Africa Development, Vol. XXVI, Nos. 3&4, 2001, pp. 243–247
© Council for the Development of Social Science Research in Africa 2001 (ISSN 0850-3907)

Book Review

United Nations Conference on Trade and Development (UNCTAD), *FDI in Least Developed Countries at a Glance*, UNCTAD/ITE/IIA/3, 2001. pp. 150.

Nelson O. Magbagbeola*

Most countries today appreciate the important role of foreign direct investment (FDI) in economic growth and development. FDI is defined as an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy in an enterprise resident in an economy other than that of the foreign direct investor (foreign affiliate). An equity capital stake of 10 percent or more of the ordinary shares or voting power for an incorporated enterprise, or its equivalent for an unincorporated enterprise, is normally considered as a threshold for FDI. FDI flows comprise capital provided (either directly or through other related enterprises) by a foreign direct investor to an FDI enterprise, or capital received from an FDI enterprise by a foreign direct investor.

In addition, although foreign private investment comes in the form of either FDI or foreign portfolio investment, FDI is a more resilient form of foreign investment because it is made with a lasting interest in the host economy while foreign portfolio investment is mediated through financial market instruments using the existing returns on investment as basis for further investment or divestment. FDI is important in bringing about the much-needed additional capital, access to technology and international markets. These assets are key for economic growth and development and for better integrating the least developed countries into the global economy.

Dr Magbagbeola is at the National Centre for Economic Management and Administration Ibadan, Nigeria.

Indeed, FDI can directly contribute to the upgrading of the productive capacities in least developed countries (LDCs) and thus effectively implement the role of official development assistance.

In the book, UNCTAD examines the flow of FDI to some 49 countries classified as "least developed countries (LDCs)" by the United Nations in Year 2000 on the basis of per capita GDP under $900, and low levels of capital, human and technological development. The list is reviewed every three years by the United Nations Economic and Social Council. Although the 49 LDCs account for nearly a quarter of the world in terms of the number of countries, and more than one tenth in terms of population, their share of world GDP is less than 1 percent. Of the 49 LDCs, 31 are in Africa, particularly sub-Saharan Africa. This implies that much of the world poverty is in sub-Saharan Africa.

The 140-page book is divided into two parts. The first part depicts recent trends in FDI to LDCs and changes that have taken place in relevant areas of the regulatory legal framework. The second part presents country profile of each of the 49 LDCs to enable the reader – at a glance – to get a general picture of the role of FDI in these countries. Basic information is provided on the volume and significance of FDI in LDCs. The data coverage also includes a breakdown of FDI by source country, industry and mode of entry. FDI flows are related to domestic investment, and data on the largest foreign affiliates and their operations in LDCs are presented. Finally, information on developments of the international legal framework is provided.

Each country table is subdivided into seven sections consisting of the country's name and map, its demographic and economic information, geographical breakdown of inward FDI by source, chart of FDI flows from 1985–1989, DTTs (bilateral treaties for the avoidance of double taxation) or BITs (bilateral investment treaties for the promotion and protection of foreign investment) as at 1 January 2000, the largest foreign affiliates as at 1999, and other relevant information including membership of relevant international agreements as of April 2001; address and website of investment promotion agency; Fortune 500 investors, and whether member of WAIPA (World Association of Investment Protection Agencies) as of March 2001.

Foreign Direct Investment (FDI) flows to the 49 LDCs as a group increased from an annual average of $0.6 billion during 1986–1990 to 2.0 percent during 1996–1999, as FDI to other developing countries grew faster. Unfortunately, the five countries that experienced decline in the annual average FDI growth rates between 1986 and 1999 were African countries namely Burundi, Central African Republic, Mauritania, Rwanda and Sierra Leone.

In absolute terms, while investment flows to LDCs are still mainly directed to a few countries that are essentially oil-exporting or resource-rich countries (e.g. Angola, Zambia), FDI became less concentrated in the 1990s: in 1986–1990, five countries accounted for 77 percent of FDI inflows; in 1996–1996, that percentage had dropped to 50 percent. During 1996–1999, 13 LDCs received more than $100 million on average while 16 countries received less than $10 million. In 1999, according to UNCTAD, only four LDCs (Angola, Myanmar, Liberia and Lesotho, in that order) reported an FDI stock of more than $12 billion.

Concerning developments in the regulatory framework, UNCTAD reports that most LDCs have increased efforts to improve their investment climate. In many cases, new FDI regulations in LDCs have greatly liberalized restrictions, provide for non-discrimination between foreign and domestic private investors, allow for profit repatriation, protect against expropriation, grant incentives and strengthen standards of treatment of foreign investors.

An area in which particularly important changes have taken place concerns limitations on foreign ownership and control. The Tanzanian Mining Act of 1996, for example, relaxed government regulatory control over the mining sector and removed a number of barriers that previously limited foreign ownership of mineral exploitation enterprises. In Ethiopia, land is public property and cannot be purchased or sold. However, land for investment purposes can be obtained through leaseholds with their length varying from 15 to 99 years; a typical lease for a business venture is 30–60 years.

Many LDCs furthermore guarantee foreign investors a right to repatriate capital and profits, thus exempting them from otherwise restrictive foreign exchange regimes. In Senegal, for example, there are no restrictions on the transfer or repatriation of capital and income

or capital in convertible foreign exchange, while other countries (e.g. Tanzania) have removed completely foreign exchange restrictions and have introduced forex bureaux to handle foreign exchange transactions no longer controlled by central banks. In other countries, foreign exchange retention schemes allow foreign firms access to either all or a portion of the value of their exports. Zambia's Investment Act of 1991, for example, allows exporters to return up to 70 percent of their export earnings in the initial years of the investment and 50 percent thereafter.

It is reported that many LDCs have enacted new or revised legislation allowing foreign investors to participate in privatisation programmes. A recurrent issue in many countries with regard to privatisation is how to secure indigenous ownership of assets in a situation characterised by a fairly narrow capital base in the private sector. Notwithstanding, the ongoing liberalisation of FDI restrictions, some LDCs still require approval for the establishment of FDI projects. In some countries, proposed investments have to meet certain criteria stated in the investment codes to receive approval. In other countries (e.g. Mozambique, Eritrea), approval is required only to obtain fiscal benefits.

Other areas in which the LDCs have improved their regulatory framework include offer of generous tax incentives, increased international cooperation on FDI, avoidance of double taxation in foreign investors' locational decisions, and increased interest in becoming parties to key multilateral investment agreements. In addition, UNCTAD reports that 37 LDCs have also been increasingly proactive in promoting their countries, emphasising their attractiveness for foreign investors, by establishing investment promotion agencies that specifically concentrate on promotional activities. In some cases, the same agencies are also responsible for setting the requirements for inward FDI and for approving investment projects. An important trend in this respect that UNCTAD has observed is the introduction of "one-stop window" in order to simplify procedures and facilitate the entry of foreign investors. It is believed that the agencies can also play an important role in the dialogue and negotiation between investors and the relevant government authorities, seeking to ensure that

investors are fully informed of the benefits to be derived from their country.

The book concludes that the international community has an important role to play in helping to ensure that existing opportunities are adequately communicated to corporate executives and in providing assistance to LDCs to improve the scope for FDI further. Thus, FDI will be able to play a greater role in the development process of these countries, and contribute to an upgrading of the reproductive capacity of their domestic enterprise sectors, to bring about higher economic growth and an improved quality of life.

However, UNCTAD does not attempt to explain the presence of many of the LDCs in the African continent. Many of the countries have witnessed one conflict or the other, which accounts greatly for the low scores recorded by them in the threshold criteria for least developed countries as defined by the United Nations. In addition, the book fails to appreciate that during the period under review, much of the FDI that should have come to the LDCs were diverted to the economies in transition of Eastern Europe.

Nevertheless, the book is resourceful and should serve as a reference tool for every development student and expert interested in economic development of the third world countries.