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Foreign Direct Investment in Africa: Recent Trends Leading up to the African Continental Free Trade Area (AfCFTA)

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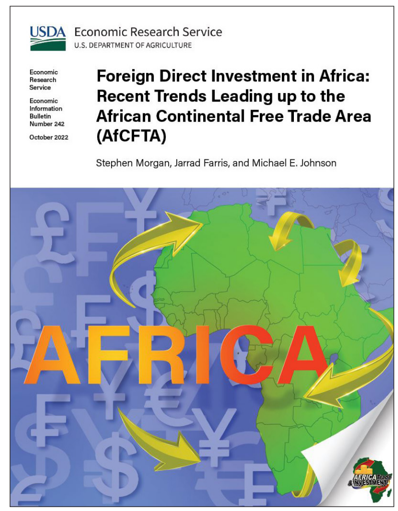

What Is the Issue?

African countries have begun trading in the African Continental Free Trade Area (AfCFTA)—which will be among the largest free trade areas in the world when fully operational. AfCFTA may present significant opportunities for increased foreign direct investment (FDI) in Africa. By reducing tariff and non-tariff barriers to trade, investors in an AfCFTA member state may have access to an expanded market for goods and services across Africa. AfCFTA may also support harmonizing existing and new regulatory requirements across borders that lower the costs of doing business across the region. Given that Africa has lagged other regions as a destination for FDI, AfCFTA may provide investors with new investment opportunities that span multiple economic sectors.

What Did the Study Find?

Results of the study highlight important emerging trends:

- Africa's share of global FDI was low and stagnant over time. African FDI inflows averaged 3 percent of the global total between 2014–18 and 2 percent in terms of total accumulated investment, or inward FDI stock. While Northern and Southern Africa historically have been important sub-regions for FDI inflows, Eastern and Western Africa recently saw increasing FDI.

- Intra-African investment, an increasingly important source of FDI, may be enhanced under AfCFTA. Investors in South Africa, Mauritius, Kenya, Togo, and Nigeria accounted for more than 75 percent of intra-Africa FDI in 2014–18, although investment funds from Mauritius may represent investments from other sources channeled through the country to benefit from its favorable taxation policies.

- Natural resource extraction-related industries including mining, oil, and metals traditionally attracted a large share of greenfield FDI inflows to Africa. Greenfield investments refer to FDI made by a foreign firm to start a new venture or subsidiary in another country. However, greenfield FDI into extractive industries declined. From 2016–20, they accounted for $109 billion or 31 percent of total greenfield investment.

- China is a leading source of greenfield FDI in Africa, investing more than $71 billion from 2016–20. U.S. investment was the fourth highest source of African greenfield FDI in 2016–20, totaling $23 billion. Fifteen countries represented nearly 80 percent of greenfield FDI announcements in Africa in 2016–20.
- Greenfield FDI in Africa's food and beverage sector is primarily from investors in United Arab Emirates, Ukraine, and the United States. Within this sector, areas with the highest levels of investment included grains and oilseeds, sugar and confectionery products, and food and beverage stores.
- U.S. direct investments in Africa changed over time, with more new funds flowing to non-mining activities. This trend also applies to new greenfield investment announcements by U.S. firms. Within the food and beverages sector, key industries that U.S. firms targeted for greenfield investments include soft drinks and ice, sugar and confectionery products, grains and oil seeds, and snack foods.

How Was the Study Conducted?

This report examines past and emerging FDI trends in Africa and discusses implications for future investment opportunities in the region in the lead-up to AfCFTA negotiations surrounding new investment protocols. Authors drew on three primary data sources due to limited details of sectoral coverage or bilateral investment flows:

- The World Bank Group Harmonized Bilateral FDI (HBFDI) Database combines global data on bilateral FDI stocks and flows from the United Nations Conference on Trade and Development (UNCTAD) with data from the Organisation for Economic Co-operation and Development (OECD), China, and the International Monetary Fund (IMF). HBFDI provides extensive coverage of external and internal FDI flows and stocks in Africa.
- For more detailed sectoral coverage of FDI in Africa, the authors analyzed deidentified project-level data on greenfield FDI provided by fDi Markets, Financial Times Limited. This database covers announced and opened greenfield FDI projects in Africa, providing information on the value and sector of the investment and the source and destination countries. While announced investments may not ultimately be fully implemented, this database provides the best estimate of intended firm investment flows.
- For the section on U.S. FDI in Africa, the authors drew on Balance of Payments and Direct Investment Position Data compiled by the U.S. Bureau of Economic Analysis to analyze sectoral trends in U.S. FDI positions in Africa.