NAIROBI FOURTH CHINA ROUND TABLE

WTO ACCESSIONS AND THE MULTILATERAL TRADING SYSTEM

HIGH LEVEL SESSION: INTERNATIONAL ECONOMIC COOPERATION AND AFRICAN PERSPECTIVES ON THE FUTURE OF THE MULTILATERAL TRADING SYSTEM

Monday, 14 December 2015

Statement by Mr. Joakim Reiter, Deputy Secretary-General of UNCTAD

[AS PREPARED FOR DELIVERY]

Ladies and Gentlemen,
Good morning,

Agenda 2030 outlines an ambitious, and more promising, future for all of us. This is a critically important agenda.

But, an ambitious agenda can also be a daunting one. This is particularly the case for the least developed countries (LDCs), most of which are African. And they are right to feel this way. To put things bluntly: in order to for LDCs to be able to meet the Sustainable Development Goals, they will basically have to outperform China's top 15 years of growth performance. What is more, they will have to do so in a far more challenging global economic environment, with continued fragility, including very weak trade growth.

So we must rise to the challenge.

And, for Agenda 2030, productive investment - domestic, regional and global - will have to play a critical role. It must be effectively mobilized to close the current annual investment gap of 2.5 trillion USD for achieving the Sustainable Development Goals in developing countries alone.

For the purpose of today's discussion, allow me to focus on Foreign Direct Investment.

FDI is a key component in the growth of regional and global value-chains and the investment-trade-knowhow nexus that they represent. FDI can build productive capacity, enhance competitiveness and create new job opportunities, helping poor lift themselves out of poverty. And FDI can fuel trade and promote new export opportunities, assisting countries to diversify their economies.

What is more: the face of Africa is already changing, and at times faster than what we may perceive. And FDI has been a very important part of this story of change.

So let me begin by providing an overview of FDI to the African continent. This allows us not only to uncover the discrete and powerful story of change that is happening in Africa, but also to identify gaps and find ways forward.

Five developments should be highlighted:

First, FDI inflows to Africa have increased dramatically in the last fifteen years. In fact, FDI flows in 2014 ($54 billion) were **more than five times** their level in 2000 ($10 billion). In addition, Africa's share in global FDI increased to 4.4% in 2014, from 0.7% in 2000. Africa's share of global investment flows is today - by a great margin - bigger than its share of global trade.

This underscores the increased attractiveness of the region for foreign investors. The world is banking on a better African future and they are putting money where their mouth is.

Second, notwithstanding this increase in FDI, FDI inflows to Africa can and should be higher. They are, I would argue, still below - or, in some case, far below - their potential. For starters, there is big regional variation in FDI inflows. These variations reflect remaining challenges. Some of these are of a domestic economic nature. But there are also challenges negatively affecting African FDI-inflows arising from both the overall global economic environment and non-economic reasons (like health or political stability) in some regions and countries.

Third, we see increased of FDI flows into smaller, more vulnerable or poorer African economies, even if the large and/or commodity rich countries are still dominating the inflows.

Fourth, we see a diversification in the source of FDI into Africa. Investment of multinational enterprises from Asian emerging economies, mainly China, Singapore, Malaysia and India, has increased rapidly.

Fifth, we see increased FDI supporting deeper regional integration. Intra-African investments are on the rise, driven by a continuous rise in South African FDI, as well as by increases from Kenya, Nigeria, and Northern African countries. In fact, between 2009 and 2014, the share of the announced cross-border greenfield investment projects originating from within Africa rose to nearly 20 per cent of the total, from less than 10 per cent between 2003 and 2008.

So, what about **transformation**? What do the investments go to in recipient countries? In the end, what will offer a real chance for better future in Africa is what the investment are used for.

Here the picture is mixed. Still today, with regard to FDI flows, the lion's share of investment flows to Africa is still in the natural resources sector. Announcements of greenfield investment confirm the preponderance of natural resources in these trends.

But this is not the whole story. FDI flows are not the same thing as FDI stocks. And when we look at the FDI stock in Africa, we find that almost half (48 per cent) of it is geared to services, compared to 31 per cent to the primary sector.

This means that services-related FDI has been more stable than investment in natural resources, which tend to react to changes of international commodity markets.

And this fact reveals two important - and positive - features of Africa's ongoing transformation.

First, and contrary to some expectations, many African countries are increasingly services driven economies. We see the emergence of the African middle class -- estimated to have expanded 30 per cent over the past decade, reaching 120 million people. This is shown by the fact that investors target more and more consumer products such as food, information technology, tourism, finance and retail.

And second, the recent growth story in Africa is due to the dynamism and development of the services sector. In 34 of all African countries, services have been driving growth over the last few years.

Africa is showing immense potential in some services sectors. And the benefits of this transformation is not confined to the services sector alone. Many services sectors, especially infrastructural services, are the backbone of trade in goods, be it manufacturing or agriculture. In that way, services enhance countries' capacity to access, as well as to climb, value chains.

Services can also be increasingly traded in their own right. Long gone are the days when services were seen as a non-tradable sector. And it is already happening in Africa. Some African countries have even developed their services beyond national confines, offering these services to other African countries, in sectors such as banking, telecoms and air transport. This regional experience is a platform for developing regional value chains (RVCs), which in many cases are stepping stones for Global Value Chains.

But services are not - and indeed cannot and should not be - the only area of potential future diversification of Africa. Services are not enough.

This brings me to manufacturing, indeed industrial transformation in Africa. Also FDI tells us something about this opportunity, as well the challenges ahead.

The good news is that there has been a sharp increase in the number of Asian manufacturers engaging in Africa, as well as new investments from North America and Europe. For example, in Nigeria, Nissan, Peugeot and Hyundai all began auto assembly in 2014. Ethiopia is becoming a hub for multinational enterprises producing garments and textiles. And we heard from Lesotho's minister here today.

But Africa needs to do far more and better in promoting productive capacity in manufacturing. Industrialization is struggling, and in parts of Africa, manufacturing has even been shrinking as a percentage of GDP. Africa is still capturing a relatively limited share of global FDI-flows within manufacturing. In fact, only 21% of African FDI-stocks are in manufacturing.

And this is where regional integration and trade costs come in. Much more can be done in both these areas:

Regional integration in Africa is low. Only 14 % of African trade is intraregional, and high trade costs are part of the problem. In fact, African nations can pay 40 to 70 per cent more on average for the international transport of their imports than developed countries. Some figures even suggest that the cost of a container of exports from Africa is double that of developed countries. Add to this that various non-tariff measures are estimated to represent 60-90 percent of the trade costs faced by African businesses.

Africa needs regional integration with a much higher level of ambition, and CFTA offers a unique opportunity for this. Regulatory convergence, at a regional level, should be promoted. At national level, we need better pro-competitive regulations that ease the cost of doing business, and where policy-makers fully factor in the cost for trade with neighbouring countries. Modernized customs, soft and hard infrastructure, should also be pursued.

As I already mentioned, FDI flows reveal the potential of increased regional integration. We are already seeing increases in intra-regional flows, strengthening the efforts of a deeper integration. By unlocking this potential further, African countries can help expanding consumer markets and economies of scale, which in turn attracts more FDI, creating a positive and upward spiral.

Ladies and gentlemen,

The face of Africa is changing, and it is not only a facelift. FDI has contributed to these changes. And, to achieve Agenda 2030, FDI will have to contribute even more in the future in order to ensure more profound change.

UNCTAD is there to helping African countries in this process.

Thank you.