Essays on the Determinants and Effects of Foreign Direct Investments in Africa

The aim of this thesis is to shed some light on the factors driving or hindering FDI flows to Africa and on the effects of these investments in African destinations. In spite of a considerable increase in inflows, FDI in Africa still account for only 5% of global FDI. Africa could benefit from the location of foreign MNEs, whose capital and technologies may be key allies in the transition of highly rural and informal African economies to more productive systems. At the same time, the entry of more productive and technologically advanced foreign firms does not come without drawbacks, which makes it crucial to disentangle what the actual effects of FDI are and how these can be influenced and shaped to make sure that the entry of foreign firms leads to inclusive growth. To investigate these issues, this thesis is articulated in three parts.

In chapter one, a comprehensive and updated review of the literature shows that, in spite of the considerable increase in studies focusing on FDI location and effects in the last decades, the evidence on these topics for African countries is scant. Existing analyses on the determinants of FDI in Africa tend to focus only on factors that have been traditionally investigated, such as market and institutional variables, natural resources and cost-efficiency factors, while overlooking the role of other potential sources of advantage, such as agglomeration economies, international investment agreements and specific policies designed to attract foreign capital flows. Some of these policies have great potential, although they require more targeted empirical analyses to assess their effects in different settings. Furthermore, also traditionally investigated determinants should be analysed from a heterogeneous perspective, since the importance of specific location factors differs according to the origin and destination countries and areas, sectors and motives of investment. In particular, further research should be devoted to better differentiate within the pool of investors – especially emerging ones, which have been mostly analysed as a unique block or identified with China – as well as to more systematically compare different areas within the African continent. This review also shows that the effects of FDI are all but univocal. While there is evidence that foreign firms pay higher wages, the relationship between FDI and growth, entrepreneurship, employment and structural change is ambiguous and appears to depend on a number of factors. These include a set of host country policies aimed at increasing the absorptive capacity of domestic firms by deepening the linkages with foreign MNEs. Research efforts should be directed at evaluating the effectiveness of these policies and of the other factors that mediate FDI effects and spillovers at different levels, including from the industry and firm level perspectives. These factors are, instead, severely underinvestigated for most African countries and for the continent as a whole, also due to the scarce availability of consistent data in the region.

In chapter two, the empirical comparison of the determinants of Chinese and non-Chinese FDI in Africa focuses on the role of some of the underinvestigated factors that influence foreign MNEs location choices, namely those relating to the management of risk and uncertainty associated to FDI. When investing in Africa, prior firm experience in the country, country-of-origin agglomeration and investment agreements affect Chinese MNEs location choices less than MNEs from both advanced and other emerging economies. This interesting result can be interpreted in light of the systemic engagement of the Chinese government in Africa, providing direction and support to Chinese investors in several ways beyond state ownership and reducing their "liability of foreignness". Instead, Chinese FDI rely more on industry agglomeration, showing that MNEs from China are in pursue of knowledge spillovers when investing in Africa. Furthermore, they are more market-seeking and manufacturing-oriented, and they do not differ from Western investors when targeting politically unstable resource-rich destinations in Africa, in contrast to what is commonly perceived.

Finally, chapter three empirically addresses the largely overlooked issue of the contribution of FDI to structural change in Africa. This issue is especially important for African countries, many of which are still largely rural and whose transition to more productive economic systems may be accelerated by the entry of foreign capital and firms. Focusing on the case of Ghana – one of the main FDI destinations, whose growth has been considerable in the last decades – this analysis showed that FDI had an active role in the shift towards a service-based economy. In fact, a positive effect of FDI on service employment shares emerges across industries and for all categories of workers, including female ones, often the most vulnerable in developing countries, and more markedly for educated workers. Therefore, the analysis in this chapter detects a role of FDI in the "premature deindustrialization" (Rodrik, 2016) of African countries and identifies a positive mediating effect of education in service industries. Considering also the important role that this factor has in the attraction of FDI, as shown in chapter one, this result calls for increasing investments and efforts by governments in African countries to raise education levels and enhance human capital. As emerged across the chapters of this thesis, these efforts should be inscribed into broader industrial strategies to maximise the opportunities offered by foreign investments and make sure that these are beneficial to the destinations involved.