INTRODUCTION

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How can Africa, the world's most lagging region in economic development, benefit from globalisation and achieve high and sustained economic growth rates so as to achieve the international development goal of reducing the number of its inhabitants in poverty by 50% by 2015? In this we proceed from the standpoint that Africa needs much greater investment by multinational enterprises (MNEs) to improve its competitiveness, to develop its comparative advantages and fast-track growth through the positive spill-over effects associated with the activities of global firms. The challenge for African countries at the beginning of the 21^{st} Century is how to be a more desirable destination. However, the relationship between foreign direct investment (FDI), the behaviour of MNEs and economic growth in Africa may not be well understood. For instance, despite the fact that Africa's returns on investment averaged 29 percent since 1990 (exceeding that of countries like Japan, the US and UK), Africa has gained merely 1 percent of the global FDI flows.

This book is based on a research project aimed to better understanding the reasons for this and asks the question: How can Africa be a more desirable location for MNEs? Much of the current research emphasis in the international research community has been on the macro-economic policy conditions for African growth. Only recently, mainly due to household surveys designed to track poverty (e.g. in Ghana) and the work of the World Bank's Regional Programme on Enterprise Development (RPED) to understand how firm-level behaviour is affected by trade liberalisation did our knowledge of the micro-foundations of growth in Africa improve. However, whilst household surveys and surveys of African firms are immensely insightful, in a rapidly globalising world economy where MNEs play a dominant role it is necessary to combine insights from household and firm-level surveys with the role and impact of MNEs in Africa.

To do this the current study integrates three currents of economic research, namely from the literature on (endogenous) economic growth, convergence

and regional integration, the explanations for Africa's poor growth and the growing understanding of the role of MNEs in a global economy. We develop a model of human skills, foreign direct investment and catching-up that could be relevant for Africa. The empirical side of the analysis is based on an econometric study of the determinants of FDI in Africa as well as a detailed firm-level survey of 31 German firms in South Africa that were conducted in 2000[1].

In addition to expanding the knowledge of MNEs in Africa, and identifying the constraints on German firms in South Africa, this study also expands the understanding of the geography of MNEs in general. The behaviour and contribution of MNEs in Africa has perhaps not been well understood in the theoretical literature and this study is an attempt to rectify this shortcoming.

A SOUTH AFRICAN PERSPECTIVE

In attempting to answer the difficult question raised in the previous paragraph, we will be taking a South African perspective in the sense that this book is based on a joint research project between the Universities of Paderborn in Germany and North-West University in South Africa. German MNEs have been investing in South Africa for well over a century and South Africa is one of the top five destinations for FDI on the African continent. South Africa provides a particularly fruitful viewpoint from which to study the inflows of FDI by MNEs into Africa. Firstly, it is one of the few African countries that have significantly liberalised its current and capital accounts over the past five years, and achieved a remarkably stable macro-economic position. Easy access, possibilities for profit repatriation and macro-economic stability together with the country's good physical and financial infrastructure suggest therefore that it should be at the forefront of receiving inflows of FDI. However, this has not been the case, and the one unfulfilled requirement in the new government's "Growth, Employment and Redistribution"(GEAR) macro-economic strategy has been the inability to achieve sufficient inflows of FDI. In chapter 10 of this book, we detail the South African experience with FDI inflows in the context of a model that links human capital with FDI inflows. Although this is a South African viewpoint, the implications for the rest of Africa could be argued to be very valid as it emphasises the importance of certain specific micro-foundations for growth such as adequate human capital.

[1]Germany provides almost 40 percent of South Africa's imports. There are around 560 German firms in South Africa employing more than 65 000 people. Most of these enterprises can be identified to operate in the secondary sector especially in the machinery, electronic, chemical, pharmaceutical, automobile and metal production sectors. Also important are some 90 SMEs in these sectors, followed by 68 businesses operating in the tertiary sector. The average German firm has been operating in South Africa for 22 years.