

Digital Development Dialogue (3D)

Towards a Common Investment Area in the AfCFTA: Levelling the Playing Field for Intra-African Investment

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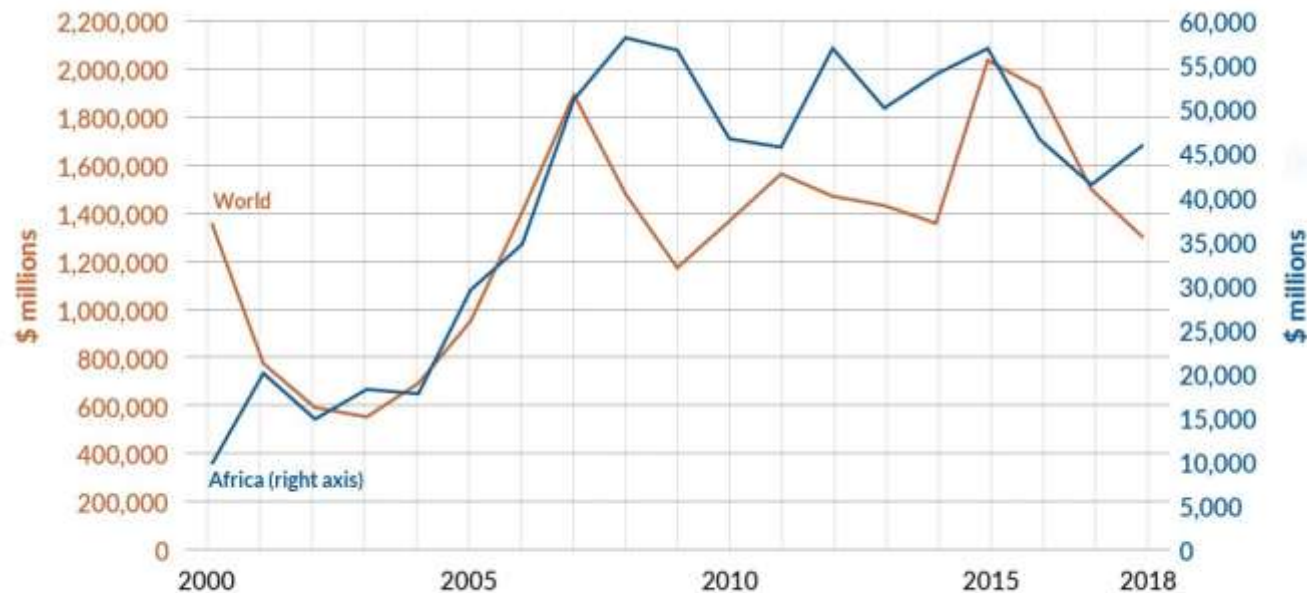


Outline

- 1. ECA research on investment in Africa**
- 2. FDI inflows to Africa: State of play**
- 3. Introducing “Towards a Common Investment Area in the AfCFTA” publication**
 - Theoretical framework**
 - Interlinkages among protocols**
 - Key highlights**

FDI Inflows before COVID-19

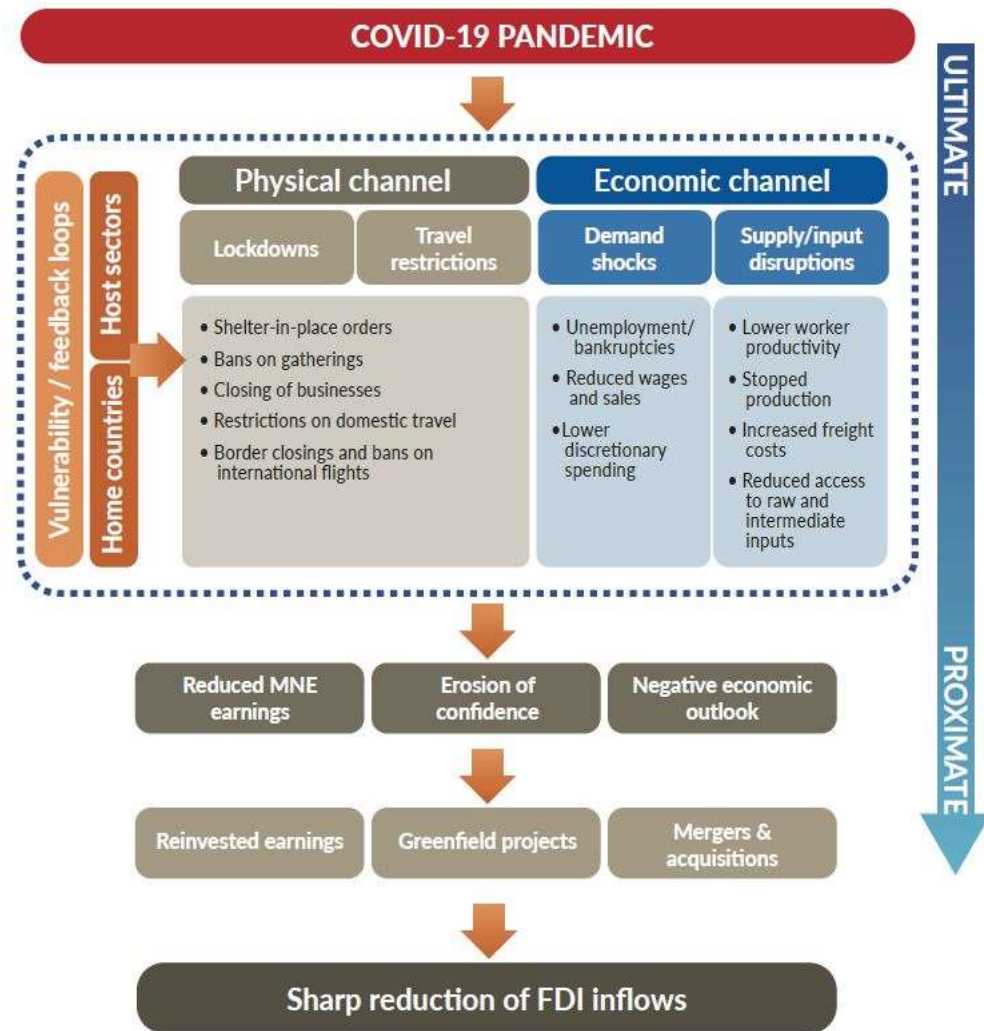
- Global FDI was already slowing before the pandemic
- FDI inflows were \$1.3 trillion, lower than for any other year since the 2008 global financial crisis - In 2018, worldwide
- In Africa, investment inflows peaked in 2008, dropped steeply for three consecutive years following the global financial crisis, and recovered to \$57 billions by 2018



Source: UNCTADstat.

COVID-19 impact on FDI

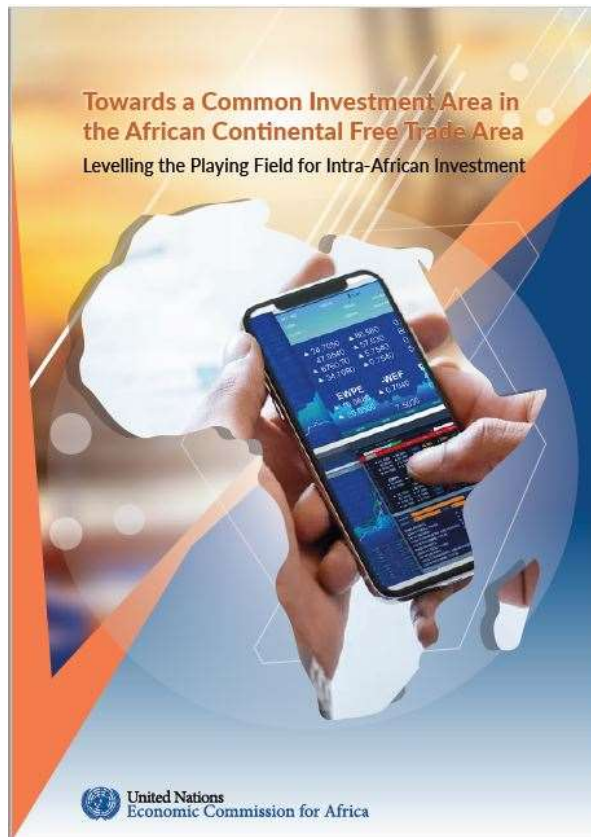
- Global investment flows fell 42 percent from \$1.5 trillion in 2019 to \$859 billion in 2020—a level 30 percent lower than the post-global financial crisis trough
- In Africa, FDI fell 18 percent from \$46 billion in 2019 to \$38 billion in 2020, a level not seen for at least a decade
- This dip was deeper than that in developing economies (12 percent) but less severe than the fall in developed countries (61 percent)



Introducing new publication on AfCFTA common investment area

Main Report Available in:

- English (286 pages)
- French (324 pages)



One-page summaries

Dedicated summaries for three different audiences:

- Policymakers
- Media & academia
- Business

Available in English and French

Towards a Common Investment Area in the African Continental Free Trade Area
Levelling the Playing Field for Intra-African Investment

TARGETED ONE-PAGERS

	POLICY-MAKERS	MEDIA & ACADEMIA	BUSINESS
Chapter 1: Regional Integration Advances and Foreign Direct Investment in the Era of The African Continental Free Trade Agreement (AfCFTA)	●	●	●
Chapter 2: Theory and Evidence Linking Investment with Behind-The-Border Issues	●	●	●
Chapter 3: The AfCFTA Investment Protocol: Reshaping the African Investment Regulatory Landscape for Sustainable Development	●	●	●
Chapter 4: The Nexus Between Competition and Investment: Competition as An Investment Enabler	●	●	●
Chapter 5: Intellectual Property Rights and African Development	●	●	●
Chapter 6: The Nexus Between the Digital Economy and Investment	●	●	●
Chapter 7: Complementary and Flanking Policies	●	●	●
Chapter 8: COVID-19 and Investment in Africa	●	●	●

Theoretical framework for publication



E-commerce can spur FDI inflows, but FDI is often necessary to build the infrastructure to support digital trade in the first place. **FDI is thus a first-order issue.**

Investment is the entry point for considering **competition, intellectual property and digitalization.**

Fewer than
50%
of Africa's national
economies have
competition laws
and effective
authorities to
enforce them.

**STRONG IP
REGIMES**

+

**INNOVATION
TECHNOLOGIES
TRANSFER**



attracts more

FDI

Interlinkages among AfCFTA Phases I, II and III Protocols are important and require intentional and coherent interactions during negotiations

- ❑ The AfCFTA private sector strategy engagement plan identifies both sectors as high priority for the development of RVCs
- ❑ Indicate need for a wholistic approach that takes full account of interdependencies and cognisance of future productive capacities, investment and trade facilitation needs
- ❑ Findings of the recent ECA research quantify and clearly demonstrate how much the continents stands to forego if due attention is not paid to existing and potential linkages during negotiations.

Interlinkages among AfCFTA Phases I, II and III Protocols

key messages

Strengthen the approach to negotiations

- ❑ Pay due attention to interlinkages among negotiation issues and protocols
- ❑ More evidence based research is need to inform negotiations
- ❑ Enhanced, meaningful dialogue across negotiation structures and among policy makers consistently needed throughout the negotiation and implementation phases
- ❑ Targeted capacity building for negotiators and policy makers
- ❑ Suitability of existing negotiation structures and processes

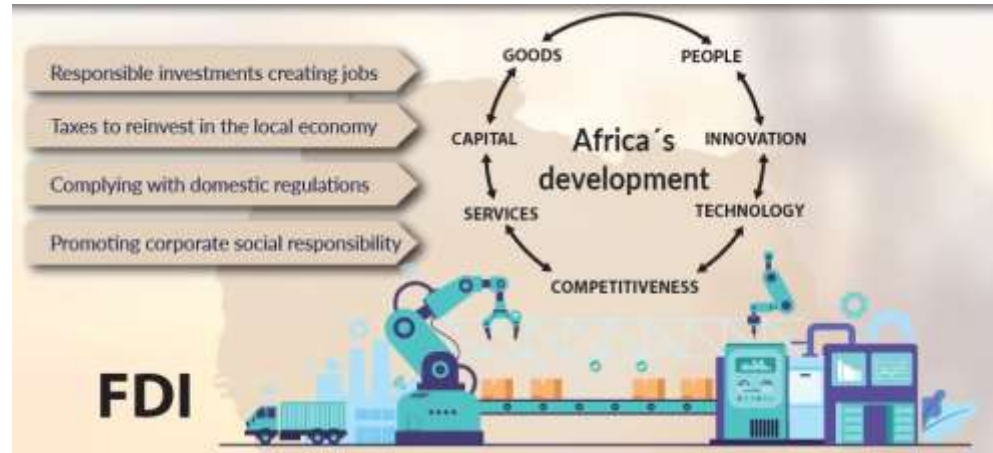
Possible pillars of AfCFTA investment protocol

PILLARS	POLICY OBJECTIVES	RISKS
Investment promotion and facilitation	<p>Lower transaction costs for investors in finding, seizing and exploiting investment opportunities</p> <p>Avoidance of conflicts between host states and investors</p>	Lower socioeconomic and environmental standards required of investors
Investment protection	Boosted investor confidence through legal safeguards against political risks	Narrowing of available domestic policy space
Investor obligations	Entrepreneurial initiatives aligned with sustainable development outcomes for host countries and communities	Investors deterred or induced to invest through third countries by onerous or unclear obligations and compliance processes
Other state commitments	A virtuous circle between investment and sustainable development ensured by international obligations on states to prevent a damaging race to the bottom	<p>Legal levers to ensure compliance hollowed out by weak commitments or enforcement mechanisms (which could be complemented by international pressure)</p> <p>Buy-in deterred by an inflexible approach threatening states with weak institutional infrastructure or an economy reliant on low-cost models of production</p>

AfCFTA investment protocol: A gamechanger

OBJECTIVES

1. Foster the continent's structural transformation
2. Harness private initiatives' business potential
3. Sustainable outcomes for host communities



- ❖ With the AfCFTA, investment policymaking in **Africa is entering a significant new stage**
- ❖ Investment protocol crowning the continental investment regulation landscape and drawing on innovative approaches adopted by African countries in recent years
- ❖ Through the protocol, African countries can surmount several policy and regulatory challenges by:
 - ✓ Linking individual chapters of the AfCFTA and achieving coherence
 - ✓ Harmonizing heterogenous approaches to investment regulations in Africa
 - ✓ Clarifying the relationship and precedence of the AfCFTA investment protocol and IIAs
 - ✓ Pooling resources to strengthen domestic and regional institutions and business climate

Policy recommendations: Importance of getting investment protocol right

General

- **Simplify** current entanglement of investment rules and **clarify linkages** with other AfCFTA protocols, international law, and domestic legislations
- Increase **cooperation and peer learning** to build **necessary capacities and institutions**

Investment protection and other pillars of investment protocol

- A **delicate balance** is needed **on investment protection**: a conservative regime backstops investment disputes and raises ISDS costs; weak protection fails to reassure investors
- **Investor obligations** cannot be disconnected from other key aspects of the investment protocol, and States need to create conditions to support their fulfilment
- Additional **State commitments** that go beyond investment protection should be unambiguous with regard to content and to whom they are targeted

COVID-19 AND INVESTMENT IN AFRICA

The health consequences of COVID-19 are tragic for the continent, but its impact goes further

ECA estimated **GDP** growth to drop from **3.2%** (2019) to **1.8%** (2020)

Demand and supply shocks **reduce MNE earnings**

Uncertain business outlooks and heightened risks

IMF revised its **2020 GDP growth** forecast for Africa (excluding North Africa) to **-3%**

Investors adjusted their portfolios towards **safer assets**

Firms operating at **less than half capacity**



Africa can take advantage of its experience with COVID-19 to better prepare for a world increasingly at risk of pandemics, natural disasters, economic crises and environmental catastrophes

INVESTMENT POLICIES AFTER THE PANDEMIC

- 1** Africa needs to develop regional value chains and reduce its external economic dependence
- 2** Investment policies can play a critical role in protecting supply chains and strengthening the continent's readiness to respond to future crises
- 3** The AfCFTA must be at the forefront of Africa's economic recovery
- 4** The Investment Protocol will boost FDI inflows by harmonizing rules and creating a level playing field for investors
- 5** COVID-19 has catalysed changes that present Africa with a unique opportunity to capture the benefits of e-commerce and digitalization

COMPLEMENTARY AND FLANKING POLICIES



Policies for the complementary and flanking sectors

- Complement policies in the study's central sectors
- Maximize positive outcomes
- Minimize negative outcomes

INVESTMENT
Must establish a relationship with investment in the digital economy



COMPETITION
Should consider competition policy in a market where several countries' economies are integrated

DIGITALIZATION
Unique opportunity to design trade policy tailored to Africa's digitalization needs and objectives

INTELLECTUAL PROPERTY
Must respect intellectual property rights (IPRs) and enforcement across borders

FISCAL POLICY

Dictates what government budgetary allocations can be secured for and what taxes and other impositions can be derived from each economic activity

FISCAL POLICY



- Its effectiveness and efficiency can be enhanced through digitalization
- When geared to investment can enhance the interlinkages with IP policy

DIGITAL TECHNOLOGY

- Can increase fiscal revenue by 3%-4%
- Can strengthen government capacity
- Can promote greater fiscal discipline in public expenditure

PRIVATE SECTOR DEVELOPMENT POLICY

to support

INDUSTRIALIZATION



- Industrialization requires large capital expenditure on productive assets
- Regional integration could create regional value chains
- African countries must support their tech-entrepreneurs in developing scalable products

Where to access the publication

ECA Knowledge Repository:

<https://repository.uneca.org/handle/10855/46741>

Dedicated publication subsite:

<https://www.uneca.org/CommonInvestmentArea>



THANK YOU!

Ideas
to
Action