21st Century Foreign Direct Investment (FDI) to West Africa; The trade-off effects - GITFiC Probes

This month's Research Paper briefly focuses on Ghana, Nigeria, Cote d'Ivoire and Sierra Leone

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ii. Historical trends of FDI in Nigeria
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Introduction

While a country's GDP level or income level determines its rank in the global classification of whether it is experiencing a growth trajectory or not, economic development includes other determinants that aim at improving the standard of living of its citizens. The unbiased argument to accelerate growth to development is to monitor the trade-off between the merits and demerits of various economic indicators. This is a holistic debate needed not to be veered off by global, continental, and national leaders.

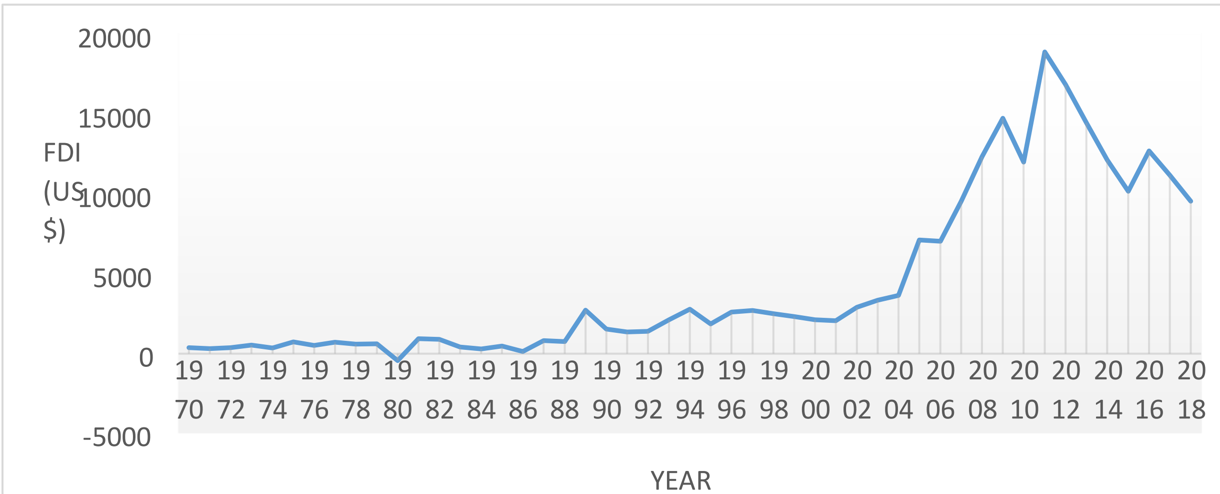
West Africa, a sub-region in sub-Saharan Africa (SSA) is made up of emerging economies thriving to achieve steady-state capital just like the developed economies such as the United States and the Asian giant, China. However, the sub-region spends more than it can save, making external assistance a fulcrum that supplements the survival of the sub-region. The open economy syndrome has birthed trade openness – an engine to present-day economic growth where trade across oceans is possible. Therefore, companies in developed regions are free to relocate part of their plant to settle in another country, preferably less developed countries – foreign direct investment (FDI). With many West African countries unable to raise enough capital domestically, foreign direct investment presents a decent alternative to serve as a supplementary source for the inadequate local resources.

West Africa has emerged as the highest recipient of FDI in SSA with a record average of US$9.2billion between 2010 and 2020 according to United Nations Conference on Trade and Industry (UNCTAD) dataset 2019. The shocking update, very concerning to the skeptics of international trade, is the fact that FDI to the sub-region has been falling since 2011. This is worrying, especially, with the emergence of the Africa Continental Free Trade Area Agreement (AfCFTAA) very promising to attract more investment (UNCTAD, 2019). Unlike foreign aid where assistance to developing economies through official development assistance (ODA) and other forms of foreign aid are attached with trade strings that do not allow the recipient nation to ascertain full benefits, FDI, on the other hand, comes with a decent alternative in closing the financial gap between the developed and the developing economies (Akonnor, 2018).

It is factual that most developing economies like West Africa have, incessantly, focused on the advantages of FDI pointing to its contribution directly or indirectly to gross domestic product (GDP). Aside from the numerous merits thought of by the host economies, the interesting question is what is the motive behind the parent country's agenda to relocate part of their plant to less developed economies- imposing multinational corporation interest against host country benefits; the gap needed to be filled. This, notwithstanding, has been an ancient phenomenon that has also grown to become the two main schools of thought – The capitalists and the socialists. While the capitalists hold the assertion that FDI inflow is a major component of a growing economy's success, the imperial socialists believe that it is a fictitious attempt by developed economies to outweigh the developing economies thereby instituting anti-FDI policies and limit inflows at the time needed the most by the developing economies.

It is worth noting that from 1999 to 2018, the West Africa sub-region attracted the second-highest FDI inflow to Africa, on average US$9 billion, which accounts for 2.2% as a share of GDP (UNCTAD database 2019). Again, between 1999 and 2004, FDI, as a share of GDP, was fairly constant, roughly floating below 2%, but became irregular, albeit staying above pre-2005 levels, until 2011 when the sub-region registered its highest FDI inflow yet (US$18 billion which represented 3.3% of GDP). Since then, FDI inflow has virtually been falling. In fact, this can be attributed to the outbreak of Ebola and the risk of instability related to elections in Nigeria coupled with the dispute between the government and some Multinational Enterprises (MNEs) around the period under review (UNCTAD, 2019). Interestingly, there is a stark difference among FDI recipients within the sub-region. The top five recipient countries from 1999 to 2018 are Nigeria (49.6%), Ghana (19.7%), Cote d'Ivoire (4.5%), Niger (4.2%), and Liberia (3.7%) in terms of value. These five countries, together, enjoy 82% of the FDI to the sub-region and most of which are rich in mineral and natural resources. For instance, in 2018, Ghana's US$2.9 billion FDI inflow (the highest in the sub-region for that year) was attributed to investment in the Sanko gas field and Asanko Gold Ghana Limited by Eni Group and Gold Field Limited respectively, while Nigeria, the largest oil producer in the sub-region, enjoyed reinvestment earnings by major oil companies (UNCTAD, 2019).

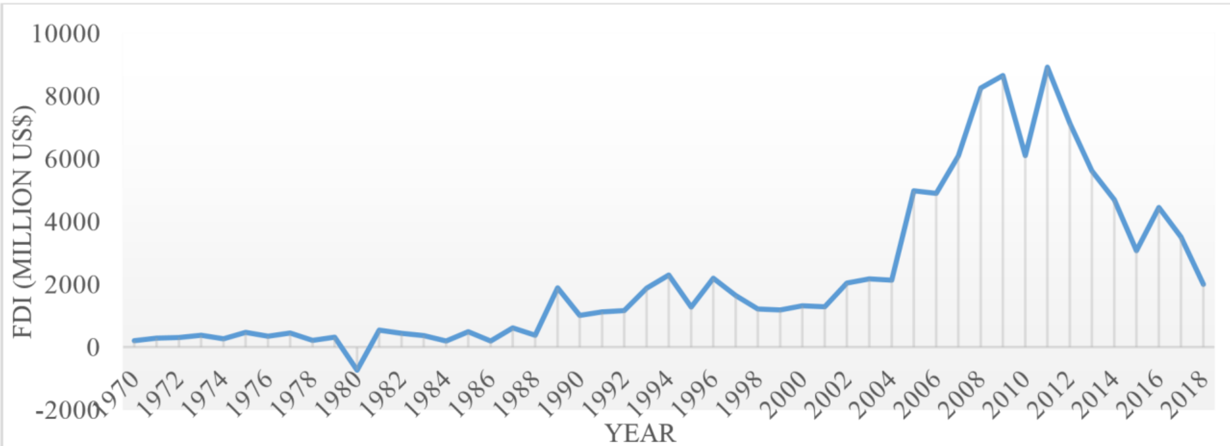
Overview of West Africa's net FDI-inflow



The trend in West Africa's FDI-inflow for the period of 1970-2018 in millions US$ using data from UNCTAD

While FDI inflow has steadily increased since 1970, the various economic reforms and structural adjustments stabilised the **West African** economy. The 2000s saw a major improvement in West Africa's FDI. However, inflow to the sub-region has received a sharp reduction between 2010 and 2020 recording an average reduction in the sub-region's share of FDI to GDP by 49 percent. This has not shown any lucrative outlook for the sub-region, especially, in the era that the creation of the Africa Free Trade Area agenda is on course. However, West Africa is still the highest recipient of FDI among the sub-regions in SSA placing second in Africa. Nigeria, nicknamed the economic giant in West Africa receives the highest FDI inflow with an average record of US$4billion between 2008 and 2020. Ghana follows with US$2billion ahead of Cote d'Ivoire who recorded 400million with Guinea Bissau being the least in the sub-region with a record of around US$13million (UNCTAD 2019)

FDI trend in Nigeria



Trends in Nigeria's FDI Inflow in Millions of US$ (1970-2018) using data from UNCTAD's dataset

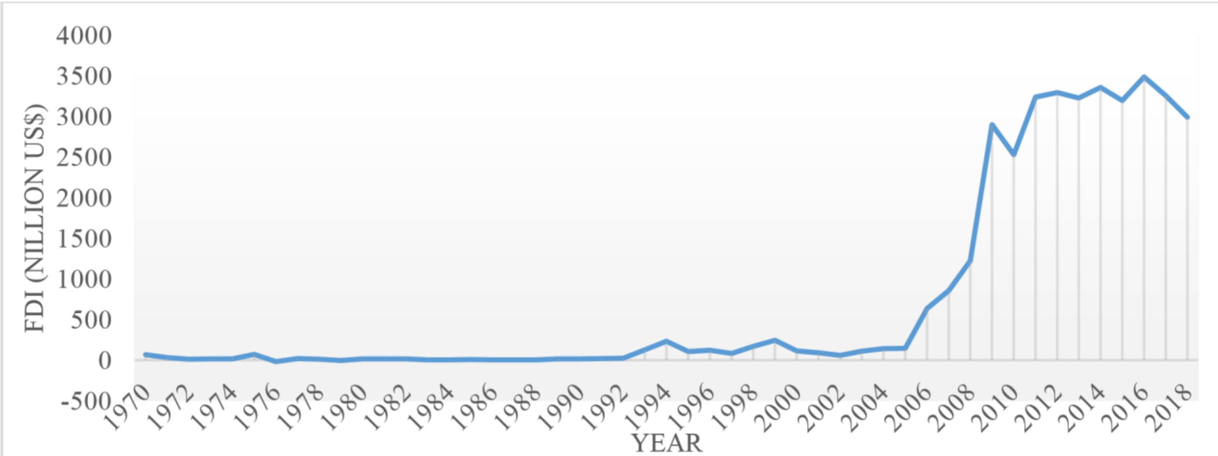
Nigeria has emerged as the biggest economy in West Africa not only because of its oil production but also its general economic activity. Mostly known for its huge extractive sector, Nigeria has been the leading producer of crude oil in West Africa for over 4 decades. This places Nigeria ahead of its counterparts in the sub-region, attracting the highest number and volume of multinationals like Exxon Mobil, Total, Shell, Statoil, and others that invest in West Africa.

Nigeria is also characterised by its huge private economy (The World Bank Nigeria 2019). Again, the Federal government of Nigeria has also watered the investment grounds for multinationals that invest in various sectors of the economy – according to the Nigeria Investment Commission, any multinational that invest in Nigeria's agriculture economy is not restricted to any capital allowance while companies investing in Nigeria's hard mineral has at least three-year tax holiday to operate within the Nigerian economy. This, among other favourable factors, has seen Nigeria cruising on top of FDI- inflow in West Africa.

Nigeria's FDI inflow was not appreciable in the 1970s when the federal government placed many restrictions on the multinationals such as Citigroup, Barclays Bank, IBM, and others (UNCTAD Nigeria 2009). These restrictions were relaxed in the early 1990s and eventually did away with it in the mid-1990s through the Nigeria Investment Promotion Commission Act 1995. This increased FDI inflow to Nigeria appreciably until 2011 when it reached its peak with a record figure of about US$9billion but this could not be sustained afterward causing a drastic decline of almost 77% from 2012 to 2017, partly, as a result of political instability mostly around the delta state and the unusual activities of terrorists, Boko Haram. Notwithstanding, Nigeria has managed to still stay on top as the highest receiver of FDI-inflow in West Africa.

FDI Trend in Ghana

Ghana is characterised by stable political environment ex-post military regime governance in the early 1990s. This sought the nation to enjoy very little FDI until the constitutional rule started in 1992, recording an average of US$15.7 million. According to United Nations Conference on Trade and Development Ghana 2017, Ghana's major agricultural export product, cocoa, saw a great boom in addition to its offshore oil revenue in 2016 inducing a record FDI inflow of around US$3.4billion. This could also not be sustained as the nation sought a reduction of 14% FDI inflow from 2016 to 2018 recording US$3.4, US$3.2, and US$2.9 respectively. Yet, UNCTAD reported in 2019 that Ghana recorded the highest FDI inflow to West Africa, partly, as a result of the unprecedented investment made by Eni Group on the Sankofa gas field in addition to Gold Field Limited’s 50% share acquisition in Asanko Gold Ghana Limited.

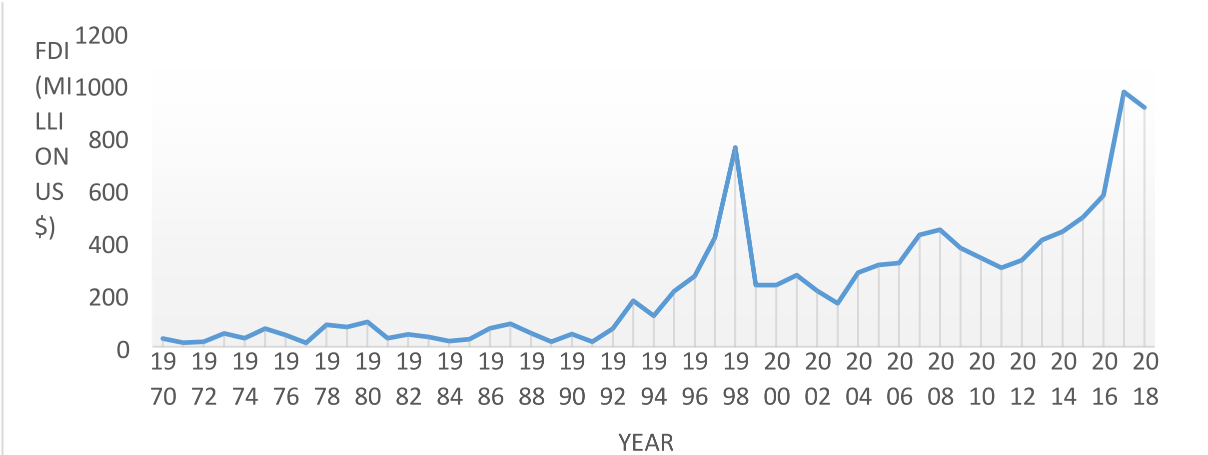


Trends in Ghana's FDI inflow in million US$ (1970-2018)

According to the Ghana Investment Promotion Centre GIPC), Ghana's FDI inflow has a potential of increase as the years go by as a result of its 10 years tax holiday to multinationals operating in free zones developers with 0% corporate income tax in addition to 0% import duties on machinery imported for production in the area. The nation has instituted an investment promotion center (GIPC) that seeks the welfare of investors in the country with the Ghana International Trade and Finance Conference (GITFIC) promoting both internal and international trade through it annual activities.

FDI trends in Cote d'Ivoire

Cote d'Ivoire's economy was mainly driven by coffee in the 1970s and 1980s. Hence, a great determinant of foreign direct investment inflow. This means that changes in coffee prices determine the volatility in FDI. The Ivorian economy received a considerable amount of FDI until 1999 when it fell drastically by 69% (Jalloh, 2020). The country recorded its highest FDI inflow of US$972.6million mainly as a result of its partnership with Ghana to industrialise cocoa processing. This attracted significant investment from Hershey Cocoa Processing Firm from the United States of America (UNCTAD, 2018). Furthermore, Heineken, from the Netherlands, also invested US$35million into Cote d'Ivoire's beverage manufacturing industry which gave it a great boost.



Trends in Cote d'Ivoire's FDI inflows in million US$ (1970-2018) using UNCTAD dataset.

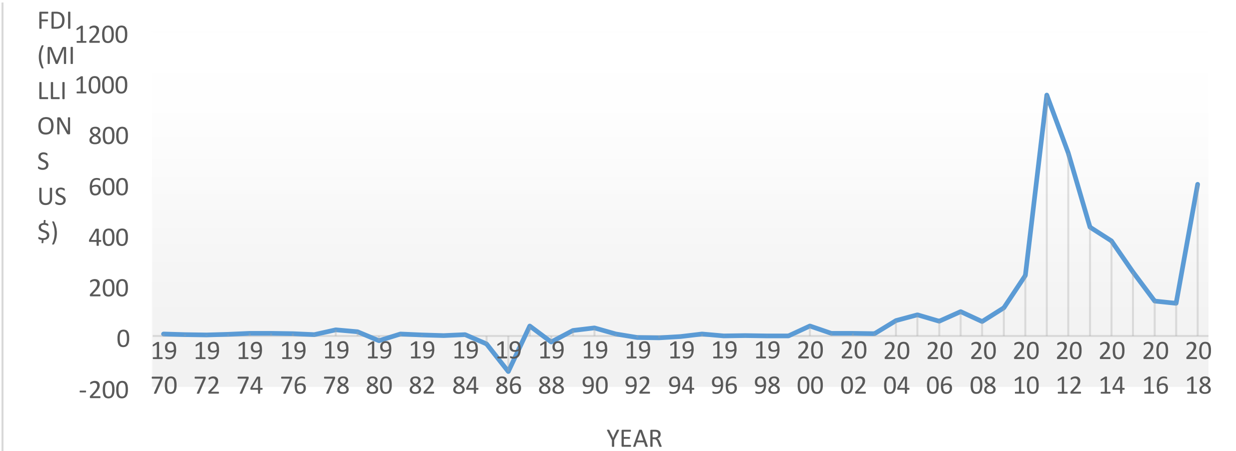
According to Food and Agriculture Organisation (FAO,2003), Cote d'Ivoire overtook Ghana in the early 2000s being the leading producer of cocoa globally and also endowed with natural resources including oil reserves. The country's FDI inflow is mostly found in the agriculture sector where cocoa dominates (UNCTAD Newsletter 2018). Cote d'Ivoire instituted the Investment Promotion Centre in Cote d'Ivoire (CEPIC) in 2012. This aimed to promote investments in Cote d'Ivoire (Fortune of Africa, 2014). Since 2011, the Ivorian government has embarked on several reforms to industrialise the nation which include the implementation of a dedicated court for addressing business issues as well as the design of some fiscal incentives for the private sector such as the export tax on cocoa butter, cocoa paste, and cocoa powder. The state also allowed mining companies to enjoy exemption in their profits from the exploitation of mineral deposits from corporate income tax for up to five years after commencing the exploration phase (Deloitte, 2017). In the latest Doing Business report by the World Bank Report (2019), the country occupies 122nd out of 189 countries which is better than the previous year's position of 139th.

The major investing countries in Cote d'Ivoire are the European Union countries and Canada (Export Enterprises Ivory Coast, 2020). Furthermore, the country has several bilateral investment treaties with other countries, including Belgium, Ghana, the United Kingdom, and Germany.

FDI trends in Sierra Leone

Sierra Leone, until the 2000s, has performed abysmally in FDI inflow in the 1970s and the 1980s especially when the major foreign investor, De Beer, left the shores as a result of limited capital intensive input for successful operations. Economic activities and foreign inflows halted in the early 1990s as a result of the civil war that shrank its economy by about 40% from 1991 to 1998 deforming people, displacing others, and taking the lives of about 75000 citizens (Bangura, 2014). The revival of Sierra Leone's economy started with an investment in the telecommunication sector and the revamp of its mining activities in early 2000. Sierra Leone, with assistance from various international bodies, has gradually rebuilt their economy to attract FDI.

Between the years 2001 and 2019, the nation's FDI has grown by 5.890%. This is in connection to the major investment made by the African minerals and London mining into their major production activity, iron ore (Fastmarkets, 2015). This success story only became a mirage after three years when the Ebola disease outbreak and the folding up of the two junior miners in the economy led to a sharp decline in FDI in 2016. FDI inflow to Sierra Leone has started increasing steadily since 2018.



Trends in Sierra Leone's FDI Inflows in Million US$ (1970-2018) using UNCTAD dataset

Some of the major investment projects in Sierra Leone are the rubber production project estimated around US$1.2 billion, financed by China Hainan Rubber Group, China Kingho Group mining project complex worth around US$6 billion, and a subsidiary of French Bollore Group's new dock investment for US$ 120 million (Export Enterprises Sierra Leone, 2020). The nation's big natural maritime harbour also fetches her more FDI income. Notwithstanding, the government provides fiscal incentives to, in particular, foreign investors. For instance, any locally produced goods require no export licenses except for gold, diamond, and government-designated good; investment in rice and timber earns an investor a 10year corporate tax holiday; and also, investors in the mining sector can receive a deduction of 100% for prospecting and exploration (Ministry of Finance and Economic Development, 2016). In 2007, the government established the Sierra Leone Investment and Export Promotion Agency (SLIEPA) to promote investment in Sierra Leone, providing investors with investment-related information, facilitating business registration, and assisting in the obtainment of any relevant investment document.

Also, the government of Sierra Leone has bilateral investment treaties with countries like Germany (since 1966), the United Kingdom (2001), and China (2001), all to promote investment in the country.

<u>What we have learned – Ghana International Trade & Finance Conference (GITFiC)</u>

While a country's GDP level or income level determines its rank in the global classification of whether it is experiencing a growth trajectory or not, economic development includes other determinants that aim at improving the standard of living of its citizens. The unbiased argument to accelerate growth to development is to monitor the trade-off between the merits and demerits of various economic indicators. This is a holistic debate that needed not be veered off by **West African** leaders. According to William et al. (2017), about 70% of West Africa's FDI is channeled to the extractive industry yet, issues on FDI are mostly centered on other subtopics such as education, technology, and other services sectors activities that are mostly positive.

Merits of FDI

Foreign direct investment which involves the cross-border movement of capital and its related complementary elements such as technology, management, skills, etc. has contributed tremendously to the growth of the host country in diverse ways. This, according to Hill (2000), stimulates economic growth. Among these are the five key factors; employment effects, resource transfer effects, competition effects, the balance of payment, and international trade, (Kurtishi-Kasstrati 2013).

FDI, creating jobs, increases productivity; especially in value addition to products the domestic industries lack i.e. the requisite machinery and technical ability to diversify its primary nature. Multinational companies employ masses in the host country, thereby reducing the unemployment rate. This decreases the dependency ratio and social vices, thus, enhancing the improved standard of living.

The resource transfer effects are not, limited to capital transfer where multinational companies take no doubtful risk of long-term investment in alien economy and repatriate profit only when there are favourable returns. FDI has improved the capital flow of West Africa where restrictions to raise global funds are almost at play given their high level of debt to gross domestic product (GDP), making it available for host economies to enjoy financial resources not available to them. To the host economies, FDI inflow in the form of capital transfer also results in "crowding in effects" where it serves as a good supplement to domestic investment; a percentage increase in FDI-inflow leads to an increase in total domestic investment. Diffusion of updated technologies into the host country's job market is also a major contribution of FDI inflow to the host country - digitalisation of financial processes has enhanced increase in financial inclusion and simplified accounting procedures in developing economies like West Africa– a boost to the activities of the banking sector and other financial institutions, technology for discovering, extracting, improving product brand are few of the positive effects of FDI inflow to economic growth. It has also led to improved efficiency in various sectors of the host country.

A healthy competitive business environment does not only benefit consumers enjoying standardised and variety of goods but also pushes producers to come out with their ingenuity, creativity, and innovations. The influx of multinational companies put the local companies on toes to produce a standardised product, improve their capacity and ascertain increased profits. Furthermore, a stock of knowledge transfer is possible through FDI – transfer of managerial components such as administrative skills, labour training among others. This serves as positive spillover effects to the domestic industry.

One policy issue within the limelight of discussion is the contribution of the subsidiaries of multinational to the host country's current account and capital account. There is a positive effect of FDI on a host country's capital account when the foreign subsidiary is established in the host country. Hence, the initial capital inflow increases the capital account of the host country. Likewise, the current account of the host country also improves should the multinational enterprise (MNE) established in the host country be known to be a substitute to imported products. It is imperative to know that there is a favourable current account when the foreign subsidiary firm operates in the host country to export commodities to other economies.

To better understand the role played by FDI in the international trade arena, economists categorise FDI into efficiency-seeking, market-seeking, and resource-seeking. Particularly, the value addition of FDI to export growth is its major contribution to international trade. Efficiency-seeking FDI increases output to be exported; again local firms also contribute through input creation to assist in the production of exported goods and this also adds up to the value addition to local content of exported products that spur the number of export commodities. Again, the processes of getting the exported product done successfully within the host country also improve the long-run trade balance. However, the underlying issue is whether there are strong positive linkages between trade liberation and the growth of the economy.

Demerits of FDI

The other side of the coin around the FDI analysis, without burgeoning interest in literature to be discussed especially by the parent multinational companies, is the demerits of FDI to the host country. FDI is not always a blessing to the host country despite its numerous advantages. At least there is an aorta of truth concerned that the host country loses national sovereignty in the sight of numerous multinationals in their economy aside from other possible trade and environmental adversaries. It is also worth noting that sometimes the benefits attributed to the recipient economy are only mirage if the economy is not resilient enough to tap the probable positive externalities of FDI inflow in the form of technology and skill transfer. In most cases, the developing country's weak growth in various sectors, namely low level of education, health, barriers to trade, low level of technological advancement, weak competition in the working environment, as well as less stringent environmental regulations account for the reason why it cannot achieve full benefits of FDI inflow.

The probable economic challenges of FDI inflow to developing host countries are not limited to "reduced domestic research and development for advancement, increased level of balance of payment deficit, substituting infant domestic industries with foreign companies, unhealthy competition to domestic industry, and adverse effects on employment. Notably in **West Africa** where most of FDI inflow is found in the extractive sector, a major challenge that cannot be overlooked is environmental pollution which comes with its heinous effects on biodiversity.

FDI's negative impact on Employment

Skeptics about FDI inflow have noted that it is not entirely true that subsidiaries of MNEs add to the existing jobs in the host country but rather take the form of already existing local firms and crowd them out of the market. In **West Africa**, most Lebanese Companies have substituted local firms in various industries. There is also exploitation of labour in the host country when the MNEs pay below the minimum wage rate as a result of loopholes in the developing economy of the high unemployment rate.

FDI's negative impact on Balance of Payment

Advertently, a key area to consider concerning the negative impact of FDI is the fact that the capital inflow that comes from parent firms to its subsidiary in the form of FDI is also accompanied by subsequent capital outflows in the form of returns to its parent company in the developed country. In developing economies like **West Africa** where inefficiencies in democratic administration and economic management are rampant, restrictions on the maximum amount to be repatriated by MNEs are missing. Hence, flourishing MNEs send huge sums of profit to the parent companies reflecting at the debit part of the host country's capital account. The sustained occurrence of this phenomenon which is very common in **West Africa** leads to a balance of payment deficit in the long run.

FDI's negative impact on Business competition

It is already outlined in the employment section how multinational companies crowd out some existing local companies. We detail the argument noting that the local firms are crowded out because of unhealthy competition from the foreign counterpart; making the business environment unfruitful for them should they continue in operation. The MNEs get economic power past their local competitors reaping higher profits through internal economies of scale in addition to other factors. **West Africans** have developed a strong level of taste for imported rice to the extent that they go for rice produced in countries of multinational subsidies against the locally produced. It is also imperative to know that the cost-saving advantages of the subsidiary multinationals also permit them to charge lower prices for their produce ahead of their local competitors the more reason **Ghana established the Ghana International Trade Commission**.

FDI's negative impact on Environment

Multinationals in manufacturing and extractive industries use huge production plants and machinery that release unwanted products problematic to one's health. Air quality in construction and mining areas in Tarkwa Nsuaem Municipality in Ghana is above the ambient air quality hence, respiratory challenges to the neighboring towns. There is the mass destruction of virgin forests that absorb carbon dioxide emissions content in the environment. For example, the Environmental Protection Agency (EPA-US) alerted the Ghana government to rethink the intention of allowing Atiwa forests for bauxite extraction because of ecological destruction and climatic challenges, posing a heinous effect on humanity.

Conclusion

Foreign direct investment is a major driving tool for development, especially in emerging economies like **West Africa**. Focusing on Nigeria, Ghana, Cote d'Ivoire, and Sierra Leone, it is realised that **West Africa's** FDI has increased tremendously since the 1980s when most countries in the sub region adopted various economic recovery programmes (ERP) and structural adjustment programmes. This has served so many purposes that merit the sub region in diverse ways. Notwithstanding, the opposition to FDI has a case to argue that FDI has its negative implication which needs to be considered, hence, it is very crucial and needful to strike a trade-off effect to ascertain the net effects of FDI on the sub-region before praising it. Based on this, the Ghana International Trade & Finance Conference - GITFiC presents its recommendations;

Recommendation from GITFiC

The net benefit of FDI is not ascertained automatically whereas the benefits generated cut across various sectors and conditions in the recipient country. Since financial inflow cannot be restricted, especially in developing countries where domestic savings cannot be used to run the economy smoothly, there is the need to assess the demerits of FDI and recommend plausible ways to improve on activities that attract FDI while limiting the activities that bring about various bottlenecks of FDI to host countries.

- International trade is the source of FDI, hence ECOWAS is demanded to uphold the AfCFTA agenda in high esteem to promote FDI to the sub-region.
- Various governments through their national investment agencies should work towards a conducive political and business climate to improve FDI inflow to the sub-region.
- Stern scrutiny, in terms of documentation and the type of FDI to be allowed to the sub-region, should be checked rigorously before its establishment.
- The government, through its national investment agencies, should be advised accordingly on the net effects of FDI into the country.
- GITFiC recommends that environmental protection agencies in ECOWAS should make sure that environmental regulations in the sub-region are strictly implemented.

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