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CONCLUSIONS

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In the introduction to this book we stated that 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. We can now come back to the question that we had posed in that chapter namely to identify why and how African countries can become a more desirable destination for MNEs?

In ***Chapter 1*** by Thomas Gries & Willem Naudé entitled *"On Global Economic Growth and the Challenge Facing Africa"* the economic development challenge facing African governments in a globalising world economy was set out. The chapter applied the insights from the "endogenous growth" literature and empirical findings from the literature on Africa's economic performance to establish that Africa requires investment by multinational enterprises (MNEs) to improve its competitiveness and to facilitate micro-level structural changes required to reduce its riskiness as an investment environment.

The authors noted that in the debate on the strategies open to African countries to speed up economic growth, the role and nature of MNEs and FDI is relatively understated. The authors emphasised that the importance of MNEs in economic globalisation is due to their functions in providing Foreign Direct investment (FDI) and of leading to growing intra-firm trade. Although African countries remain amongst the most "closed" economies in the world, many have begun to implement trade liberalisation programmes and adopted outward-orientation as a growth. FDI and the benefits of intra-firm trade, given that international technology transfer is primarily in the form of intra-firm deals, may thus hold significant growth-benefits to Africa as a whole. Rising FDI and involvement of MNEs could stimulate economic growth in Africa to the extent that it facilitates micro-economic, structural changes required for the African economic environment to become more "investment friendly". It is the type of benefits that FDI and MNEs could impart that could be

beneficial in this regard to Africa within a global economy, namely technology spillovers, international technology trade, improved use of know-how and a higher overall investment-output ratio. Hence, the authors conclude, Africa might be in low-growth equilibrium trap, unless factors and conditions can be identified whereby MNEs can become more involved in African economies.

In ***Chapter 2***, entitled *Catching-Up, Falling Behind and the Role of FDIs* Thomas Gries introduced a theoretical model that may give an idea of the major development mechanisms as well as the effects of the domestic factors and FDIs on the catching-up process. The theoretical model of this chapter attempts to overcome three challenges in the traditional modelling FDI. Firstly the model includes a stylized development mechanism, which captures the empirical observed regimes of catching-up as well as falling-behind. That is, the model should allow identifying the conditions for a switch from stagnation to dynamic upgrading. Secondly the model clearly distinguishes between the contributions of domestic factors and external factors on growth and development. Thirdly the model is able to identify the effects of FDIs on the development process and draw a general picture of the potential role of FDIs for development.

The implications from the model show that a typical African economy will face a divergence regime as long as human capital endowments are below a critical level. Although FDI is important for the process of catching-up the switching condition for upgrading as well as the national level of the technological position is solely determined by the stock of domestic human capital. Without a sufficient domestic factor, no take off to a dynamic catching-up process takes place. Therefore the results in this chapter emphasize the importance of the domestic human capital. Gries further show that once having reached a critical level of human capital, the process of upgrading towards the industrialized world is not linear, but s-shaped. Successful catching-up requires the closing of the technological gap towards the leading countries of the industrialized world. In this respect FDIs are indeed important for the level and speed of GDP growth. A decreasing level of FDIs will reduce the path as well as the steady-state income level of the economy.

Having detailed the catching-up challenge facing Africa and having shown that FDI can, conditionally, help African countries to catch up, ***chapter 3***, by Waldo Krugell focuses on *"The Determinants of FDI in Africa"*. The main contributions to the theory of FDI and an overview of recent empirical work are presented. Hypotheses of the determinants of FDI in Africa are tested in a pooled cross-country and time series model of 17 countries in sub-Saharan Africa for the period 1980 to 1999. Past FDI flows, GDP growth and domestic investment are found to be positively and significantly related to FDI flows. Inflation is negatively related to FDI. Conflicting results are found for the importance of the openness of the economy, as a determinant of FDI. The