Delivering Sustainable Growth in Africa:
Linkage between FDI and Local Economy

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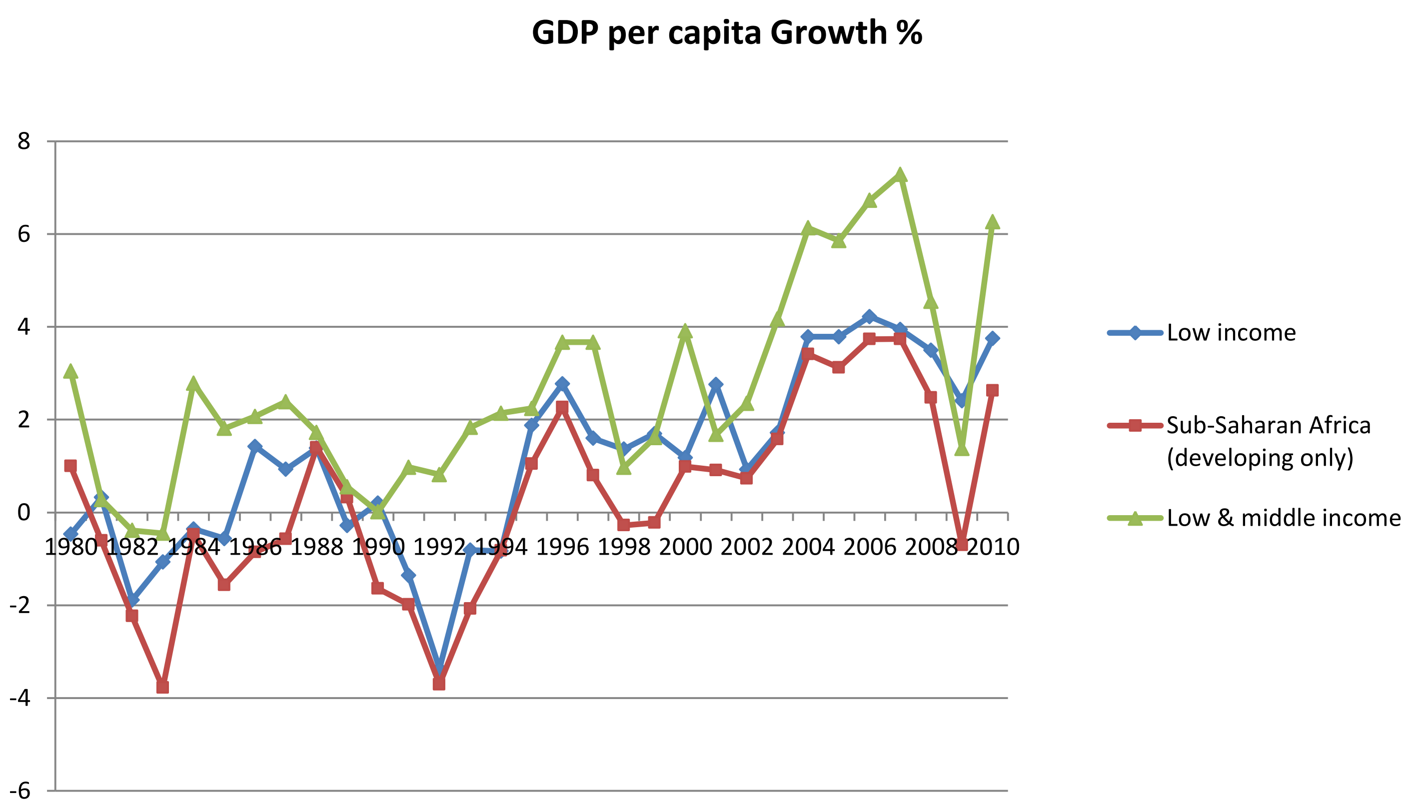
Structure of Presentation

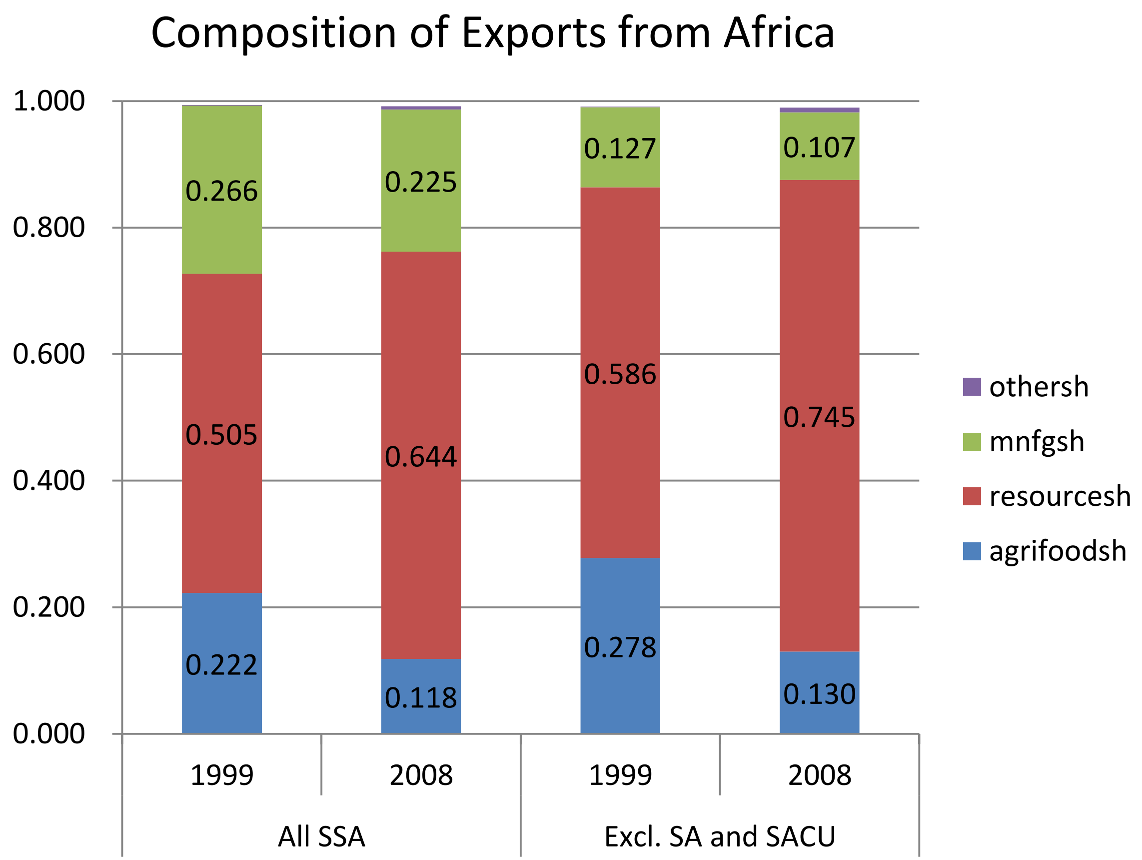
- Introduction: Will current growth be sustained?
- FDI-led economic development
- Case studies in Africa
  - Horticulture in Kenya
  - Pineapple in Ghana
  - Beer industry in Uganda
  - Garment industry in Madagascar
  - Construction industry in Burkina Faso
- Policy recommendations

Steady Growth of African Economy



Source: World Development Indicators

Concern on Sustainability of Growth



Source: UN Comtrade

- Growth dependent on resource is recognized as unstable.
  - Commodity price fluctuation
  - Limited resource endowment per capita
    e.g. $488 p.c. in Nigeria, $15,841 p.c. in Gulf countries
  - “Resource Curse”

- Diversification of economic structure is necessary to sustain the current steady growth.

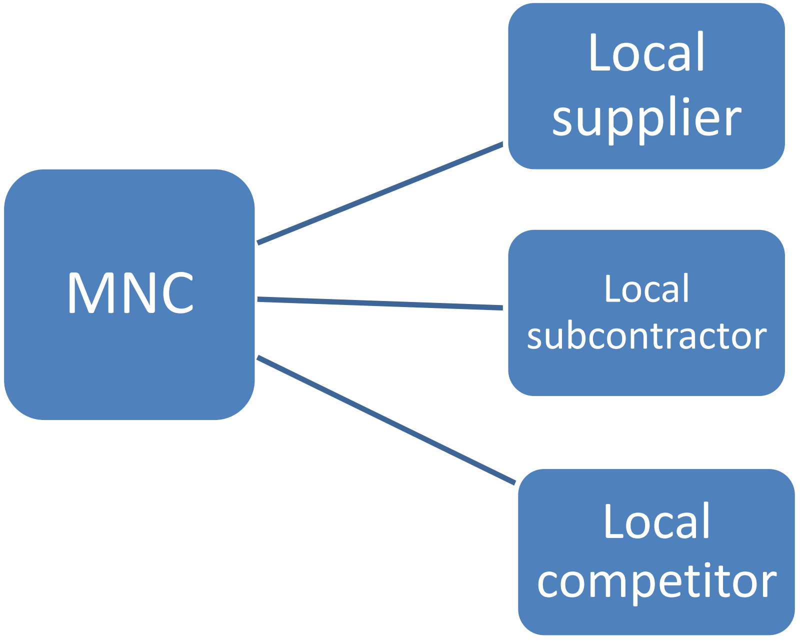
Productivity Growth

- Productivity growth is a key for development of the non-resource sector.
- But, overall productivity did not grow in Africa until 1990s.
  > African farmers and firms generally lack experience of steady productivity growth.
- New challenges are needed.

- How to realize productivity growth?
  - Training, supply of credit, facilitation of business environment, and so on..
  - We focus on learning from FDI; “FDI spillover”

FDI-led Industrialization: Asian Experience

- Multinational firms in developing countries facilitate technology transfer through
  - Vertical linkage with local firms
  - Labor turnover



- Advantage of FDI spillover
  MNC demonstrates technology on commercial basis
  MNC provides technical assistance and markets
- MNCs have incentive to use local suppliers
  - lower cost, shorter lead time, tax incentives
- In Asia, FDI contributed to develop local firms in apparel, electric appliances, automobile, motorbike etc.

- Applicable in Africa?

  Pessimistic view: very small non-resource FDI, poor capacity of local firms, low skill of workers and low quality of biz env't, and so on.

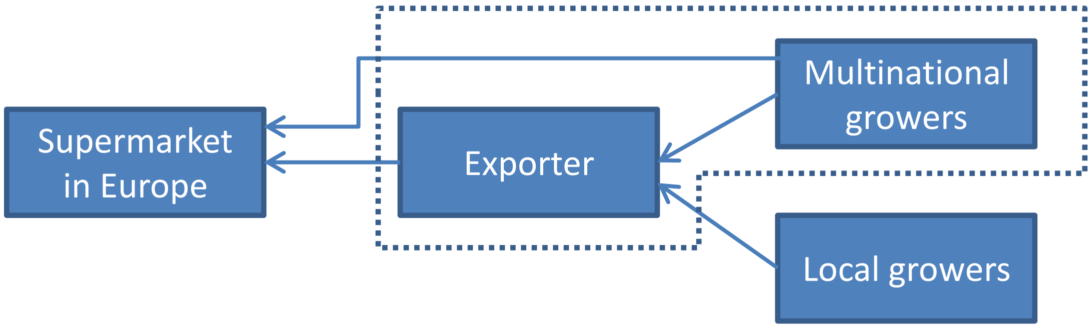
Case Studies in Africa

1. Non-traditional agriculture for export markets

   cut flower (Kenya, Ethiopia)

   fresh fruits (Ghana, SA)

   vegetables (Kenya, Zimbabwe, Tanzania)



1-a. Cut flower in Kenya
(Jodie Keane)

- Kenyan roses account for 26% of total imports in the European market (2010).
- MNCs are from Holland and Israel. Several large growers and most of small growers are local origin (Kenya).
- Cut flower, particularly rose, requires large capital investment and compliance to sanitary standards. An estimated 97% of flower exports are from large, foreign growers.
- Small growers concentrate on decorative flowers.

1-b. Pineapple in Ghana
(Aya Suzuki)

- Many local farmers are producing pineapples with assistances by exporters.

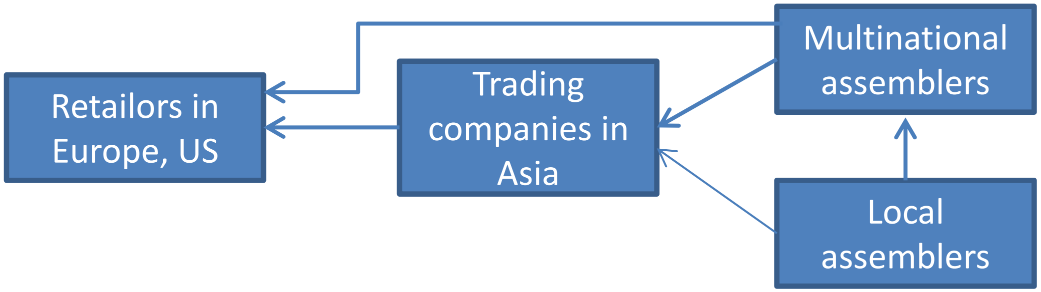

- Producing export pineapple requires meeting the sanitary standards as well as quality. Exporters provide inputs, training and some services (harvesting).
- It is more productive than other crops, e.g. cassava, and income of pineapple farmers was five times higher ($2200).
- However, educated, wealthier farmers tends to grow pineapple.
- And it is risky as exporters manipulate rejection rate of pineapples according to market demands.

> Profitable opportunity but not suitable for poor farmers.

Case Studies 2

2. Manufacturing

Export-oriented garment industry

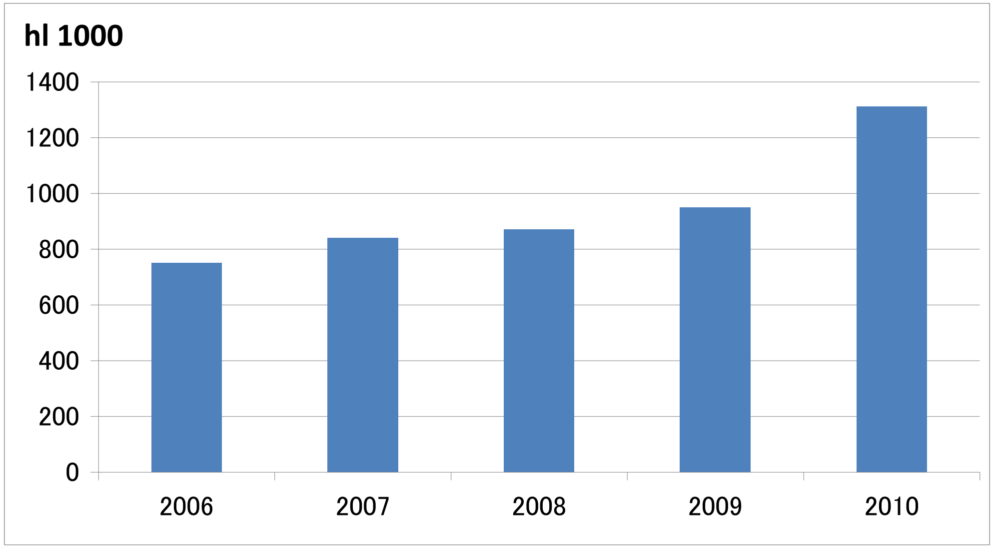


Local-oriented beer industry

2-a. Beer Industry in Uganda
(Akio Nishiura)

- Two multinational breweries, SAM Miller and East African Breweries, built malting plants in Uganda.
- Motivated by tax incentive and brand images, they have promoted sourcing locally produced barley.


Beer production at Nile Breweries, 2006–2010



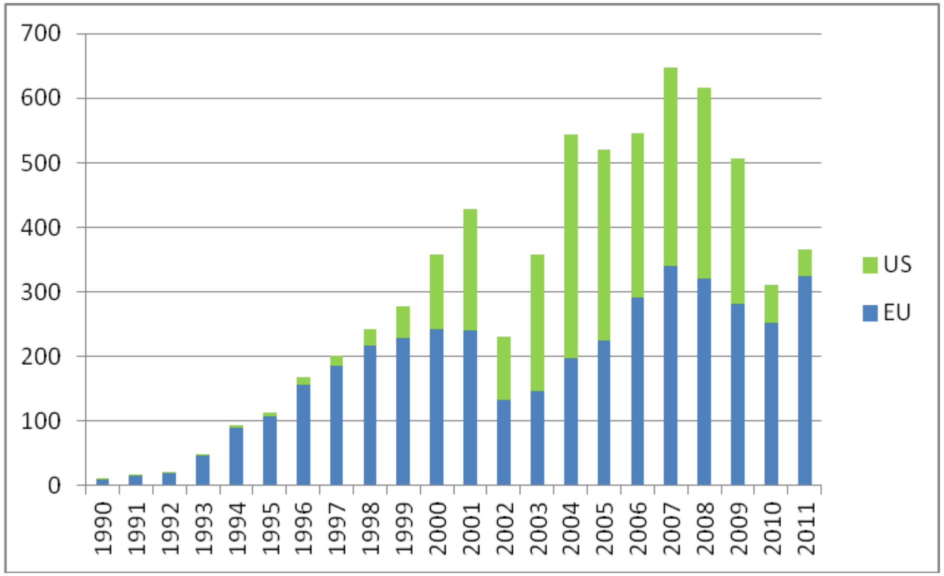
Source: Nishiura (forthcoming), originally from SAB Miller website (http://www.sabmiller.com/index.asp?pageid=1169)

- The beer companies contracted with farmers associations in terms of purchase of barley. They provide seeds at subsidized price and technical service.
- Due to competition, beer companies offer better conditions to farmers; higher price, faster payment and better technical assistance.
- This encouraged participation of young and female farmers into barley production.

2-b. Garment Industry in Madagascar
(Fukunishi, Ramiarison)

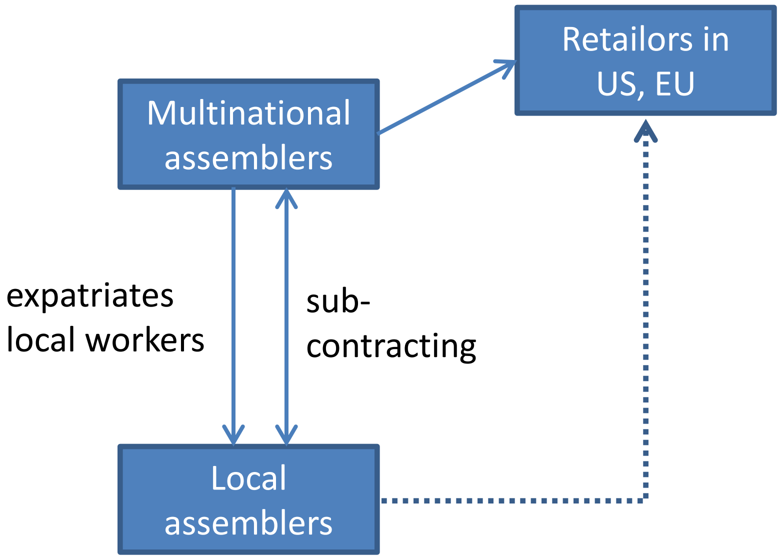
- In Madagascar, export-oriented garment industry started in the 1990s. Provision of preferential access to US, AGOA, further boosted apparel exports.
- The industry employed more than 100,000 workers (2008) who are mainly female and uneducated.

Apparel exports from Madagascar



Source: United Nations Commodity Trade Statistics, report by US and EU27.

- Local firms account for 28% of garment exporting firms.
- They tend be smaller than multinational assemblers, but as productive as them.
- But they are severely affected by the suspension of AGOA.



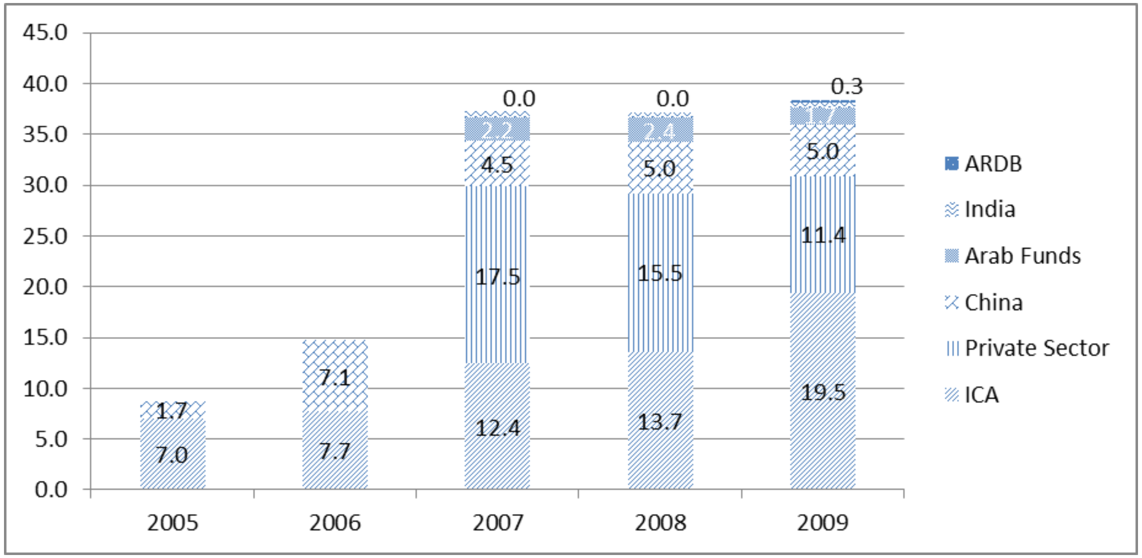
Case Studies 3

3. Construction industry

Drastic increase of aid on infrastructure construction.

Construction demand for public works has hiked.

Infrastructure Financial Contributions to Africa / US$ billion

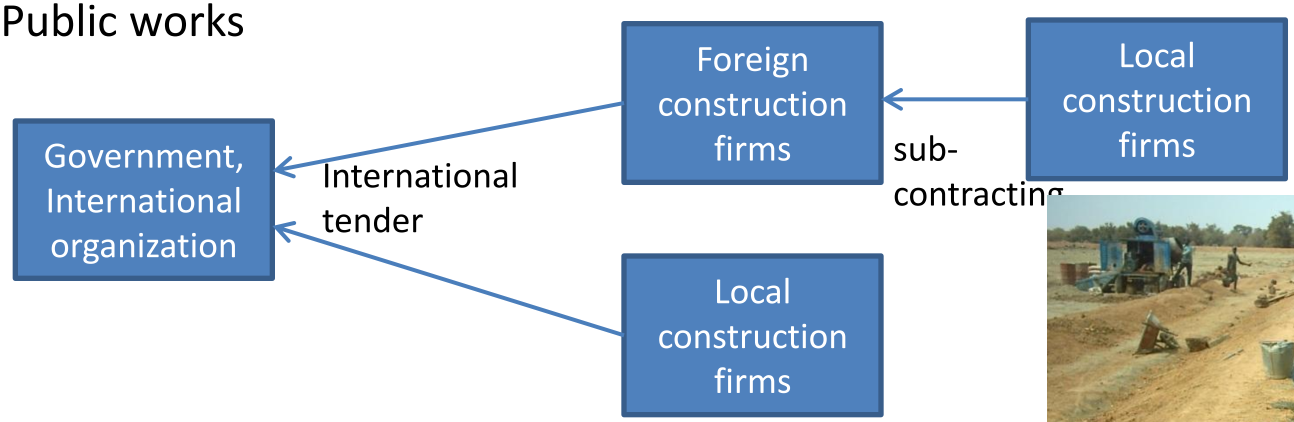


Sources: Tokuori (forthcoming), originally from ICA Annual Report (2008, 2009)
Note: No data is available for the private sector, India, Arab Funds and African Regional Development Banks (ARDB) in 2005 and 2006.

3-a. Construction Industry In Burkina Faso
(Tomomi Tokuori)

- Emergence of a few large and competitive local construction firms
- SMEs are not benefitted from increased construction demands.

Public works

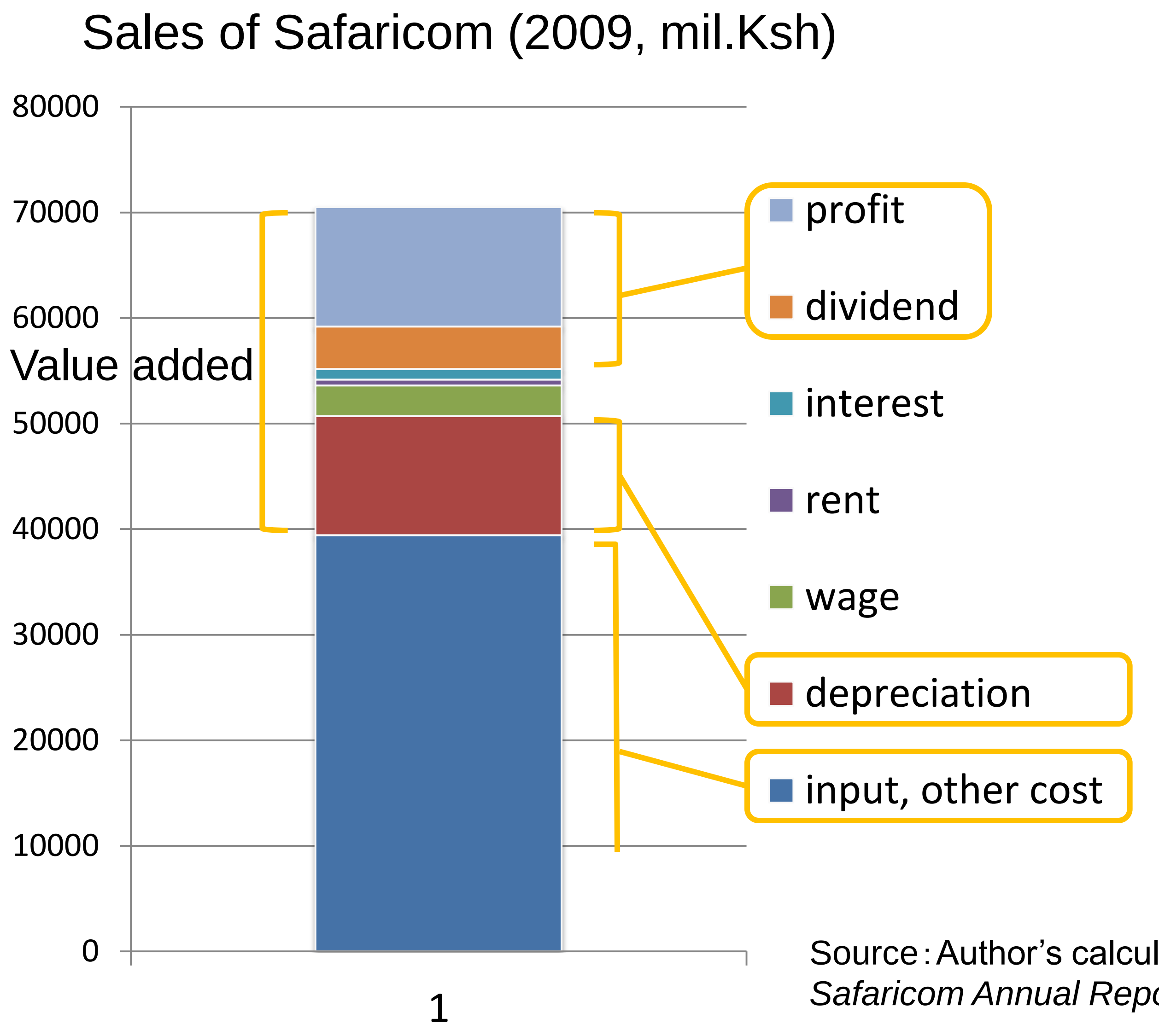


Findings

- Mixed evidence about development of local producers, but some of them successfully learned and penetrated into export and local markets.
 > African producers can effectively learn when support is provided.

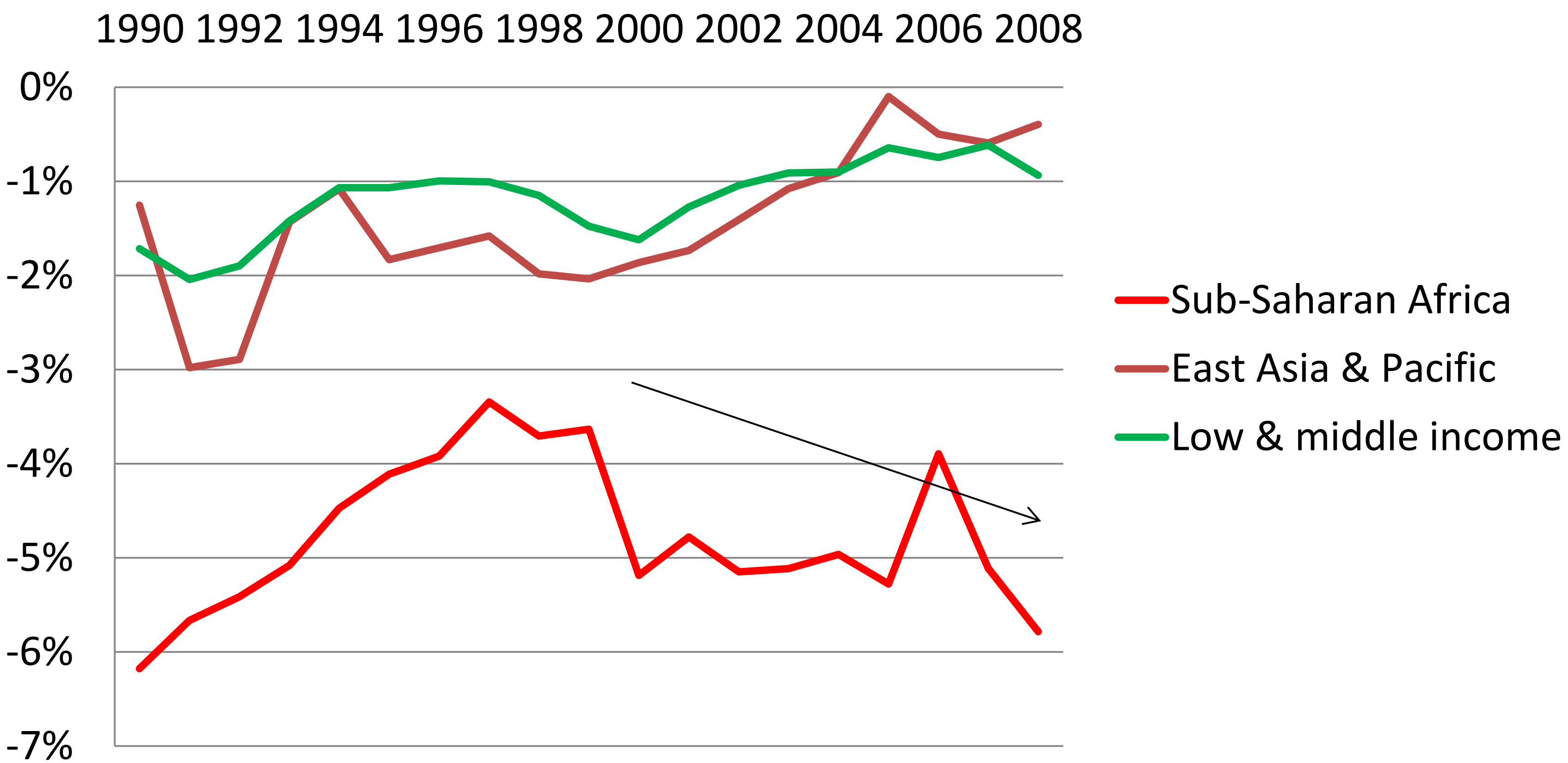
- Not all local producers but those with richer financial resource and human capital tend to be more benefitted.
- At the same time, supplying to export market entails substantial risks; e.g. price fluctuation, financial crisis, AGOA cancellation, etc.

Static Impact of FDI

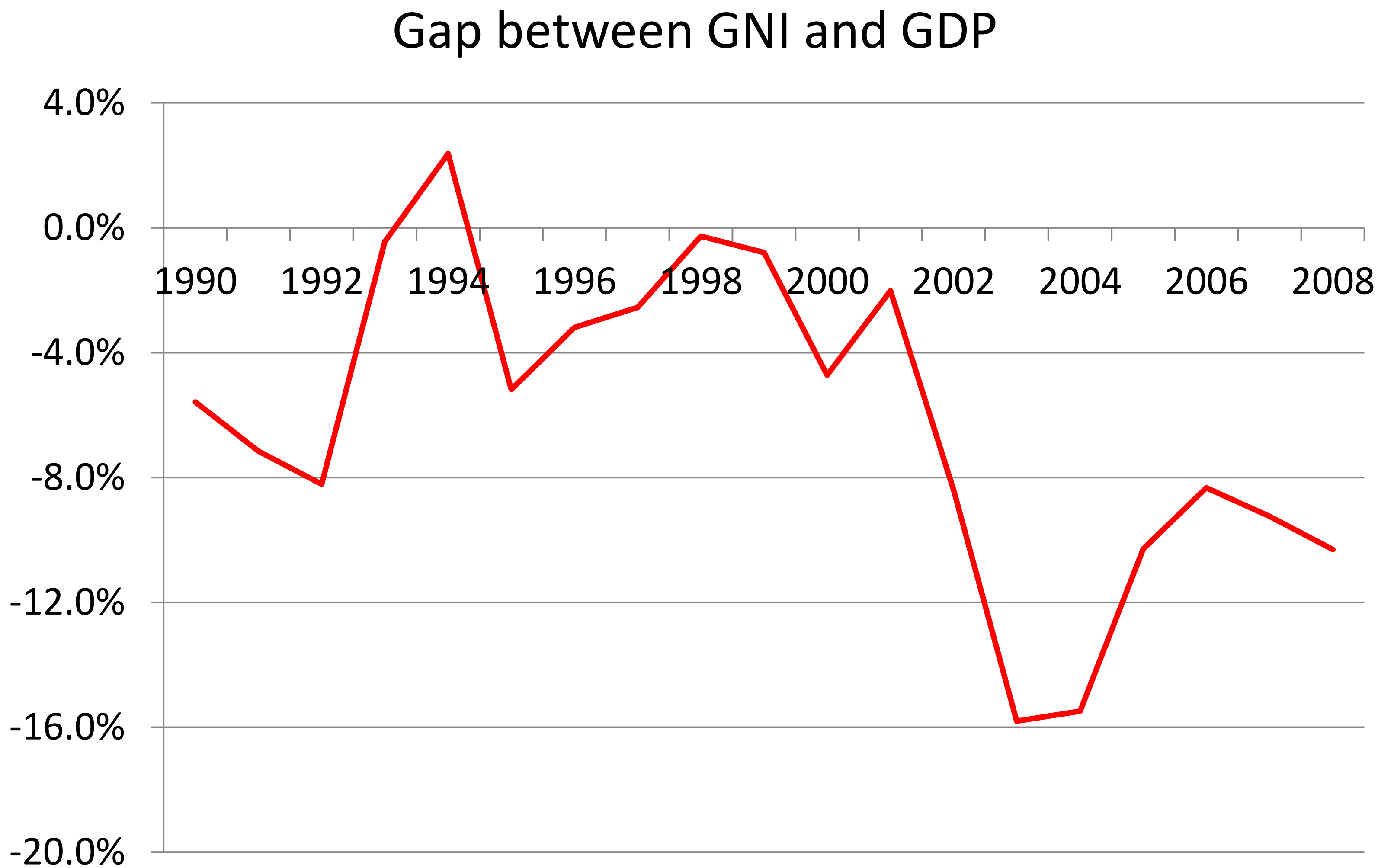


Source : Author's calculation from *Safaricom Annual Report 2009*

Share of Net Factor Income From Abroad in GNI



Source: *World Development Indicators*



Source: *World Development Indicators*

Dynamic Impacts: Facilitation of Linkage

- It is important to consider facilitation of linkages between FDI and local industry, so that FDI does not creates enclave.
- But governments do not have effective measure to facilitate FDI spillover.

- Given high risks and asymmetric relationship with international buyers, supports to mitigate adverse shocks are needed.

- Supports for farmers and firms with less resource may help to enhance spillover effects. They can be benefitted from FDI pursuing local market.