composition in Africa

China's reported FDI composition was more diversifiedthan the composition of U.S. FDI, with 19.5 percent in financial services, 16.4 percent in construction, 15.3 percent in manufacturing, and the remaining 18.2 percent in business and tech services, geological prospecting, wholesale retail, agriculture and real estate. U.S. FDI was concentrated 12 percent in finance and insurance, 5 percent in manufacturing and 25 percent in other industries.

Despite this emphasis on mining and extractive industries in 2012, according to the World Investment Report of 2014, international investors are increasingly looking to new opportunities in consumer-oriented sectors (such as information technology, foods, financial services and wholesale retail) that target the region's expanding middle class (Amy, Fenohasina, & Amadau, 2014). South Africa and Nigeria are the top recipients of Africa-bound FDI flows for China, and the U.S. The top destinations for U.S. FDI flows in the region are Nigeria with 37%, followed by South Africa with 17% and Mauritius with 16%, while for China, South Africa receives 35 percent of its flows.

Conclusion

The endorsement of this paper focused on the tasks that Foreign Direct Investmentcan be attracted in Africa as it explained some key concepts of exchange rate, market size and potential, openness, political stability or risk, labour costs, as the factors that are currently promoting growth in a significant manner in Africa and in the context of the review ofworld investment reports was stood to determine the significance of America and Chinese Foreign Direct Investment in Africa. The paper,has sought to find out the nature of such FDI inflows and their consequences likewise the trend in such inflows as was clearly examined with relevant data of World Investment Reports as of 2000 and a theoretical explanation on the nature of FDI inflows to Africa.

Suggestions

1. The policy makers should pay strong attention to the development of domestic markets as well as improving the business environment for trade through less restrictive trade policies, FDI is likely to have strong implicative effects for growth.
2. The government and stakeholder in respect to institutions and infrastructural concerns to address and reduce the transaction cost of trade as well as the ease of obtaining business permits in general.

References

African Economic Outlook. (2012). Foreign Direct Investment inflows in Africa 2005-2010.http://www.africaneconomicoutlook.org/en/data-statistics/table-10-foreign-direct-investment-2005-2010-usd-million/

Amy, C., Fenohasina, M., and Amadau, S. (2014). The U.S- Africa Leader Summit: A focus on Foreign Direct Investment. *Africa in focus, 3(12),* :http://www.brookings.edu/blogs/africa-in-focus/posts/2014/07/11-foreign-direct-investment-us-africa-leaders-summit#ftnte1

Asiedu, E. (2002). On the Determinants of Foreign Direct Investment to Developing countries: is Africa different? *World Development.* ***30****(1), pp. 107-119.*

Busse, M., Erdogan, C., and Mühlen, H. (2014). China's Impact on Africa–The Role of Trade, FDI and Aid. *FDI and Aid* [online].

George, E., Matthew, O., and Adetunji A. P.O. (2015).*What Does FDI Inflow Mean For Emerging African Economies? Measuring the Regional Effects of FDI in Africa* [online].

Liargovas, P., and Skandalis, K. (2012). Foreign Direct Investment and Trade Openness: The Case of Developing Economies. *Social Indicators Research* [online]**, 106**(2), pp. 323-331

ISSN 2705-2559
E-ISSN 2705-2567

Okafor, G. (2015). Locational Determinants of Us Outward Fdi into Sub-Saharan Africa. *Journal of Developing Areas [online], 49(1), pp. 187-205*

Qiyue, Z., Zheng, W., & Godwin, O. (2022). Understanding China's Economic Engagement in Africa: An Exploration of the FDI-Trade Nexus

Renard, M. (2011). China's Trade and FDI in Africa. *African Development Bank Group Working Paper Series* [online], 126-134

Sahoo, R.K. (2000). World Investment Report (Book Review). *Kyklos* [online]**, 53**(4), pp. 621 .

UNCTAD. (2000).World Investment Report, Cross boarder Merger and Acquisition and Development. New York and Geneva: United Nations.

UNCTAD. (2000).*World Investment Report, Non-equity Modes of International Production.* New York

Wedeman, A. (2005). Selling China: Foreign Direct Investment during the Reform Era. *China Review International* [online]**, 12**(1), pp. 126-130 .