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The Case For Foreign Direct Investment

Whether it comes from the West or rising powers like China, Foreign Direct Investment has made a significant contribution to West Africa's economic development.

By Nehad Ismail for ISN

Editor's Note: Just as West Africa has been influenced by Western models of development and governance, the region is also a beneficiary of Foreign Direct Investment (FDI). Yet as the West's geopolitical influence continues to be challenged by emerging powers such as China, West African states theoretically have even greater access to funding for infrastructural projects that seek to enhance economic development and social wellbeing. But does this open up countries like China to criticisms that FDI is nothing more than resource imperialism? Or does Beijing's increased investment in West Africa continue to bring benefits to one of the most impoverished regions of the world?

To address these questions, today we present the case 'for' and 'against' Foreign Direct Investment in West Africa. We begin with an article by Nehad Ismail arguing that FDI has made a significant contribution to the economic development of the region. Our partners at Chatham House provide us with the argument against FDI. In a Chatham House Meeting Summary from 16 February 2012, Tom Burgis suggests that FDI is a form of resource imperialism that provides little in the way of tangible benefits for West Africa.

A growing population and abundance of natural resources ensure that West Africa offers tremendous investment and economic opportunities for states and businesses alike. Prior to 2000, the combined Gross Domestic Product (GDP) for this region was estimated to be less than $250 billion. Yet within the space of a decade GDP had more than doubled to approximately $565 billion. Of fundamental importance to economic growth have been a host of economic and political reforms that have stimulated new business opportunities across West Africa. Indeed, the growth in GDP has been mirrored by a substantial rise in Foreign Direct Investment (FDI). According to a recent report by the United Nations Conference on Trade and Development (UNCTAD), West Africa attracted only $9 billion-worth of FDI in 2000. By 2012 this had climbed to $62 billion. And while Nigeria's oil industry is the main destination for FDI, other industries across West Africa benefit from outside investment in infrastructure and other business activities.

So what is FDI?

According to UNCTAD, FDI involves an investor acquiring a lasting interest in overseas enterprises and markets. In doing so, FDI allows an investor to gain an "effective voice" in the management of specific indigenous industries. It is further anticipated that FDI encourages the transfer of management skills, intellectual property, and technology to where it is needed most. Alongside job creation, FDI should also help improve the quality of goods and services produced in the economy, thereby boosting export potential. Accordingly, FDI can stimulate the adoption of international production standards and working methods.

FDI also seeks to foster stability within developing economies. Not only do foreign investors desire a safe and stable business environment in which to operate, they are also attracted to economic success stories. FDI in emerging economies suggests that they are geared for economic growth, have sizeable purchasing power and – crucially – are politically stable enough to attract investment. Consequently, a successful track record of encouraging FDI further suggests that investor countries have clear and modern legal frameworks that facilitate business. If so, then FDI enables poorer countries to exploit untapped natural resources with the technical and financial assistance of foreign investors.

From Oil to Agriculture

Despite a faltering global economy – not to mention a host of internal problems – Nigeria's oil industry remains the main destination for FDI into West Africa. In 2010, for example, the Nigerian oil sector received $4.5 billion in FDI. Yet other countries are also experiencing a rapid increase in FDI in their respective oil industries. In the case of Ghana, FDI has increased ten-fold over five years, reaching $1.5 billion in 2010. States such as Liberia and Niger have also seen dramatic increases in FDI in relation to recent oil discoveries. Accordingly, a significant proportion of FDI aims to maximize extraction of resources.

Yet FDI also benefits other domestic industries, most notably agriculture. Mali, for example, has particularly benefitted from joint ventures with countries as diverse as Libya and a public-private partnership related to the Markala sugar project. Such projects accounted for almost 40% of Mali's GDP between 2000 and 2008. They also created an estimated 25,000 jobs and contributed to the livelihoods of over 50% of Mali's combined workforce. Crops that are capable of producing biofuels, such as Jatropha, and fisheries also continue to attract significant levels of FDI.

FDI = Resource Imperialism?

There have been some dramatic changes in the sources of FDI into West Africa over the past thirty years. In 1981, for example, the United States and European Union accounted for over 40% of FDI in the region. Despite similarly robust investment from Japan and the newly-industrialized countries of South East Asia, China accounted for just 0.1% of FDI in West Africa. However, over the next three decades Asian investments in West Africa experienced a dramatic increase. Currently, Asia accounts for 37% of the total FDI projects in agriculture. By 2008, China's share of FDI into West Africa increased to 27.5% (including Hong Kong).

The emergence of Beijing as a major donor of aid and investment for Africa adds fuel to criticisms that FDI is simply a form of resource imperialism. Instead of offering tangible economic benefits to the developing world, FDI is the tool of resource-hungry countries whose own economic wellbeing also depends upon overseas markets for exports. Moreover, where there are concerns that FDI amounts to nothing more than resource imperialism it is further suggested that emerging economies become the site for great power competitions. Accordingly, both China and the United States have been accused of using FDI for geopolitical and economic gains.

Yet both Washington and Beijing are likely to reject claims that they are engaged in resource imperialism across Africa. According to a 2009 survey conducted by the US Chamber of Commerce's Africa Business Initiative, many US corporations believe that investing in African markets is still not ‘sufficiently enticing’ enough. They cite a general lack of rule of law, a relatively small consumer market and poor infrastructure as the main reasons why investing in Africa continues to lack appeal. Moreover, many US corporations point out that FDI is highly competitive and Africa is one of many regions where they may choose to invest.

It is also plausible that China would reject notions of resource imperialism by pointing to the benefits that FDI from Beijing has brought to West Africa. Chinese FDI in Africa is particularly focused upon developing the continent’s infrastructure. According to the African Development Bank Group, China has developed enterprises that specialize in the execution of public works. These companies, in turn, reflect that Chinese investments in infrastructure increased from $1 billion in 2001 to $7.5 billion by 2006. With Nigeria accounting for 34% of Beijing’s FDI in infrastructure between 2001 and 2007, West Africa has become China’s main focus for public works projects.

China’s commitment to improving West Africa’s roads, telecommunications, pipelines and other infrastructural projects also enables Beijing to export cheaper consumer products to the region. As a result of projects like the redevelopment of the Ikot Akpaden-Okoroette Road, Nigeria now has access to a variety of Chinese transport and motor vehicles. When combined with cheap exports of rice, textiles and clothing, China provides the world’s poorest continent with a stream of low-cost consumer products.

Where America Fears to Tread

Beijing may also argue that China provides FDI to a part of the world that the West has increasingly neglected. Whereas the West remains concerned about corruption and poor governance, China has continued to forge economic relations with a host of African states. By taking a less risk-adverse approach to FDI in countries deemed by the West to be lacking in democratic credentials, China has offered West Africa an alternative to dependence upon the United States and Europe. Beijing’s less restrictive approach to FDI may, therefore, prove vital to reducing poverty across West Africa and the region’s further insertion into the global economy.

Accordingly, over the past thirty years West Africa has provided a number of case studies that demonstrate that Foreign Direct Investment provides opportunities to take some of the world’s poorest regions out of poverty. Whether it originates from the West or the emerging economies of Asia, FDI has made significant improvements to the infrastructure and economic development of West Africa. FDI has also led to improvements in the quality of life of many West Africans contributing to the provision of cheaper consumer products. In this respect, FDI comes as a welcome relief for many West Africans rather than a curse.

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Editor's note:

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