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**CONTRIBUTION OF FOREIGN DIRECT INVESTMENTS TO SCIENCE
AND TECHNOLOGY IN AFRICA**

CONTRIBUTION OF FOREIGN DIRECT INVESTMENTS TO SCIENCE AND TECHNOLOGY IN AFRICA

1. There are close relations between investment, technology and competitiveness. These relations have attracted a great deal of interest in the last few years and a growing literature has emerged on the subject. Often, the quickest way to get a particular technology is through foreign direct investment (FDI), including joint ventures. This form of technology transfer is non-debt creating and gives rapid access to finance, technology, technical knowledge, management expertise and international markets.
2. In most countries of Africa the level of FDI has declined since the beginning of the '80s and is now at a very low level. The whole of Africa is now attracting a total amount of FDI comparable to the amount attracted by a tiny country such as Singapore, and these flows are concentrated in a few countries and in a few sectors (mainly the resource's sectors, particularly oil and mining). In contrast, newly industrializing countries of Asia and Latin America are relying heavily on FDI to strengthen technological capacity, spur economic growth and create jobs, and the flows are more diversified. In Asia, Singapore, Taiwan and South Korea are already attracting FDI in high technology industries.
3. FDI has grown at about three times the rate of economic growth during the last decade and competition to attract FDI has become fierce. This surge of interest for FDI can be attributed to a variety of factors:
 - the general liberalization movement that is sweeping much of the developing world
 - the general disillusionment with import substitution strategies
 - the limited benefit of national ownership
 - the marginal impact of local research and development effort on national economies
 - the difficulty to integrate national economies into the world economy
 - the diminishing flows of commercial loans (particularly into Africa)
 - the decline of official development aid
 - the increasing globalization of the economy
 - the growing emergence of some developing countries as purveyor of FDI
 - the necessity and high cost of networking and linking with the world technological innovators in order not to be left behind

4. Technological capacity building involves a lot more than letting FDI in the country. Indeed, the most important determinant of the location of FDI is the attractive technological capacity that already exists in a country. In this context, FDI will continue to flow primarily to countries that are attractive in terms of the technological capacity that they can offer backed by the general business and political climate. More specifically, countries can increase their success in attracting FDI if they can provide:

- a competitive policy regime that is transparent, stable, welcoming and efficiently administered, including
 - trade policy
 - investment policy (such as entry and exit conditions)
 - immigration policy
 - industrial and labour policy
 - intellectual property policy
- an adequate physical infrastructure, particularly in transport and communication
- a reliable network of suppliers
- a dynamic financial system
- a good array of technological support services, such as
 - technical training facilities
 - extension services
 - standard, metrology and quality control
 - information

5. These are variable which the host country can work on to improve its attractiveness. Other determinants of the location of FDI include the size of the local market, the natural factors endowment and the seller's strategy.

6. FDI is the most 'packaged' form of technology transfer and the bulk of it is carried out by multinationals. Hence the need to maintain a close and good working relationship with them.

7. It is important to note that FDI does not provide a substitute to local technological capacity building but is only a means to complement and strengthen this capacity in some cases and in some sectors. Often it represents the only possible way to acquire a world class technology that will enable a country to compete at the global level.

8. Given the strategic importance of FDI for Africa, ECA commissioned a study to:

- 1- Gather and present available data of the flows of foreign direct investment (FDI) into African countries compared with other developing countries of Asia

2- Review relevant literature, analyze statistics and assess the role and impact of FDI on technology transfer, competitiveness and technological capacity-building

3- Identify constraints to FDI in African countries and suggest possible policy reforms and strategies towards FDI that should be undertaken, with special reference to Ethiopia taken as case study

9. It is hoped that the study, when published, will help African countries:

- to better understand the linkages between investment, competitiveness and technology
- to develop better policies towards FDI
- to improve the country's attractiveness to FDI
- to develop better relations with the world's suppliers of technology

10. Issues which could be discussed include:

- Are African countries sufficiently sensitized to the benefits of FDI?
- Are science and technology policies correctly reflecting the importance of FDI?
- What policy reforms are needed to attract more FDI?
- What are the major stumbling blocs to FDI and how can they be removed?
- How to maximize the impact of FDI on endogenous capacity building?
- How laws and regulations affecting FDI can be harmonized at the regional level?