Myopic reliance on natural resources:
How African countries can diversify inward FDI
by
Abdoul’ Ganiou Mijiyawa


Most of Africa’s IFDI flows occur in the natural resources sector (i.e., oil and gas, mining). This is understandable given that the continent is well endowed with natural resources. But when thus concentrated, IFDI’s positive effects in terms of job creation, technology and skills transfer, backward linkages, and economic growth are limited. Luckily, there are alternatives.

Africa has potential comparative advantages in labor-intensive manufacturing, agro-processing and such knowledge-based services as information and communication technology and finance. However, to improve their attractiveness as destinations for more diverse IFDI, African countries must address two big deficits: the infrastructure deficit and the skills deficit.

*Abdoul’ Ganiou Mijiyawa (amijiyawa@acetforafrica.org) is an economist at the African Centre for Economic Transformation (ACET). The author is grateful to Paul Jourdan, Tonia Kandiero and Xiaofang Shen for their helpful peer reviews. The views expressed herein are those of the author and not necessarily those of his affiliated institution. The views expressed by the author of this Perspective do not necessarily reflect the opinions of Columbia University or its partners and supporters. Columbia FDI Perspectives (ISSN 2158-3579) is a peer-reviewed series.

1 Both 2001 and 2011 FDI figures are from UNCTAD FDI database available at: www.unctad.org/fdistatistics.

In comparison to China and other East Asian economies, Africa lacks adequate infrastructure. Africa’s low labor costs -- as a result of its young and abundant labor force -- could attract IFDI in labor-intensive manufacturing. However, the continent’s comparative advantage of low labor costs is offset by the high cost of its bad infrastructure. Four types of infrastructure will matter the most for diversifying IFDI: power, transportation, water supply and sanitation, and telecommunications. Africa has been witnessing a significant improvement in telecommunications infrastructure thanks to mobile phones. But power, transportation and water supply continue to present major bottlenecks that easily put off potential investors in the manufacturing sector, which depends heavily on such infrastructure.

This infrastructure deficit is a huge challenge, and its impact on IFDI is just one of its many negative effects. According to Africa Infrastructure Country Diagnostic, the continent needs US$ 93 billion in annual investment to make its infrastructure adequate; but, the continent is only receiving US$ 45 billion annually (US$30 billion domestically and US$ 15 billion from external sources), leaving a gap of US$ 48 billion.

Finding funds to address the infrastructure deficit is daunting. A primary imperative is for African countries to find and tap into new sources of financing. Increasing investment from China represents one opportunity. In that sense, recent developments in China-Africa cooperation are encouraging. Indeed, during the fifth ministerial conference of the Forum on China-Africa Cooperation, the Chinese government pledged to double its funding to Africa to US$ 20 billion -- mainly to support the development of infrastructure, agriculture, manufacturing, and the development of small and medium-sized enterprises.

African governments should also continue to pursue public-private partnerships (PPPs) and regional infrastructure investments to address the continent’s infrastructure deficit.

PPPs are increasingly seen in Africa as an essential institutional mechanism to provide infrastructure. According to the World Bank’s private participation in infrastructure project database, during the period from 1996 to 2006, the total number and value of such projects in sub-Saharan Africa were 289 and US$ 40.7 billion, respectively. These figures are higher than those of many other developing regions, and PPPs have contributed to Africa’s infrastructure. However, in many African countries where public institutions are weak, institutional frameworks and state capacity should be strengthened to improve PPPs’ effectiveness.

---

The West African Gas Pipeline Project is one recent regional infrastructure project. It consists of a 681 kilometer pipeline to transport natural gas from Nigeria to Benin, Ghana and Togo. This is a good initiative and African leaders should try to replicate such projects across the continent, because regional infrastructure would enable economies of scale and reduce infrastructure costs for individual countries.

The skills deficit is the other key obstacle to diversifying IFDI. While the level of education has improved, Africa still lags behind other competing areas -- like China and India -- in terms of skills that match investors’ needs. One way to meet this challenge is to develop educational policies that emphasize the training and orientation of students toward sectors in which African countries have effective or potential comparative advantages. The three sectors mentioned earlier (agro-processing, light manufacturing, knowledge-based services) will be especially crucial for general and vocational education orientation. Though skills issues have recently started being considered in policy discussions, more efforts are needed to push the skills agenda further.

Actions in several more areas are necessary. But actions involving infrastructure and skills will make a significant difference in creating space and opportunities for IFDI to enter sectors -- other than the natural resources sector -- in African countries.

The material in this Perspective may be reprinted if accompanied by the following acknowledgment: “Abdoul’ Ganiou Mijiyawa, ‘Myopic reliance on natural resources: How African countries can diversify inward FDI,’ Columbia FDI Perspectives, No. 97, June 17, 2013. Reprinted with permission from the Vale Columbia Center on Sustainable International Investment (www.vcc.columbia.edu).” A copy should kindly be sent to the Vale Columbia Center at vcc@law.columbia.edu.

For further information, including information regarding submitting to the Perspectives, please contact: Vale Columbia Center on Sustainable International Investment, Jennifer Reimer, jreimer01@gmail.com. In addition to her role as Research Associate for the VCC, Ms. Reimer is Legal Counsel for LG Electronics’ Regional Headquarters for the Middle East and Africa.

The Vale Columbia Center on Sustainable International Investment (VCC), led by Lisa Sachs, is a joint center of Columbia Law School and the Earth Institute at Columbia University. It is the only applied research center and forum dedicated to the study, practice and discussion of sustainable international investment, through interdisciplinary research, advisory projects, multi-stakeholder dialogue, educational programs, and the development of resources and tools.

Most recent Columbia FDI Perspectives

- No. 96, Louis T. Wells, “Infrastructure for ore: Benefits and costs of a not-so-original idea,” Columbia FDI Perspectives, No. 96, June 3, 2013
- No. 95, Terutomo Ozawa, “How do consumer-focused multinational enterprises affect emerging markets?,” Columbia FDI Perspectives, May 20, 2013.”

More information about the project can be found at: http://wagpa.org/documentation.html.
• No. 92, Vid Prislan and Ruben Zandvliet, “Labor provisions in bilateral investment treaties: Does the new US Model BIT provide a template for the future?,” Columbia FDI Perspectives, April 1, 2013.
• No. 87, Ralph Alexander Lorz, “Trying to change the rules for responding to arbitration unilaterally: The proposed new framework for investor-state dispute settlement for the EU,” Columbia FDI Perspectives, January 22, 2013.

All previous FDI Perspectives are available at http://www.vcc.columbia.edu/content/fdi-perspectives.