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Press release

FDI inflows to Sub-Saharan Africa are set for a modest recovery after decline in 2006

September 5, 2007—Foreign direct investment (FDI) inflows into Sub-Saharan Africa declined to an estimated US$12bn in 2006, but are set for modest recovery in 2007-11, according to *World Investment Prospects to 2011: Foreign direct investment and the challenge of political risk.* The report, produced by the Economist Intelligence Unit in co-operation with the Columbia Program on International Investment (CPII), charts global FDI trends over the next five years, including on the basis of a global survey of more than 600 direct investors.

The 20% drop in FDI inflows in the region in 2006, compared with the 2005 record inflow of US$15bn, was due mainly to developments in South Africa. In 2005 a large part of the regional inflow was owing to several M&As in South Africa, especially the purchase of the South African bank ABSA by Barclays (UK). In 2006, in turn, large disinvestments meant that inward FDI was slightly negative for South Africa. High prices and strong global demand for commodities were the main drivers of FDI flows in other countries. Angola, Equatorial Guinea and Nigeria were the region's only significant FDI recipients and this was almost exclusively in the form of oil sector investments.

FDI inflows into Sub-Saharan Africa

	2004	2005	2006	2007	2008	2009	2010	2011
Regional inflows (US$ bn)	11.3	15.2	12.2	13.4	13.9	16.1	17.1	18.1
% of world total	1.5	1.6	0.9	0.9	1.0	1.1	1.1	1.1
% change, year on year	-15.9	34.3	-19.6	10.3	3.0	16.3	6.3	5.7
% of GDP	2.3	2.7	2.0	2.0	1.9	2.1	2.1	2.0
Angola inflows (US$ bn)	1.4	-1.3	2.2	1.8	1.7	2.1	1.9	1.8
Nigeria inflows (US$ bn)	1.9	2.0	2.5	2.0	2.1	2.1	2.1	2.3
South Africa inflows (US$ bn)	0.7	6.1	0.0	1.7	2.0	3.5	4.1	4.5

Source: *World Investment Prospects to 2011*

Commodity-driven FDI recovery

Over the medium term, growth in Sub-Saharan Africa is expected to moderate. Oil prices will remain high, but other commodity prices are expected to slip back, especially from 2007, hurting export revenue and slowing FDI into the extraction industries. Sub-Saharan Africa will enjoy only a small relative share of global FDI flows (at only 1% in 2007-11), with the bulk of inward FDI flowing to the energy and natural resource sectors. Three countries are likely to continue to dominate FDI in Sub-Saharan Africa in 2007-11: South Africa and Nigeria, followed by Angola.

In Nigeria and Angola, development of the oil and gas sector will remain the key driver of FDI inflows despite the difficult operating environments. Yet according to **Jeffrey D. Sachs**, Director of the Earth Institute at Columbia University and a contributor to the report, "it would be very desirable if FDI flows into natural resource sectors could be harnessed better than in the past to contribute to economic development." Citing the Niger Delta as a cautionary example, Professor Sachs calls for full investment transparency and mutually beneficial FDI arrangements in which foreign direct investors earn profits to compensate for risk, while host countries achieve long-term sustainable development. Sachs argues that this new global framework will mobilise investment to revamp the global energy sector and yield sustainable growth.

The attraction of South Africa as an FDI destination will remain more diverse: in addition to mineral wealth, there is also the appeal of relative financial sophistication and closer integration with the global economy. The country is predicted to maintain a steadily rising inward FDI stock in 2007-11. Moreover, South Africa – exploiting its comparative advantages such as local knowledge and geographic proximity – will continue to pursue South-South investment opportunities on the continent. The 2006 acquisition of Investcom by MTN, a South African mobile phone operator, for US$5.5bn is just one recent example.

Though investors continue to look elsewhere

African countries will continue to trail their regional peers in other parts of the world in terms of business environment attractiveness. Poor infrastructure and weak education systems, among other factors, will continue to dampen FDI flows to the region. Small, poorly integrated markets are another challenge. Many multinational corporations will still prefer to link with African markets by trading rather than investing. Faced with these disincentives, investors surveyed by the Economist Intelligence Unit remain skittish with regard to Africa (with the partial exception of the energy and natural resource industries). Only one-fifth of survey respondents viewed the region as somewhat or critically important in their company's investment plans – a figure well below that of other regions. In addition, more than half of survey respondents pointed to a higher risk of FDI protectionism over the next five years in Africa.

World Investment Prospects to 2011 is available from www.eiu.com/wip or www.cpii.columbia.edu

Copies are available for members of the press from the PR contacts below.

For further information please contact:

Economist Intelligence Unit	**Columbia University**
Joanne McKenna (PA to Editorial Director & Press Liaison: +44 (0)20 7576 8188 or joannemckenna@eiu.com Laza Kekic (Report Co-editor; Director for Country Forecasting Services): +44 (0)20 7576 8320 or lazakekic@eiu.com	James O'Neill (Director, Office of Public Affairs, Columbia Law School): +1 (212) 854 2650 or James.Oneill@law.columbia.edu Karl P. Sauvant (Report Co-editor; Executive Director of the CPII): +1 (212) 854-0689 or Karl.Sauvant@law.columbia.edu

About the Economist Intelligence Unit

The Economist Intelligence Unit is the business information arm of The Economist Group, publisher of *The Economist*. Through our global network of over 500 analysts, we continuously assess and forecast political, economic and business conditions in 195 countries. As the world's leading provider of country intelligence, we help executives make better business decisions by providing timely, reliable and impartial analysis on worldwide market trends and business strategies. More information about the Economist Intelligence Unit can be found on the Web at www.eiu.com.

About the Columbia Program on International Investment

The Columbia Program on International Investment (CPII), headed by Karl P. Sauvant, is a joint undertaking of the Columbia Law School, under Dean David M. Schizer, and The Earth Institute at Columbia University, directed by Jeffrey D. Sachs. It seeks to be a leader on issues related to foreign direct investment (FDI) in the global economy. The CPII focuses on the analysis and teaching of the implications of FDI for public policy and international investment law. Its objectives are to analyze important topical policy-oriented issues related to FDI, develop and disseminate practical approaches and solutions, and provide students with a challenging learning environment. More information about the Program can be found on the Web at www.cpii.columbia.edu.