International Journal of Current Science Research and Review
ISSN: 2581-8341
Volume 05 Issue 05 May 2022
DOI: 10.47191/ijcsrr/V5-i5-50, Impact Factor: 5.995
IJCSRR @ 2022

www.ijcsrr.org

Foreign Direct Investment and Economic Growth in Africa

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ABSTRACT: Countries need equitable, broad-based economic development if they are to recover from violent conflicts. In Africa, if the state of the economy improves and the benefits of economic growth are widely distributed, the former conflicting parties are more likely to develop a stake in peace and learn to resolve differences through mainstream political negotiations rather than through violence. If the economy falters, the struggle to control scarce resources is likely to remain one of the key strategic goals of continuing warfare in Africa. Today most countries in Africa are opening their borders and doors to foreign investment, since it is considered as an important stimulus to economic growth. This chapter generally interrogates Foreign Direct Investment and Economic Growth in Africa. It specifically examines the actors in FDI. Secondly, it assesses the factors responsible for FDI in any given country and lastly it evaluates the effects of FDI on Africa. A descriptive research design enabled secondary data to be collected. The data were analyzed qualitatively. The chapter concludes that FDI on its own is not a panacea for rapid growth and development. Recommendations in relation to FDI in developing countries have also been provided.

KEY WORDS: Africa; Economic growth; Foreign Direct Investment; Transnational Corporation.

INTRODUCTION

Foreign Direct Investment acquired an important role in the international economy after the World War Two. Foreign direct investment is considered as one of the most significant economic figures and it is associated with business enterprise and benefits that will greatly help in attaining business goals within a short period (Bray, 2010).

The presence of reputable international companies signals both to the country's own citizens and to the whole world at large that the country is now at peace and open for business. It also demonstrates the presence of security in the country. According to Bray (2010), such was the case in Bosnia when Coca Cola decided to invest in the country in 1999/2000. Hence, peace and security are necessary for any meaningful development to be realized in any country.

Foreign Direct Investment (FDI) is the act of investing a certain capital in one's chosen business enterprise that operates in foreign countries. The party that makes the investment can be a company group, business corporation or individual. The party that makes the investment is also known as parent enterprise and the party that invested is called foreign affiliate. This kind of enterprise is thus known as Transnational Corporation (UNCTAD, 2007).

FDI is increasingly considered to be an important stimulus for not only economic development but also sustainable development in developing countries (UNCTAD, 2007).Some foreign investments take the form of entirely new ventures. Others are purchases of existing businesses, or joint ventures with local or international partner companies. Joint ventures provide a means of sharing both the financial costs and the risks of the businesses as well as, sharing expertise. Foreign companies often particularly value the local knowledge and business contacts provided by their in-country partners. Foreign portfolio investment takes the form of smaller shareholdings that are not accompanied by management control. Portfolio investment has tended to imply less commitment to the host country in times of crisis, in part because it is much easier to sell shares than physical assets. However, despite its contribution towards economic development, African countries have been receiving a very small fraction of FDI. Nevertheless, with the entrance of China in African countries, FDI has been rising (Todaro, 2011). According to Todaro, the low FDI inflow to Africa is attributed to unstable governance.

FDI from a variety of different commercial sectors can be an important ingredient in economic recovery. However, FDI can never be the panacea. Foreign companies are themselves influenced by wider political and economic developments, and will scarcely invest all, if the host government fails to provide a conducive environment, or if the country is still considered to be unsafe. Furthermore, the impact of individual investments will depend on the extent to which they are managed in a conflict-sensitive manner (Bray, 2010).

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FDI has proved to be resilient during financial crisis. For instance, in the East Asian countries, such investment was remarkably stable during the global financial crises of 1997-98 (Dadush *et al*, 2000). The resilience of FDI was also evident during the Mexican crisis of 1994-95 and the Latin American debt crisis of the 1980s. This resilience could lead many developing countries to favor FDI over other forms of capital flows.

In the context of the global food prices, fuel and financial crises, foreign direct investments in land have gained increasing scope and importance in recent years. The changing global framework suggests that FDI in land may also be of high importance in the future. However, the debate about FDI in land is contentious and highly controversial. Control over production of food and other agricultural products in the countries targeted for FDI in land, and the import of these products into the investors' countries are the major interests and driving force of public and private persons and entities engaged in FDI in land. Hence, effects could be positive, if FDI in land not only support the production of food for export to the investors' countries, but also support the production for use and consumption at national level, thus improving the national balances of food and other agricultural products. Such effects, could be expected if new technologies are introduced and or capacities, which are built in the context of FDI in land. FDI deals in land may also include specific provisions for production and use of food and other items for both export to the investors' countries and local markets. The role of FDI in land is contentious because of the economic and social importance of agriculture for developing countries as well as concerns over food and nutrition security impacts and inappropriate land lease or ownership.

The study applied a descriptive research design, which enabled secondary data to be collected. The study focused mainly on developing countries, especially those in Africa. Secondary data were basically used to analyze the findings qualitatively. The data was derived from published documents, such as journals and internet articles and textbooks. The qualitative analysis involved content and theme analysis.

THEORETICAL FRAMEWORK

The findings in this chapter were guided by eclectic Theory, founded by Dunning (1973). According to Dunning, before a company becomes an international firm, first, it has to have competitive advantages in the national market. The assets that represent its core competences make the country different compared with its competitors, which give to the company the opportunity to survive in the national market and then think about internationalizing its activities in foreign markets. If it considers this more profitable, then the company has to evaluate where it wants to invest. In order to know where the company can develop its activity, it must study the macroeconomic environment that characterized the receptor countries, evaluating the viability to make business in different foreign countries. Once the company proves that the viability is positive, it is time to take the decision to invest abroad in a country of its choice.

The main hypothesis of this theory is that FDI will take place under conditions such as ownership specific advantages, location advantages and internalization advantages. Some of the ownership advantages are monopolistic, while some advantages come from innovative activities, such as technology, and knowledge. The firm must, therefore, use some foreign factors in connection to its core competences. The location advantages are keys in determining which will become host countries for the multinational firms. The location factors, according to Dunning, include economic advantages, political advantages, social and cultural advantages. The internationalization decision depends on industry characteristics and a company's own characteristics. This theory was appropriate for this study since it demonstrated why international firms invest in foreign companies and also the effects of their investment were outlined.

ACTORS IN FOREIGN DIRECT INVESTMENT

There are various actors involved in FDI who work towards achieving an investment agreement that is seen as both fair and sustainable. Such actors will be effective, if they work together and appreciate each other's point of view, their separate and mutual interests. There are those that represent international interests and the national interests. Among those that represent international interests include international companies, multilateral institutions and international NGOs. While those representing national interests include the host government, local companies, local civil society and communities (Bray, 2010).

International companies vary according to their size, sector, country, of origin, sensitivity to issues and their individual investment strategies. Examples of such companies include mobile phone companies, mineral exploration companies, international engineering

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construction companies, retail banks, and others. These companies are accountable to their shareholders, both individual and institutional shareholders (Bary, 2010).

According to Bary (2010), multilateral institutions, on the other hand, play a variety of roles in setting standards and in sharing and mitigating risk. Important examples include the International Finance Corporation (IFC), which is the World Bank's private investment arm, with a mandate to make loans to international companies investing in developing countries; The Organization for Economic Cooperation and Development (OECD). It plays an important role in setting recommended standards both for governments and private companies. It is a Paris-based association for industrialized countries, which currently has 30 member states. The United Nations agencies, whose work impinges on foreign investment. They include the UN Conference on Trade and Development (UNCTAD), which among other activities monitors annual FDI flows, The United Nations Development Programme (UNDP) which is a crisis Prevention and Recovery team, The UN Global Compact which promotes Corporate Social responsibility (CSR).

There are also a wide range of International NGOs who monitor foreign companies' activities in conflict-affected countries in accordance with their respective mandates, whether these mandates are related to peace building such as Swiss peace, human rights such as Amnesty and Human Rights Watch, Business and Human Rights Resource Centre or the environment. These organizations provide important sources of information and advice, which can be of great value to both companies and governments (Bary, 2010).

As regards actors in charge of national interests, the host government plays an essential role. According to Bary (2010), for International companies, the most important individuals and institutions include the national leader, the key ministers and their ministries, the armed forces, and the judiciary. Overall standards of governance are important. Most governments also have specialist investment promotion agencies (IPAs) whose task is to promote their country's image internationally, seek out potential investors, provide them with the information and facilities that they need and to help the government understand how to address their legitimate needs. Companies should be able to demonstrate that their activities make commercial sense, are in the wider national interest, and are therefore of indirect political benefit to the local leaders who facilitate investment.

Local companies play a variety of roles. First, if the government has failed to provide an enabling environment for local business, it is unlikely that it will be conducive to foreign investment. The success or failure of local companies is, therefore, a key indicator for external investors. Second, they will need local companies as suppliers and possibly as partners. Thirdly, the local competitors may provide a source of both legitimate and less legitimate competition (Bary, 2010).

In addition, the local civil society can be an important source of information and advice both for potential investors and for development practitioners. They highlight bureaucratic obstacles that impede entrepreneurial activity. However in conflict-affected settings, CSOs often lack organizational skills and capacity (Bary, 2010).

Bary (2010) also states that communities are the most affected by major investment projects all too often. National and regional administrations claim the right to speak and make decisions on their behalf but frequently fail to engage in any meaningful process of consultation. This leads to a violent backlash from communities, to what is seen as a failure to keep promises, such as a road blockade to prevent accessibility to the company (Bray, 2010).

FACTORS DETERMINING FDI IN AFRICA

FDI contribution to growth of any developing country is basically positive. The growth, however depends on certain factors in the host country.

According to the works of Alfaro (2003), the contribution of FDI to the growth depends on the sector of the economy where the FDI operates. According to this scholar, FDI inflow to the manufacturing sector has a positive effect on growth, whereas FDI inflow to the primary sector tends to have a negative effect on growth. For the service sector, the effect of FDI inflow is not so clear. However, an economy with a well developed financial sector gains more from FDI (Alfaro *et al*, 2003).

In addition, the host country should have a high level of economic development, as reflected in the availability of adequate infrastructure, both physical and human, and a relatively high per capita income would be beneficial to foreign investors (Mody and Srinivasan, 1998). Openness of an economy has also been found important in attracting investment.Wheeler and Mody (1992), also indicate that the removal of exchange controls has an important bearing on investor location decisions.

It can also be noted that the contribution of FDI on growth also depends on the local condition of the host country. According to Chowdhury and Mavrotas (2003), this involves human capital base in the host country and the degree of openness in the economy.

In addition, countries with a high growth can attract FDI more than countries where the economy is not in good shape (Lall, 2002). This thus implies that the growth of a country greatly influences the level of FDI in a country. For instance, according to a study done by Chowdhury and Mavrotas (2003), in Malaysia, Chile and Thailand indicated that GDP attracted FDI in Chile.
In addition, the host country market size plays an important role in attracting FDI, especially when the host-country market allows the exploitation of economies of scale for import-substituting investment (Anupam and Krishna, 2002). Besides, the cost of labor is significantly important in location considerations, and in particular, when investment is export-oriented. Investors would like to operate in countries where the government maintains liberal policies for the employment of expatriate staff. (Mody and Srinivasan, 1998). A supportive institutional environment, such as the existence of an effective and equitable legal system, and the presence of an efficient and well-functioning banking and financial system, is important for investment location decisions.
Tax incentives from governments to foreign investors have taken the form of up-front subsidies, subsidized loans linked to purchase of land and other inputs, and tax holidays. Mwlima (2003) also claimed that the incentives and tax holidays adopted by most African countries to attract FDI have not been successful. Instead, FDI has added to economic problems of some of the countries. According to him, most African countries are competing to attract FDI to a level that each country wants to give the best incentives. This sometimes leads to the situation where the incentives could be more than the gain from FDI and this can leave the country worse of than it was before the investment. For instance, Zambia is one country that has been a victim of such a case.
In addition, as regards FDI in land, some African countries have policies that encourage private and foreign participation in agricultural production because they possess large tracts of arable land which are under-cultivated and sometimes in relatively under populated areas. Expectations of high and rising level of prices of food and other agricultural commodities, support of agro-fuels and climate obligations, which can be met by forestation projects in developing countries, serve as an incentive for FDI in land (Gorgen *et al*., 2009).
Political stability of a country is one of the most important determinants of FDI in developing countries, especially in Africa (Sachs and Sievers, 1998). According to these scholars, an investor would prefer locating his affiliate in a country where market uncertainty is lower.

EFFECTS OF FDI IN AFRICA

Generally, most African countries were not initially so much receptive of FDI. They were quite contented with local investors. However, events in the international system reshaped this attitude of developing countries towards FDI. This was because most of these countries were in debt in the 1980s and access to loans/ credit for investment was not easy (Alfaro, 2003). This has, however, changed since now almost all countries are interested in FDI, hence increasing the activities of multinational enterprises (MNEs) in these countries.
According to a report by UNCTAD, the world FDI inflow was 648 billion dollars in 2004, out of which 233 billion dollars went to developing countries (United Nations, 2005). Therefore, as stated by Alfaro *et al*. (2003), FDI received more welcome by the developing countries in the 1980s due to the debt crises and also more recently because of the bad shape of the economy which they believed FDI would improve.
The increase in FDI inflow in the developing countries has also been attributed to favorable policies by the host countries towards MNEs. The multinational companies have utilized the opportunities created by the favorable government policies. They get cheaper labor in the developing countries, hence reducing the cost of production. The United Nations (2005) report revealed that the intense competitive pressure in developing countries is making many MNEs to explore new ways of improving their competitiveness. Hence some MNEs are expanding operations to the developing economies to boost sales and by rationalizing production activities with a view of reaping economies of scale and lowering production cost.
According to Mwilima (2003), African countries are keen on attracting FDI because first, they try to overcome scarcities of resources such as capital and entrepreneurship. Secondly, they want access to foreign markets, efficient managerial techniques, technological transfer, innovation and employment creation. These benefits of FDI to African countries differ from sector to sector depending on the capabilities of workers, firm size and the level of competitiveness of domestic industries.
Most African countries now have Investment Promotion Agencies (IPAs), whose roles are to attract FDI and protect MNEs that come to invest. They thus try to create a good image of the countries to potential international investors (Mwilima, 2003). Nevertheless, despite the effort of policymakers in Africa, the continent is still not attracting FDI as is supposed to be. Its share has

been declining over time. In 1979, it was 19% but this reduced to 9% in the 1980s, and to almost 3% in the 1990s (Chowdhury and Mavrotas, 2003). The rate at which it is declining is quite high. According to a report from United Nations (2005), a major part of the foreign investment to Africa is channeled to the oil and gas sector. This is because of high prices of oil and gas which increase the investor's profitability.

African's share of the world FDI is not increasing because of certain reasons such as political instabilities and inconsistent policies in most of the countries. MNEs always want to operate in an environment of limited uncertainties and Africa is a victim of these uncertainties. Basing on the scholarly work of Rogoff and Reinhart (2003), it was discovered that high inflation and unstable currencies are some of the reasons as to why Africa can not so much attract FDI. Besides, poor infrastructure in most African countries is also a hindrance to FDI inflow to Africa, since most MNEs prefer economies with good roads and uninterrupted power supply. Poor infrastructure increases the production costs (Onyeiwu and Shrestha, 2004).

A report by OECD (2002) attributes the failure of African countries in attracting FDI to factors such as unsuitable national economic policies, poor quality services, closed trade regimes and problems of political legitimacy. Alaba (2003), on the other hand, indicated that exchange rate uncertainty is also a factor that de motivated FDI in Africa.

As cited by Anupam and Krishna (2002), certain countries in Africa have greatly benefited from FDI due to sustained efforts to promote political and macroeconomic stability. They have also implemented essential structural reforms that have been the key elements in contributing to the success of attracting FDI. Strong leadership which has helped promote democracy and a firm commitment to economic reforms have been important determinants.

A large share of FDI in Africa has been in countries that are abundant in natural resources. Africa is particularly prominent as a host to FDI in mining of high-value minerals and petroleum. Angola, Botswana, Cote d'Ivoire and Nigeria are among the top ten African countries that have consistently received huge volumes of FDI (Anupam and Krishna, 2002).

Botswana, having relied on FDI for the development and export of its natural resources, advanced from the group of the world's poorest countries to the group of middle-income countries by 1990. Its resource endowment comprises mainly diamond in the Kalahari Desert, copper deposits at Selebi-Phikwe, coal, and soda ash (Anupam and Krishna, 2002).

Factors that have attracted FDI in Botwana include political stability, strong macroeconomic fundamentals, arising from the adoption of sound fiscal and monetary policies, liberalization of exchange control, the deregulation of interest rates as well as institutional development such as the establishment of a well-functioning stock market and the restructuring of the National Development Bank. Good governance and low levels of corruption, investment in human and physical capital, low cost of local labor and low tax rates. Mining is an important sector in the country and the government has reduced its direct participation in mining industry. Besides, labor in Botswana is relatively cheap and labor productivity is also high because of substantial investment in human capital. The market is also largely free of rigidities and tax rates are the lowest in the region. The tax regime was overhauled to provide appropriate incentives to attract FDI. The government also formulated the Financial Assistance Policy (FAP) to promote investment through the reduction of the cost of establishing a business. The setting up of the Selebi-Phikwe EPZ to attract export-oriented FDI, and the establishment of the National Productivity Center and the Accelerated Land Servicing Program, demonstrate the government's interest in promoting FD (Anupam and Krishna, 2002)I.

Since the mid-eighties, Uganda has achieved sustainable economic growth and a significant reduction in inflation. This is according to Anupam and Krishna (2002). This was attributed to political stability, sound macroeconomic fundamentals, protection of investment; enforcement of property rights, relaxation of capital controls and privatization. Uganda is a signatory to MIGA, the International Convention for the Settlement for Investment Disputes between states and nationals of other states (ICSID), and the Convention on the Recognition and Enforcement of Foreign Arbitral Awards. As a result, the legal and regulatory environment has been conducive to FDI. Openness to trade has allowed investment in economic activity in which the country possesses comparative advantage.

Over the period 1995 and 2000, the annual FDI inflows increased sharply in the country. This was attributed to the strong leadership provided by President Yoweri Museveni in establishing significant political stability, and his government's commitment to adopting a macro-economic stabilization and market-friendly reform program. Foreign investors wishing to participate in the privatization process have been accorded special incentives. The incentives include tax holidays up to five years, tax exemption on plant and machinery, and repatriation of up to 100 percent of dividends. Double taxation agreements have also been reached with major western countries. The adoption of liberal foreign exchange policies, a stable currency, a well-functioning stock exchange, and

macroeconomic discipline have served to enhance investor interest in the country. Basically, FDI in Uganda was triggered by broad-Based Economic Reforms (Anupam and Krishna, 2002).

FDI in Mauritius was triggered by the provision of specific incentives. It has been actively involved in the creation of export processing zones. Mauritius has had a significant investment in human capital to achieve economic progress. Sustained policies of economic diversification, liberalization, and export orientation, coupled with the country's and bilingual labor force, have attracted foreign investment (Anupam and Krishna, 2002). The main determining factors for FDI include political stability, sustained economic reform and macroeconomic stability, bilingual, skilled, and cheap labor force, good quality infrastructure, creation of EPZs and preferential access to EU and the US.

Since the early 1980s, Mauritius has enjoyed remarkable success in expanding its manufacturing industry and export base, because a strategy of export-oriented manufacturing was introduced and subsequently pursued with a high degree of commitment and consistency. There was also a major effort to attract FDI from Hong Kong, especially in the textile industry, and later on from Europe, and investors were given various incentives, such as import duty exemptions and zero taxation of dividends, if they located their subsidiaries in the country. As a result, Mauritius was successful in attracting significant export-oriented foreign investment (Anupam and Krushna, 2002).

The evolution of a clear consensus among the main political parties on the broad thrust of economic reform and liberalization and on clearly articulated policies have been favorable to FDI. There is also the low cost of skilled labor and the physical infrastructure, a sound legal system for dispute settlement and transparent accounting practices geared to annual reporting. Furthermore, the complete removal of exchange controls has facilitated FDI inflows (Anupam and Krishna, 2002).

In Lesotho, foreign investment was triggered by locational advantages. A robust overall macroeconomic situation through most of the 1990s has contributed to economic stability, which in turn has been partially responsible for political and social stability. The Lesotho Highlands Water Project (LHWP), which was set up to exploit and export water, accounted for about 90% of total foreign investment between 1990/91 to 1995/96. The project resulted in an increase of foreign-financed construction activity (Anupam and Krishna, 2002).

Foreign private investment has played an important role following the authorities' gradual shift toward a more outward-looking strategy, supported by a broad range of efforts and incentives to attract foreign investors. The beneficial effects of proximity to South Africa when it faced economic sanctions and the preferential trade access available to firms located in Lesotho also contributed significantly to its success in attracting foreign investment. The main determinants of FDI in Lesotho include political stability, sound macroeconomic stance, heap, disciplined, and skilled labor force, a proximate entry point for investors to cater to the South African market and generous provision of tax incentives and a strong investment promotion program (Anupam and Krishna, 2002).

FDI has both negative and positive effects on any country. Foreign Direct Investment can make a positive contribution to a host country's economy by supplying capital, technology and management of resources that would otherwise not be available. Such resource transfer can stimulate the economic growth of the host economy (Hill, 2000).

International companies have greater financial resources than their local counterparts. These funds might be available from internal company sources, or, may borrow from capital markets (Hill, 2000). MNEs invest in long-term projects. The free flow of capital across nations allows capital to seek the highest rate of return. Bosworth and Collins (1999) argue that once capital inflows take the form of FDI, this leads to domestic investment. Moreover, Bosworth and Collins (1999) state that FDI is complementary to domestic investment. According to Feldstein (2000), there are a number of advantages that are related with unrestricted capital flows to developing countries. First, the global integration of capital markets can contribute to the spread of best practices of corporate governance and legal traditions. In addition, the global mobility of capital limits the ability of governments in developing countries to pursue bad policies.

The crucial role played by the technological progress in the economic growth is now widely accepted (Romer, 1994).The investors bring specialist expertise not only in the form of technological know-how, but also in areas such as international marketing. This technological know-how greatly stimulates a country's economic development and industrialization. Technologies that are transferred to developing countries in connection with FDI tend to be more modern, and environmentally cleaner, than what is locally available. Besides, local initiation, employment, turnover and supply-chain requirements have led to more general environmental improvements in the host country. Generally, FDI allows the transfer of technology that cannot be achieved through financial investments or trade in goods and services.

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IJCSRR @ 2022

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By transferring knowledge, FDI increases the existing stock of knowledge in the host country through labor training, transfer of skills, and the transfer of new managerial and organizational practice. Beneficial spin-off effects arise when local personnel who are trained to occupy managerial, financial and technical posts in the subsidiary of a foreign MNE leave the firm and help to establish local firms. Similar benefits may arise if the superior management skills of a foreign MNE stimulate local suppliers, distributors and competitors to improve their own management skills (Romer, 1994).

Workers gain new skills through training. According to Lall and Streeten (1977) there are three kinds of managerial skills. They include managerial efficiency in operations arising from better training and higher standards. There will also be entrepreneurial capability in seeking out investment opportunities. Lastly, there are externalities arising from training received by employees, such as technical executive, accounting, and many more.

In countries where capital is relatively scarce but labor is abundant, the creation of employment opportunities is one of the most prominent impacts of FDI. The direct effects arise when MNE employs a number of host country citizens. Whereas the indirect effects arise when jobs are created in local suppliers as a result of the investment and when jobs are created because of increased local spending by employees of the MNE. Recipients often gain employee training in the course of operating the new businesses, which contributes to human capital development in the host country, which is the competence and knowledge of those able to perform labor, known as workforce. The attributes gained by training and sharing experience would increase the education and overall human capital of a country. A country with FDI can thus benefit greatly by developing its human resources while maintaining ownership. In addition, FDI creates new jobs, as investors build new companies in the host country. This creates new opportunities. It also leads to an increase in income and more buying of power to the person, which in turn leads to an economic boost (Lall and Streeten, 1977).

The domestic private sector can benefit by entering into business relationships supplying inputs to these new market entrants (backward linkages) or processing a foreign investor's products (forward linkages). By promoting both backward and forward production connection with domestic industries and other sectors, for instance, through subcontracting systems between a foreign firm and semi-finished goods to the foreign firm, extra jobs are created ultimately, thus encouraging further economic activity (Lall and Streeten, 1977).

According to Nzomo (1971), in Kenya FDI made a modest contribution to the total employment creation. According to Aaron (1999) states that FDI was likely directly responsible for 26 million jobs in developing countries worldwide, by 1998.

There are three potential balance of payments consequences of FDI in developing countries. First, when an MNE establishes a foreign subsidiary, the capital account of the host country benefits from the initial capital inflow. Secondly, if the FDI is a substitute for imports of goods or services, it can improve the current account of the host country's balance of payment. A third potential benefit to the host country's balance of payment arises when the MNE uses a foreign subsidiary to export goods and services to other countries (Ramachandran, *et al,* 2005).

Besides, the profits generated by FDI contribute to corporate tax revenues in the host country.FDI can reduce the disparity between revenues and costs. With such, countries will be able to make sure that production costs are the same and can be sold easily. It is also important to note that FDI increases the target country's income. With more jobs and higher wages, the national income normally increases. As a result economic growth is spurred. According to a report by Ramachandran *et al* (2005), having studied three countries in Africa, (Kenya, Tanzania and Uganda), it was discovered that the percentage of export that is from MNEs is far much more than the one from local investors. This shows that FDI contributes more to GDP than local investments in the three countries. A report by OECD (2002) also shows that FDI in Africa has increased efficiency of resources and raised productivity in most African countries.FDI basically has the ability to reduce the disparity between revenues and cost. This thus ensures same production costs and the goods can easily be sold. Countries which invite FDI can gain a greater foot on economy by getting access to a wider global market.

FDI can have a great contribution to economic growth in developing countries by supporting export growth of the countries. Export growth stimulates economic growth, since a country's openness offers many benefits, including access to global market and technology. In cases where intermediate goods are imported from outside the host economy, efficiency-seeking FDI will increase export as well as imports. The overall impact will be an improvement in trade balance in the long run. FDI is basically a vital engine for export growth in developing countries (Balasubramanyam *et al*, 1996). According to Blomstrom and Kokko (1996), global companies have played an important role in export growth in their host countries. Nevertheless, the precise nature of the impact

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varies between industries and countries. By providing the export distribution networks and the information needed to enter foreign markets, FDI can establish a niche for domestic firms to export (Markusen, Venables, 1999).

Beyond the standard gains from trade, FDI inflows can provide dynamic gains from technology transfer and skill-building. These benefits are especially important in developing countries where foreign technology and managerial expertise are lacking.

According to an OECD report, (2002), the presence of foreign enterprises may greatly assist economic development by spurring domestic competition and thereby leading eventually to higher productivity, lower prices and more efficient resource allocation. Increased competition tends to stimulate capital investments by firms in plant and equipment, as they struggle to gain an edge over their rivals. FDI's impact on competition in domestic markets may be particularly important in the case of services, such as telecommunication, retailing and many financial services, where exporting is often not an option because the service has to be produced where it is delivered. FDI hence, can promote competition in the domestic input market.

According to a report by UNCTAD (2009), if a responsible investor interested in longer term sustainable development and benefits for both the investors and local people and society as a whole concludes fair contract farming procedures with complementary measures such as access to technology, inputs and markets, this allows increases in productivity and income that would then ideally be invested in further improvements of the food and nutrition situation of all household members. In addition, in neighboring rural and also in urban areas, through backward and forward linkages, FDI in land leads to multiplier effects of increased employment opportunities and incomes of people in the investment region (UNCTAD, 2009). FDI in land and/ or agriculture help support and develop rural areas in developing countries that are the home of a majority of poor and hungry people in the world and still have untapped development potentials available (UNCTAD, 2009). Countries receiving FDI do experience positive effects. First, there is availability of food. According to UNCTAD (2009), the investments are likely to increase the total production of certain crops, even though much of it would be for export. The investors' involvement may also have a positive impact on the production of food crops. In particular, learning effects and productivity gains to local farmers, resulting from the transfer of agricultural technology, modern management techniques and knowledge of supply chain management can improve the capacity of local agricultural producers.

Secondly, FDI leads to access to food. If a more productive agricultural industry can be used to boost the development process, then rising urban and rural incomes will improve access to food. If investors largely export the crops, they require infrastructure connecting producing regions to ports. This helps improve the physical access to food for urban areas and to rural areas as well if there is a shortage which can be resolved through imports or intra-country shipments. In addition, FDI in land ensures stability of supply. According to UNCTAD (2009), depending on the economy, diversification of agriculture will lead to a spillover effect on supply stability. Depending on government policies, the entry by agriculture-related investors, such as manufacturers and supermarkets into the domestic value chain may lead to enhanced stability of supply. On the other hand, agribusiness investors can introduce higher quality and safety standards and associated practices. Their involvement in agricultural production and the domestic value chain has a number of spillovers to local farmers and other companies such as those related to quality control, food standards and consumption patterns.

In addition, they also contribute to local transport and communications infrastructure, either by the nature of their own businesses, as the telecommunication companies, or because they need to build roads to service their own operations, as is commonly the case with natural resources companies; or as part of a wider agreement with the government. For instance, there have been many recent agreements between Chinese companies and African governments to develop local infrastructure such as roads and transport communications (UNCTAD, 2009).

In spite of the many positive effects of FDI, it has also contributed to some negative effects. First, the net benefits from FDI do not accrue automatically. Recognition of the economic benefits afforded by freedom of capital movements sometimes clash with concerns about loss of national sovereignty and other possible adverse consequences. FDI has historically given rise to these conflicting views since it involves a controlling stake by often large MNEs over which domestic governments have little power. In small economies, large foreign companies can and often do abuse their dominant market positions. FDI is thus not always in the host country's best interest (Graham and Krugman, 1995).

According to Hill (2000), not all the new jobs created by FDI represent net additions in employment. High unemployment in some developing countries represents the biggest economic problem and it has a direct effect on low economic growth. FDI cannot significantly influence the employment in the country, neither in scope, nor in quality. Besides, governments sometimes worry that

the subsidiaries of foreign MNEs may have greater economic power than local competitors. If it is a part of a large international organization, the foreign MNEs may be able to draw on funds generated elsewhere to subsidize its costs in the host market, which would drive local companies out of business and allow the firm to monopolize the market.

There are also instances when FDI is geared toward serving domestic markets protected by high tariff. Under these circumstances, FDI may strengthen lobbying efforts to perpetuate the existing misallocation of resources. There could also be a loss of domestic competition arising from foreign acquisitions leading to a consolidation of domestic producers, through either takeovers or corporate failures (Hill. 2000).

Activities of MNEs can displace local firms and this makes it hard for these local firms to compete with the foreign firms, thereby reducing the growth of local firms (Jones, 1996). Besides, failure to regulate the MNEs by the host country serves as a source of capital being siphoned from the developing countries to the developed ones (Jones, 1996).

The first effect set against the initial capital inflow that comes with FDI must be the subsequent outflow of earnings from the foreign subsidiary to its parent company. Such outflows show up as a debit on the capital account. Secondly, when a foreign subsidiary imports a substantial number of inputs from abroad, this results in a debit on the current account of the host country's balance of payment (Hill, 2000).

In addition, FDI can occasionally affect exchange rates to the advantage of one country and the detriment of another. If one invests in some foreign countries, it is sometimes more expensive than when one exports goods. It is thus imperative to prepare sufficient money to set up one's operations. Many third-world countries, or at least those with a history of colonialism, worry that FDI would result in some kind of modern day economic colonialism, which exposes host countries and leaves them vulnerable to foreign companies' exploitations (Hill, 2000).

Local enforcement of environmental protection legislation that is negligent or weak in relation to foreign firms has led to disastrous consequences in the developing countries. FDI can cause large scale environmental damage, especially in the mining sector, where there can be a lot of lane dereliction (Bora, 2002).

The working conditions of workers in firms sponsored by FDI have also been a great concern. The presence of sweatshops in some countries, which subject laborers, who are sometimes child laborers, to dangerous, sub-human working conditions, often in violation of local workplace regulations, is a serious issue. Governments on the other hand minimize the enforcement of workplace regulations in order to attract FDI. Although multinationals pay their workers more than their local competitors, they however abuse their workers in sweatshop conditions (Brown, *et al,* 2004).

The most important progress in many developing and transition economies are large amount of inflow of FDI and privatization of the state-owned companies across different sectors. Privatization has been a significant revenue earner and a major channel for foreign direct investment, which in turn is a source of benefits. However, progress in development has generally been slower. When it comes to insider privatization (people already in the firm at the time of sale), there is a problem. They have little incentive to implement changes. This reduces the potential interest of outside investors (Zinnes, *et al*, 2001).

According to Brown *et al* (2004), the security arrangements of large projects in high-risk areas are particularly sensitive. The government security forces that are deployed to protect strategic assets are part of official command structures that operate independently of the companies concerned. Nevertheless, the companies can scarcely avoid being associated with the way that these security forces behave. In countries such as Niger, Burma, Sudan and Colombia, there have been cases where the companies have been accused of complicity in human rights abuses committed by government or private security forces.

FDI may not necessarily benefit the host country. As demonstrated by Razin, *et al*, (1999), through FDI, foreign investors gain crucial inside information about their productivity of the firms under their control. This gives them an informational advantage. As a result of this, foreign direct investors will tend to retain high-productivity firms under their ownership and control and sell low-productivity firms to the uninformed savers. This process may lead to overinvestment by foreign direct investors.

In addition, excessive leverage can also limit the benefits of FDI. The domestic investment undertaken by FDI establishments is heavily leveraged owing to borrowing in the domestic credit market. As a result, the fraction of domestic investment actually financed by foreign savings through FDI flows may not be as large as it seems, and the size of the gains from FDI may be reduced by the domestic borrowing done by foreign owned firms. In most instances, FDI focuses its resources elsewhere other than the investor's home country. This sometimes hinders domestic investment. FDI is also very risky because political issues in other

countries can instantly change. Besides, political changes can also lead to expropriation, which is a scenario where the government will have control over property and assets (Razin *et al,* 1999).

There is the danger that the involvement of big investors may adversely affect smallholders or other farmers, either through direct competition in product markets or through alternative uses for land, water and other resources. For instance, if the large companies get involved in agro-fuel production or food crops for export, thereby reducing the volume of food supply available for domestic consumption. As indicated by UNCTAD (2009), monoculture production often practiced by big investors can lead to greater risk from disease and natural disasters, thus affecting stability of supply.

FDI in land can also lead to negative outcomes and impacts on people, communities and societies as a whole. Today, FDI in land are characterized by lack of transparency and information, high risk of corruption at different levels, and unequally distributed bargaining power among different stakeholders involved. In addition, an increase in exports of food and other agricultural products from lands under FDI runs the risk of further aggravating the food insecurity situation of the population, if these exports cannot be compensated by lower price imports. People in the rural areas are the most directly affected by FDI in land because of their direct link to and dependence on land for their livelihoods (UNCTAD, 2009).

Additional concerns are raised when the investment-receiving country itself is food insecure. Even if investments increase aggregate food supplies, this does not automatically imply that domestic food availability will increase, especially when produced food is exported to the investing country. Local food availability could even further decrease if land and water resources are directed to and used by the investors at the expense of domestic smallholders' production (UNCTAD, 2009).

CONCLUSION AND RECOMMENDATIONS

Generally, the MNEs have the financial capability to invest in large plants. This is a challenge to local investors since they have capital for huge investments. However, it is important to note that FDI on its own is not a panacea for rapid growth and development. Countries in Africa therefore need to put in place a comprehensive development strategy, which includes being open to trade and FDI policymakers look at FDI as a primary source of funds. Africa, therefore need massive investments to sustain high quality economic growth, especially in the energy and infrastructure sectors. There is no doubt that FDI has created tremendous opportunities for development and has also helped to boost the performance of local firms, as well as the globalization of some of them.

Africa on the other hand, is quite a rich region in natural resources. However, a lot of reinforcement needs to be done in order for Africa to attract a large FDI flow. Political stability is vital when it comes to FDI attraction. Besides, a well designed policy framework to attract FDI into Africa is essential for economic growth.

There is also need for policy makers to ensure that the benefits of both domestic and foreign investment are shared equally. They also need to ensure that FDI does not fuel conflict such as generating tensions between rival social groups. In addition, they need to promote sensitive entrepreneurship and help tackle unnecessary bureaucratic obstacles to new entrepreneurs, whether from within the country or abroad.

Overall, if the African continent wants to increase its share of FDI, there must be political stability, good infrastructures and economic stability. Care should also be taken when a country wishes to attract FDI so that it is directed to the most important sector.

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International Journal of Current Science Research and Review
ISSN: 2581-8341
Volume 05 Issue 05 May 2022
DOI: 10.47191/ijcsrr/V5-i5-50, Impact Factor: 5.995
IJCSRR @ 2022

www.ijcsrr.org

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Cite this Article: Stella Wasike (2022). Foreign Direct Investment and Economic Growth in Africa. International Journal of Current Science Research and Review, 5(5), 1793-1804