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Global trends in FDI and their implications for inclusive economic development in Africa

Virtual Workshop

26 April 2023, 9:30 – 15:30

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This workshop explores how recent trends affected **foreign direct investment** (FDI) flows, their impact on inclusive economic development and social cohesion in the partner countries of German development cooperation and how these impacts can be further improved.

FDI is widely recognised to enhance inclusive development – e.g. through technology transfer, improved access to international markets, enhanced employment, rising wages and lower costs of living. Yet, it may in some cases also have adverse effects, for example crowding out local firms and employment, increasing environmental degradation, enforcing lesser social standards – all of which may hamper development and erode social cohesion. FDI policy should therefore strongly focus on the quality of FDI, as also recently initiated by OECD's "FDI Qualities Initiative".[1] By "FDI policy" we refer to investment promotion and complementary measures to improve host country development as well as support measures by international development partners.

At the same time, the conditions for FDI have recently changed, and with them also the potential for harnessing FDI for inclusive and cohesive development. We focus specifically on three recent trends, namely:

1. Major supply chain disruptions and respective reconfigurations of supply chains – diversification of suppliers, nearshoring, friendshoring etc., which we expect to affect African FDI recipient countries in different ways.
2. Booming investment in green hydrogen, with large project proposals for African countries, whose development effects we expect to differ considerable depending on the type of investment.
3. Increasing risks of market concentration driven by foreign investment, e.g. the emergence of "superstar firms" that dominate the markets in which they operate, potentially reducing profitability and development potentials of domestic firms.

This workshop brings together businesses, policy makers, practitioners and researchers to examine these recent trends and their implications for policy.

The workshop focusses on **the role of German investors and policy makers and regionally zooms into Africa**. During the last coalition, the German government initiated the "Marshall Plan with Africa" as well as the Compact with Africa. It promotes investment through a range of

[1] https://www.oecd.org/investment/sustainable-investment/

institutions (e.g. DEG, BfAI) and created special funds (such as the H2Global Mechanism) to increase foreign investments to and participation of German and European firms on the African continent. Development partnerships with the private sector, that is, short- to medium-term joint projects between investors and development agencies, aim to improve local development effects. As a further measure, due diligence reporting was made mandatory for larger German foreign investments, emphasizing human rights and working conditions.

The aim of this workshop is to work towards a shared understanding of the development effects of FDI (especially in terms of social inclusion and cohesion) and how public agencies can improve these outcomes – with a focus on the most recent FDI trends. The one-day **virtual** workshop is tailored to a select group of businesses, policy makers, practitioners and researchers. Each panel consists of an initial statement (max. 15 minutes), followed by a panel discussion among stakeholders.

9:30 – 10:00 New trends in FDI affecting its developmental benefits

The global economy has been shaped by significant trends in recent years, including most prominently supply chains reconfigurations, increasing hydrogen investments, and the emergence of "superstar" firms. What are the implications of these trends for how firms allocate production and investment globally? Have these changes affected the impact of foreign firms and its FDI on local firms, workers and households in developing countries? If so, what policy options have governments in low-income economies available to maximize the gains from FDI? To this end, we evaluate for each of these trends (i) how it affected FDI activity, (ii) the implications of changes in FDI for partner countries in Africa, and (iii) the policy options available to governments and the international community to enhance gains (or reduce harms) from these trends and FDI activity. The workshop's emphasis is on bringing together different perspectives – from businesses, policy makers, practitioners and researchers – to discuss these trends and evaluate policy options.

Welcoming remarks and initial statement: Kasper Vrolijk (IDOS)

Responses by:

- Martin Wermelinger, OECD
- Mayowa Kuyoro, McKinsey, Nigeria
- Birgit Pickel, Federal Ministry for Economic Cooperation and Development

10:00 – 11:15 First challenge: Supply chains disruptions and reconfigurations

The COVID-19 pandemic has exposed the dependency of firms (and consumers) on global supply chains to produce (and consume) products at low cost. The trade war between the U.S., Europe and China, and the recent Russian invasion of Ukraine have too led to supply chain disruptions. As a result, firms have started to evaluate their international supply chains and experimented with ways in which supply chain risks can be reduced, in some cases reshoring part of production to home economies, in other cases diversifying their suppliers, often considering political reliability ("friendshoring").[2] Due to large fixed-costs and the perceived transitional nature of the pandemic, large-scale reshoring has not materialized due to COVID (Antras, 2021), but might happen as geopolitical rivalries increase. Moreover, pre-existing trends, such as increasing wages in China, are for many firms motivation to relocate production (ASME, 2020; Altenburg et al. 2020). In some sectors in which automation can be adopted cost-effectively, reshoring of production has been documented and nearshoring has been explored by several firms (Euler Hermes Global, 2020). To what extent have firms restructured their supply chains to hedge against risks? What implications do these configurations have for developing economies, and specifically for local suppliers and workers in Africa? While reshoring may pose

[2] https://www.idos-research.de/fileadmin/user_upload/pdfs/projekt/20220407_SustainableGlobalSupplyChains-Report2022_lowres.pdf

risks to African economies, it also offers opportunities to move into new markets. What policies could local government introduce to facilitate a move into new (higher value added) sectors? What support should the international community provide to assist this transition?

Initial statement: Dalia Marin (University of Munich)

Speakers:

- How do German foreign investments respond to supply chain disruptions? Ludovic Subran, Allianz SE
- What do the crises entail for Africa? Edward Brown, African Center for Economic Transformation (ACET)

11:15 – 12:30 Second challenge: Making green hydrogen investments work for inclusive and sustainable development

Green hydrogen is a key element in any decarbonisation strategy. All major economies are investing heavily in green hydrogen, and often also in international energy partnerships to secure long-term imports. Some of the most promising partnerships are being established with African countries. Green hydrogen investments create opportunities to spur industrial development in Africa while embarking on a decarbonisation pathway. Countries that are well-endowed with renewable power sources can induce investments in electrolyser plants and related methanol and ammonia industries, which then offer low-cost inputs for energy-intensive industries (steel, aluminium, base chemicals, fertilisers) and manifold downstream industries that use green steel or chemical feed stocks. Yet, tensions exist between German/European interests to import green hydrogen and African ambitions to use it locally, adding value, creating jobs and enabling technological learning. Moreover, due to the capital-intensity and scale involved, some industrial linkages may be socially exclusive and invite for rent-seeking behaviour. Also, green hydrogen projects are expected to come with conflicts over the use of land and water and negative effects on the local environment (ESMAP, 2000, Stamm et al. forthcoming) What, then, is the right strategy for promoting green hydrogen in a way that maximises positive development effects?

Initial statement: Rita Strohmaier (IDOS)

Speakers:

- German support for the hydrogen transition, Lucia De Carlo, Federal Ministry for Economic Cooperation and Development
- How Enertrag contributes to economic development in Africa, Tobias Bischof-Niemz, Enertrag
- How can countries get the most out of hydrogen FDI? Simon Roberts, University of Johannesburg
- The H2Global Fund: Promoting investments with industrial linkages. Timo Bollerhey, H2Global Foundation

12:30 – 13:30 Break

13:30 – 14:45 Dealing with risks of market concentration

In recent years, global markets have become increasingly concentrated. In some sectors, a few "superstar" firms dominate global supply chains (Keller & Yeaple, 2021; Autor et al. 2020). Multinationals with extraordinary market power may take large shares of local markets, thereby outcompeting local firms, reducing the labour share of value added, setting high product prices and reducing the scope for local learning. In what sectors is rising market concentration occurring and what are its main drivers? While governments often evaluate absolute investment and employment gains with incoming FDI, aspects of market concentration, power asymmetries and the potential exit of domestic firms and workers receive less emphasis. Are there specific policies that governments in African economies can use to enhance the gains (or harness against negative effects) from FDI, e.g. regulating them/antitrust policies, strengthening local competitors? Examples from South Africa will be presented. Is there a role for German development policy in supporting such policies?

Initial statement: Riccardo Crescenzi, London School of Economics

Speakers:

- Challenges and regulatory responses for digital platforms in developing economies. Antonio Andreoni, SOAS University of London
- Market concentration and competition problems in South Africa, Pamela Mondliwa, Industrial Development Corporation of South Africa
- Ensuring competition through regulation: Insights from South African cases. Dennis Davis, previous Judge President of the Competition Appeal Court and Professor of Corporate and Competition Law, University of Cape Town
- How South Africa regulated WalMart's market entry. Mike Morris, Univ. of Cape Town

14:45 – 15:30 Policy implications of recent FDI trends

Panel discussion among practitioners with the aim to elicit institutional views on the trends and recommendations discussed in the workshop. How can development partners and governments in African countries enhance the gains from FDI? How can we assess the quality of FDI projects ex-ante? What policy instruments are most appropriate for national governments and for FDI promotion by development partners?

Initial statement: Tilman Altenburg (IDOS)

Speakers:

- Ana Novik, OECD
- Emmanuel Owusu-Sekyere, African Center for Economic Transformation
- Christoph Kannengiesser, German-African Business Association

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