Oasis or Mirage? Intra-African Investments in Oil and Metals

By:

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Introduction

If intra-African investments only account for about one-tenth of overall investments in Africa, to which countries will the investment chapter of the continental free trade agreement really apply? And, given that South Africa accounts for 65% of intra-African investments, is the region's most industrialized nation practically the sole major beneficiary or duty-holder of the upcoming investment chapter? Indeed, at the level of the African Union (AU), delegates are busy crafting the investment chapter of the African Continental Free Trade Agreement (AfCFTA), admittedly the largest free trade area after the World Trade Organization (WTO). But while observers understandably tout the AfCFTA and its expected economic outcomes, it appears that they have not asked themselves the hard question: whether intra-African investments could – at this point of the continent's development – succeed at all. To start with, exporting productive capital to other nations costs far more than exporting goods abroad. Hence, almost all foreign direct investments (FDIs) in Africa stem from Western nations, although investments from China jumped by a whopping 150% in 2018 from 16 to 40 billion US dollars. For the investment chapter to stand a fairer chance to work, AU's policies must revolve around the extractive industries, not investments in general; around efficiency, not mere lofty development goals; and around capacity, not investment as such.

Natural resources and other economic sectors

If African countries find it prohibitively costly to invest in fellow African countries, then they will find it even costlier to invest in their extractive sectors. Unlike most other tradable sectors, mining and oil call for host states to secure a much greater deal of money and resources, for example, huge bank loans; geologists, engineers and professional managers; infrastructure such as mineshafts and oil drills; and heavy equipment such as earthmovers and dump trucks. But why should AU policy makers worry about intra-African investments in those sectors? As the annual World Investment Reports clearly show, FDIs to the continent concentrate on states rich in oil, gas and hard metals ('natural resources' or 'resources'), such as Nigeria, Algeria, and Angola, which tend to derive the bulk of their revenue and foreign-exchange earnings from extractive sectors. Thus, any AU's policy on FDI, to impact national economies strongly and positively, must necessarily spotlight those natural resources. Even if such policy entails devoting an entire and separate chapter of the AfCFTA to FDIs in resources.

The harsh reality is that, if the AU leaves FDIs in natural resources out of the equation, capital inflows to the continent will dry as quickly as water in the desert. And yet the AfCFTA will mostly affect FDIs that do not seek those primary commodities. This situation means that the AfCFTA's investment chapter may fail to bring in the fleshy economic fruits that most observers predict it will bear. For many scholars, however, focusing on natural resources poses a problem, as they single out the over-reliance on resources as one of the biggest barriers to the development of resource-rich countries in Africa. But since natural resources open the door through which foreign capital mainly enters the economy, a country's strategy to diversify the economy will have to count on resource extraction because that sector will give it the funds that it precisely needs to intervene in other economic sectors.

Efficiency and lofty sustainable development goals

Like Milton Friedman said, many policies sound good and necessary in theory, but in practice they produce the opposite effects. In this respect, the AU must shy away from the draft Pan-African Investment Code(PAIC), which the AU has – in 2016 at a meeting in Nairobi – expressly recommended to incorporate in the AfCFTA's investment chapter. The PAIC, which aims to foster sustainable development, imposes more obligations on foreign investors than traditional bilateral investment treaties and contracts between host states and foreign investors. Among others, it obliges foreign investors to adhere to socio-political obligations (Article 20(1)) and to contribute to the economic, social and environmental progress with a view to achieving sustainable development of the host state (Article 22(3)).

In addition, the PAIC does away with the fair-and-equitable treatment (FET) principle and provisions on full protection and security – principles that form part of the core of international investment rules. In 2015 and 2016, respectively, the South African and Namibian governments enacted new investment laws that, like the PAIC, reshape the traditional investment law regime and that contain a number of provisions resembling those of the PAIC. World Bank data show that, since 2014 (one year after the government tabled the new investment bill in Parliament), FDIs to South Africa have plummeted. Likewise, in October last year, Finance Minister Calle Schlettwein reported that the Namibian economy lost about U$620 millions in direct investments in 2017, one year after the President promulgated the Namibian Investment Promotion Act. The PAIC will only bind African states, making FDIs among African nations less profitable than North-South FDIs and staunching the little flow of investments trickling from fellow Africans.

Capacity, not investment as such

The nations that export capital have in common the fact that they have industrialized, considerably less the fact that their free trade agreements provide for intra-regional investments. No wonder the country doing the most intra-African investments is also the continent's king in 'making things' (i.e., manufacturing). Manufacturing brings high growth and high growth brings foreign capital. In concrete terms, this insight suggests that host states must direct FDIs towards building broad industrial bases.

Conclusion

Hopefully, a sweltering sun in Africa has not caused AU experts to see mirages of intra-regional finance. Providing for intra-African investments in the current context of the continent is like offering classes on how to make planes to students living in countries that cannot yet make cars: Virtually all the real action takes place elsewhere. Instead of negotiating a chapter on investment, delegates must prioritize a chapter on how AU members can build their capacity to engage in deeper economic relations, especially on how to leverage FDIs in natural resources to develop adequate infrastructure for intra-African investments. This approach offers a more practical way for capital flows to fill oases of prosperity in the region and for delegates not to spill ink on yet another worthless paper agreement.

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