A STUDY ON FOREIGN DIRECT INVESTMENT IN CAMEROON

By

Kum, Emmanuel Bang

THESIS

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
for the degree of

MASTER OF BUSINESS ADMINISTRATION

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Committee in charge:

Professor Anthony MICHELL, Supervisor ________________________

Professor Seung Joo LEE ________________________

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ABSTRACT

This Study investigated: **A Study on Foreign Direct Investment in Cameroon (FDI)**.

FDI has attracted a lot of attention from developing countries because of its perceived advantages in terms of capital injection, technological transfer and economic growth.

Three hypothesis were formulated to examine contributions made by FDI to an ailing economy like that of Cameroon between 1986 and 2003

FDI contributions were studied first from the macroeconomic and microeconomic levels. At the macroeconomic level, a large flow of FDI did not have a large positive impact on the economy. At the microeconomic level its contributions to some industries was very significant.

A sample of 398 economic operators responded to the questionnaire. The chi-square test of independence was used to test the hypotheses at 0.05 alpha level of significance. At this level, all the null hypothesis were rejected and the alternatives retained leading to the results that;-

- FDI contributes significantly in alleviating poverty.
- FDI contributes significantly in technological advancement
- FDI significantly attracts the interest of donor countries

Thus it was concluded that FDI did play a major role in the economy recovery of Cameroon during the period of the economic crises.

Dedicated to my Children

Jane-Samira Embi Bang and Fangmbeng Mathews Cunning

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The Cameroonian government wants to build a competitive and prosperous economy by boosting investment and savings. To this end, Cameroon's National Assembly adopted an investment charter in April to attract international investors The Investment charter should replace the 1990 Investment Code by the end of 2007. The late entry into force of this liberal Investment Charter was due to delay in drafting the enabling legislation creating appropriate agencies and regulations necessary to its implementation

Thus new liberal Investment charter frees the economy from the bottlenecks inherent in the old one by allowing foreign investors to directly investment in Cameroon following the laid down procedures with the major aim of revamping the ailing economy.

The government's Investment Code Management Unit (ICMU), an old vestige of the 1990 Investment Code, is used to screen potential investments, dispensing investment authorizations. It is expected to be replaced by an investment Promotion Agency whose board members are yet to be appointed.

Under the 2002 Investment Charter the government plans to promote, facilitate and support in general investments that will be carried out under the charter. To promote, facilitate and support investments will require the concerted effort of all concerned. The government must put in place confidence building measures to attract foreign and local investors. There must be a reduction in the bureaucratic nature of setting up investment.

In an attempt to render operational the Investment Charter, the government put in place 23 committees to draft 23 sector codes. Some of the codes have already been adopted: the forestry sector code (1994), the petroleum sector code (1999), and the mining sector code (2001). During 2007, a number of the remaining sector codes are expected to be presented for a vote at the National Assembly, including the Telecommunications sector code. The codes have to do with a set of moral principles or rules of behavior put up to society or social groups to facilitate investments in various sectors.

The 2002 Charter does not discriminate with regard to equity ownership, permitting 100 percent foreign ownership, in contrast to the 1990 Code which provided for limits on foreign ownership only under special circumstances having to do with reciprocal treatment. Substantial local equity ownership may assist in the investment approval process. Investors who intended to make direct investment of 100 million CFA Francs (approximately USD 200.000) or more had to declare them with the Ministry of Economy and finance (MINEFI) 30 days in advance.

Foreign bidders are permitted to participate in privatization programs including the selection of the privatization consultant. Privatization programs are managed jointly by the government and the World Bank, and are for the most part transparent. Some of Cameroon's recent privatizations (since 2004) have suffered from a lack of qualified bidders, and several of them have had to be postponed. Total privatizations are rare, as the government generally continues to hold 30-45 percent shares of privatized" companies (thought it is willing to reduce these ownership shares in most cases). Buyers of some former state monopolies enjoy concession rights, thus limiting the entry of competitors in the sector for specified periods. Shares of privatized companies are usually owned by the government, foreign countries or foreign firms and indigenes or local firms in Cameroon

1.1.1 Historical Background

A number of empirical studies have identified investment as one of the major factors constraining economic performance in the African continent and capital formation is thus considered one of the essential components or requirements of GDP growth (Collier and Gunning, 1999; Khan and Reinhart, 1990). Ghura (1997:27) say that in Cameroon the effect of investment on economic growth is "large, statistically significant, and robust". Cameroon adoption of the structural adjustment plan had as one of its principal objectives the promotion of investment, especially that of the private sector. Promoting investment has consequently been one of the cornerstones of government economic policy. Like many other developing countries, Cameroon has relied on foreign savings to finance its development. The insufficiency of domestic savings has led to a huge savings gap, and consequently a foreign exchange gap. The latter arises when government expenditure plus private investment exceed government revenue and private savings leading to internal imbalance which spills over into an external imbalance of imports greater than exports. The financial sector in most developing economies is largely underdeveloped and often only gradually coming out of repression. Its capacity to mobilize domestic financial resources to close the gaps and develop the economy is quite inadequate. There has consequently been a need for foreign resource inflow, whether through official or private sources, to fill these gaps. Many studies have shown that resource flows are important for investments and investments are described as the engine of economic growth. Cameroon has received both official and private flows over the year. Official Development Assistance (ODA) has come from both bilateral and multilateral sources. Starting from independence, ODA increased steadily to get to a maximum of about 406 billion CFA francs in 1994. Most public investment in Cameroon has been carried out thanks to official flows. These include road construction, telecommunication infrastructure, railway, and most of the aged industrial complexes built in the 1970s and 1980s. From 1994 to 2000, however, Cameroon's ODA declined by almost 34% from CFAF 406 billion to CFAF 271 billion. A number of reasons explain this fall in aid flows: donor fatigue resulting from poor economic performance, ineffectiveness of previous aid disbursement and the belief that this is linked to poor economic policy in recipient countries (Burnside and Dollar, 2000), increased competition from newly independence states in Eastern Europe, the influence of international policies and diplomacy on aid allocation among other reasons, the fear that allocated funds will be siphoned into private pockets and lack of transparency in executing allocated resources.

1.1.2 Theoretical Background

A number of theories have been propounded to support FDI. In this study a few theories will be examined the international trade and factory-proportions theory which looks at trade between nations. This theory explains that a country will involve in business with another country if it has a comparative advantage over that business than its counterpart. In line with this study, foreign direct investment will only be guaranteed if the donor country is assured that its investments will develop growth and yield the expected results.

The direct investment theory is based on the international movement of capital. Hardly will there be any FDI without the movement of capital from the donor to the recipient country. It is synonymous to the law of diffusion, where substance, diffuse from a region of high concentration to a region of less concentration. Much of FDI follows this trend and requires capital formation abroad. When there is generation of capital from the donor country, the recipient country will not suffer lack in as much as there are approximate conditions set to guarantee confidence and reliability.

The theory of country size sees the size of a country as a contributory factor to effect FDI. For example, the fact that the United States of America is a large country in size when compared to Sierra Leone means that its potentials to generate much capital and a variety of resources are far greater than that of Sierra Leone. FDI will then follow the trend of movement from the United State of America to Sierra Leone.

1.1.3 Conceptual Background

Economic crises usually plunges countries into financial misery leading to a wide range of problems that affect individual life, the society and the nation as a whole. This is because the money generated by the state is not sufficient for running state affairs, provide social amenities, and pay state workers.

In Cameroon economic misery arising from economic crises seems to be the bed rock from where poverty, decline in technological advancement, and lost of interest by donor countries arose.

Poverty ever since the economic crises stemmed up in 1986 had been the order of the day. Many people lost their jobs because of retrenchment, and other adjustment strategies. State workers had their salaries reduced by approximately 70%. This reduction reduced the purchasing power of Cameroonians. Many homes could not feed the many mouths which depended on those working in the public sector.

Lappé, Collins, Rosset and Esparza also point out how in many cases in conditions of poverty, families will make an economic choice to have larger families to hope for an increased chance in survival.

Prior to the economic malaise, this started in the late 80s, the Cameroonian Government use to send many students on scholarship to study engineering courses. On their return back home, the knowledge gained abroad was used to advance the country technology. The country had sufficient finances to expand on it technological advancement like in the building of bridges, construction of good road network, good telephone facilities etc. etc. most of these facilities registered a considerable slow down or a stop at the peak of economic crisis. Where there is economic growth, foreign donors and foreign economic investors are stimulated to invest in the economy of a nation. On the contrary, where there is no economic growth as a result of economic crises, foreign donors and economic investors may lose interest to invest in a country. In Cameroon there were periods when the country’s economic growth registered a significant decline. Overall economic growth declined to about 3.0

percent per annum during 2001-2007. This eventually discouraged investors to undertake any serious economic ventures in the country.

1.2 STATEMENT OF THE PROBLEM

Whenever the economy of a country is facing crises, that country usually undertakes some structural adjustment programs, these programs can be long term or short term, aiming at revamping its economy. The advent of economic crises in the late 1980s, forced the government of the Republic of Cameroon to undertake some structural adjustment programs. Some of these involved the need for foreign investment. This was favored by both the International Monetary Fund (I.M.F) and the World Bank. These institutions provided financial assistance and loans to the country

Other friendly countries extended their assistance in many ways to build back the economy so that growth can be assured. This growth significantly leads to poverty alleviation, advancement in technology and raise the interest of donor countries to invest in Cameroon.

Such foreign Direct Investment (F.D.I.) if properly utilized may significantly play a great role in economic development in Cameroon. The short comings resulting from poorly utilized funds invested by foreign donors may plunge the country into more economic misery. Foreign Direct Investment (FDI) with its own contributions which may result to the removal of heavy subsidies in agricultural products, lay-offs of many civil servants in private and public enterprises, devaluation of the country’s currency, privatization, liberalization of the economy etc, etc.

It is possible that FDI between the periods of 1993 to 2000 would have contributed significantly to the development of Cameroon.

These statement of the problem led to the following research questions.

1.3 RESEARCH QUESTIONS

1.3.1 General Research Questions

Did FDI play a significant role in the economic development of Cameroon during the period of economic crises?

1.3.2 Specific Research Questions

Did FDI contribute in alleviating poverty in Cameroon during the economic crises period?

Did FDI contribute in technological advancement during the period of economic crisis?

Did FDI attract the interest of donor countries to the economy of Cameroon during the economic crises period?

1.4 AIM OF THE STUDY

To find out whether Foreign Direct Investment (FDI) played a significant role in the economic development of Cameroon during the period of economic crises.

1.4.1 Objective of the Study

This study will specifically find out whether:

- F.D.I. contributed in alleviating poverty in Cameroon during the economic crises period.
- F.D.I contributed in technological advancement during the period of economic crises.
- F.D.I. attracted the interest of donor countries to the economy of Cameroon.

These objectives gave rise to the following hypothesis.

1.5 HYPOTHESES OF THE STUDY

1.5.1 General Hypothesis

Null Hypothesis (Ho)

- Foreign Direct Investment did not play a significant role in the economic development of Cameroon during the economic crisis period.

Alternative Hypothesis (Ha)

Foreign Direct Investment played a significant role in the economic development of Cameroon during the economic crises period.

1.5.2 Specific Hypotheses

Hypothesis i

Null hypothesis (Ho): FDI does not contribute significantly in alleviating poverty.

Alternative hypothesis (Ha): FDI contributed significantly in alleviating poverty.

Hypothesis ii

Null (Ho): F.D.I does not contribute significantly in technological advancement

Ha: F.D.I contributes significantly in technological advancement

Hypothesis iii

Ho: FDI does not significantly attract the interest of donor's countries.

Ha: F.D.I. significantly attracts the interest of donors' countries.

1.6 SIGNIFICANCE OF THE STUDY

Foreign Direct Investment (FDI) in today's business world is a controversial issue as some commentators are of the opinion that it is beneficial only to the developed economies while doing little, if anything, to improve the economies of poorer or under developed nations. Others are of the opinion that without FDI most of these weak and poor economies would be worse off than they really are. It therefore, remains a matter of empirical studies or economic analysis to prove or support which of the opinion one upholds.

This work is significant in that it would be able to show, within the purview of the information and data so far gathered, whether FDI can play a significant role in recovery of an economy in crises; whether it can contribute to the economic advancement of a country, and whether there are some undesirable effects of FDI. As at now, there is very little data and information about the activities and influence of FDI in Cameroon, Thus, it is hoped that this work would serve as a basis of a springboard for further research in this area, or that it could one day serve as useful source of information for future works on the economy of Cameroon.

This work will therefore make contributions to whatever research that has been carried out on the activities of FDI in Cameroon and may also serve as the basis for further research in this area.

CHAPTER TWO

RELATED LITERATURE ON FDI

2.1 CONCEPT OF FDI

Foreign direct investment is defined as that investment wherein the foreign investor owns at least ten percent of the shares of the company (usually between 10 and 25%), (OECD).

Mankiw (2004) defines FDI as investment that is owned and operated by a foreign entity. He further distinguishes FDI from foreign portfolio investment, which is an investment that is financed with foreign money both operated by domestic residents. Foreign portfolio investment is usually more risky in the part of the donor country if the recipients lack expertise knowledge in executing the project in view.

Daniels, Readebaugh and Sullivan (2004), while re-echoing the two previous definitions, highlight the element of control. That is, an FDI can only be said to exist when the investment, in addition to at least 10 percent shares, gives the investor control of the company. They point out that even though a foreign investor may own 100 percent shares in a company, he may not have control if the government regulations in the host country do not permit this. All countries have regulations guiding foreign investments. In Cameroon for example, most foreign investments are not totally under the autonomy of the foreign investor. There are regulatory agencies, placed under specific ministries which may play a supervisory role in one way or the other.

Keegan and Green (2002) are of the opinion that FDI is an investment that results from the desire to have partial or direct ownership of operations outside the home country.

The concept of FDI is therefore hinged on the desire to own a foreign Investment, to make the best possible gain from it, and to wield control over the entity. The distinguishing feature is that foreign direct investment involves not only the transfer of resources (usually capital) but also the acquisition of control. Control is important in that the investing company may want to do what is best for its global operations rather than what is best for the operations in a specific country. Opposed to investor control is also government control. Although some adherents of FDI argue that government should have no interest in private investments from abroad, critics are of the opinion that a host country's national interest will suffer somewhat if a multinational corporation makes decisions from afar on the basic of its own global or national objectives. For example, a multinational corporation may make decisions concerning employment or relating to an industry that is off national pride from its headquarters. Thus control is a great concern for governments. Such controls mechantous by recipient governments do not usually have a negative effect on the firm, but ensures sustainability to the advantage and benefit of both the foreign and home country.

A key feature of FDI is the multinational corporation (MNC). However, there is not yet a general agreement on the definition of MNC. This is because some definitions emphasize structural criteria such as number of countries in which the corporation does business or ownership by persons from many nations or nationality or composition of top management. Other definitions stress performance characteristics such as the absolute amount of earnings, sales assets, or employees derived from or committed to foreign operations. Still other definitions are based on behavioral characteristics of top management to think internationally[1]

The concept of FDI has been supported by some theories which try to explain why firms go international; why firms expand abroad by means of investment; why FDI takes place in some industries; why some countries are the source of outward flow of FDI and others mainly recipients; and what advantages foreign investors have over local ones.

2.2 FDI THEORIES

There are many theories on FDI. But for the purpose of this research, only a few would be examined.

2.2.1 International Trade Theory and the Factory – Proportions Theory.

The international trade theory is founded on the doctrine of comparative advantage in international trade, which states that a country specializes in those products in which it has the greatest comparative advantage relative to other nations and trades those products for goods in which it has the greatest comparative disadvantage. The total availability of goods secured by the country with a given amount of resources will be enlarged. However, there are many limitations to this theory since it focuses mainly on trade, which itself is limited to the export of goods. How then doest comparative advantage concern FDI? This question is answered by the theory of factor proportions.

The factor-proportions theory is to the effect that factors in relative abundance are cheaper than factors in relative scarcity, and that differences in countries endowments of labor compared to their endowments of land or capital explain differences in the cost of production. Consequently, these relative factor costs would cause countries to excel in the production and export of some commodities than others. Foreign direct investment will move from a country with relative abundance to one with less abundance with specific objectives. This may be to (i) alleviate poverty (ii) advance technology, (iii) expand the home enterprise to other countries etc.

In a free market, producers would naturally turn away from products that they cannot produce efficiently to those that they can produce more efficiently. The mobility of factors would, thus lead some multinational corporations to invest in different countries in search of efficiency in production. That is, companies will invest abroad in countries where factor cost are relatively lower and provide a competitive advantage to the firm.

2.2.2. Direct Investment Theories

Unlike the foregoing theories based on international trade, direct investment theories are founded on international economics concerning the international movement of capital. The general theory of international capital flow suggests that capital will move from one country to another in response to differences in the marginal productivity of capital. That is capital will move from where it is abundant to where it is scarce. Therefore investments will also move from where there is much capital to where there is less. Another facet of direct investment theories is that capital formation aboard rather than capital movement alone underlies, direct investment. In addition, there is the theory of “defensive investment” by Alexander Lamfalussy, which says that direct investment will take place where there are large, growing markets, regardless of immediate profitability.

2.2.3 Oligopoly Model.

According to this model, a firm makes direct foreign investment to exploit some quasi-monopoly advantages that it holds. A foreign firm may have advantages over a local one in areas such as technology, access to capital, superior management or organizational scale. But the special assets of the firm must be important enough to offset the disadvantages of its foreign status in the host country. Also, the firm must find direct investment abroad to be more profitable than other means of extracting rent from abroad.

The oligopoly model does not explain only why firms may produce the same goods abroad as at home- Horizontal investment- but also why multinational corporations may undertake vertical investment abroad; such investments entail acquiring sources of raw materials or other inputs that would be used in production in the home country. There can also exist cross- investment wherein two companies in two countries have investments in each other’s home base. When firms control input sources, it becomes easier for them to set up barriers to hinder new firms from entering the industry.

2.2.4 Theory Of Country Size,

This theory is also based on international trade. It is to the effect that countries with large land areas are apt to have varied climate and an assortment of natural resources, making them more self-sufficient than smaller counties. By expansion therefore, a country's size can determine the size of the economy and production scales can determine the level of FDI. According to Krugman (1980), countries with large economic and high per capita income are more likely to produce goods that use technologies requiring long production runs. This is because these countries develop industries to serve their large domestic markets, which in turn become completive in export markets. Thus the argument here is that firms in a large economy are more likely to expand at home than aboard, thereby, not getting involved with FDI. However, Brown and Stem (2001) hold the contrary / that is that companies may locate long production runs in smaller counties if they anticipate few or no barriers to the export of their products.

2.2.5 Product Life Cycle Theory

According to Raymond Vernon's international product life cycle theory, the location of production of certain kinds of products shifts as they go through their life cycle, according to this theory it is practical for companies to locate the production of a new product in the home country so that a rapid feedback can be got. But as the product grows and matures, production shifts abroad.

2.3 CORPORATE MOTIVES FOR FDI

Foreign direct investment is a way for companies to fulfill one of the many objectives of their expansion drive. As such three of such objectives include.

2.3.1 Sale Expansion

One reason why a company may invest abroad is the quest to expand sales, which is one way for it to grow. This view is explained by the product life cycle theory' which suggests that in the growth and maturity stages of a product's life cycle, fast growing demand and increased competition causes the company to respond by expanding sales abroad. Thus when there is an opportunity to do so, many companies always seize it and create foreign branches or affiliates. Expanding sales abroad can be profitable to the company only when there is a comparative advantage in some factors as transportation cost or economies of scales. It also takes into consideration the willingness of the foreign country to accept this investment. Normally, if it is for the advantage of the foreign country, then, there is the readiness to accept it, following defined procedures put by the government in place.

In some cases capital and technology movement accompanies sales expansion where this proves to yield more returns than simply exporting the products.

2.3.2 Resources Acquisition

A company may engage in FDI in order to acquire resources meant for its production at home. This is common with companies that use imported raw materials. Such acquisition may result in what is known as vertical integration, enabling a company to control all its resources and operations from beginning to end. In the same vein a company can invest abroad to take advantage of cheap labor and cheap raw materials. This to an extent is more advantageous to the home country than to the foreign country under exploitation. That is why both the home and foreign country should go into serious negotiation in the event of any resource acquisition so that none of the parties will feel cheated. This explains why many information technology firms are now either out sourcing or investing in India and China where labour cost are lower than in Western countries. This motive is explained by the oligopoly theory and the factor –proportions theory.

2.3.3 Minimization Of Competitive Risk

One motive for which companies may invest abroad is to minimize their competitive risk. Also political risk in some countries can cause companies to shift their investments abroad and maintain only the head office at home. Political uncertainty has been a driving force for determining whether foreign companies should invest or not in Africa. Where the political climate is not certain, most foreign investors run in a risk setting up economic ventures. Such is the case with Zimbabwe currently, where most investors have instead pulled out.

2.4 APPROACHES TO FDI

FDI can take many forms, the most common of which are:

2.4.1 Direct Investment:

As the name implies, this type of FDI takes the form of directly creating the affiliate of a company overseas. In this case the investing company owns all the shares of the new ventures. This is common in developing countries that do not have capital and are facing a crisis while needing foreign capital to create jobs and generate taxes. This is known as Greenfield investment. Greenfield investment in Cameron was championed by the International Monetary Fund (IMF) and the World Bank during the period of Economic crisis. The results are plaudable, as presently, the economy has been revamped, many job have been create and wages paid to workers have been increased.

2.4.2 Joint Venture:

In this type of investment FDI is shared by more than one company. If it is capital the shares are clearly defined so that in case of any profit, it will be shared according to the defined procedure of capital investment.

2.4.3. Mixed Venture:

This type operates when the government of the host country owns some shares in the FDI together with a foreign company. This is some sort of a joint venture though Cameroon has a number of cooperations, firms and industries in which the government of Cameroon acts as a share holder with other countries, Examples the National Railway Cooperation, the Cameroon Airlines etc.

All the above approaches to FDI usually take the form of multinational corporation (MNC). The general belief has been that MNC are large corporations and that they are ruthless exploiters. But whether the latter characteristic is true or not it is a matter of appreciation or research. However the fact that they are always very small in size is not totally true because, along side large MNCS are smaller companies that operate across borders. As noted by John Stopford (2005), most of the estimated 45.000 firms that operate internationally employ fewer than 2500 people and it is common place to find service companies that maintain fewer than 1000employees operating across more than 15 countries.

2.5 NATIONAL CONTROLS OF FDI

The growing activities of FDI through multinational corporations and their importance in international business have caused governments all over the world to respond to their influence with new national policies. One response has been from investor countries (Home Countries of the mother companies) and another from host countries (countries in which the companies to go aboard or to retrain them from doing so. The policies aimed at influencing the activities of multinational corporations are known as control which cover anything done by a government directly or indirectly to influence or regulate international business. Whether through its operations, ownership, or existence in all these, the interest of the host country is guaranteed through policies. No host country will accept a multinational cooperation if its interest is in jeopardy.

2.5.1 Control Investor or Home-Based Counties

Incentive Controls.

Since the days of colonization Colonial powers have always encouraged their companies to expand abroad, both for political and economic motives. Today, the situation is similar as countries encourage home based companies to expand beyond the national frontiers. Home country incentives or inducements include the followings:

Foreign Risk Insurance:

Most major investor countries have insurance schemes aimed at covering investment risks in foreign lands, the type of risk that is insurable varies with the countries concerned but usually include expropriation, war loses, and inability to transfer profits. Some countries extend insurance to exports of home country goods, while Japan’s insurance covers companies engaged in developing mineral resources for import into Japan.

Related to the insurance of investment risk are bilateral investment agreements in which countries agree to protect the investments of companies from each party.

Capital Assistance:

Some countries induce their companies to invest abroad by creating capital assistance programs whereby special loans are given to companies from government banks. Most of such schemes are backed by law, and in some countries aimed at fostering specific projects in developing countries, as government would wish. For example, Japan has been noted to assist Japanese companies investing in the steel industry for eventual importation of Japan or to help stabilize the world price of steel.

Development assistance:

Some countries such as the UK may offer aid to developing countries for basic infrastructure projects such as a road or power facilities essential to private investment project by their companies. Such assistance usually comes at times in the form of a loan. Over the past several years ever since independence, Cameroon has received several developmental assistance from many friendly countries worldwide some of this assistance comes in with or without conditions.

Investment Promotion:

Many countries are known to subsidize or share the cost of investment feasibility studies or market an economic research costs carried out by multinational corporations in foreign markets or for home products meant for export. Most investments in road constructions in Cameroon although almost entirely financed abroad, see the Cameroon government always contributing a 10% of the total cost.

Tax Incentives:

In order to eliminate double taxation of foreign investment, some countries have signed bilateral treaties to that effect. But two common provisions that may act as incentive to foreign investment are tax deferral and tax credit. Deferral provides that the home country will not levy tax until profits are retreated, while credit provides that direct taxes paid to foreign government will be credited against the tax liability to the home country.

Political Representation:

Some investor's countries have used their political power to influence host countries to relax restrictions on inbound foreign business investments. In the same light such governments have also retaliated by ceasing all bilateral aid to any country that tries to expropriate private property of their home based companies without adequate compensation. For political representation to augur well the home country and foreign country receiving the investment must sit together in frank terms, taking the interest of each country at heart before indulging into any economic venture.

Restraining Controls:

Restraint on FDI by investor countries is usually caused by a balance of payment consideration than by motivation to international business. As such, an investor country can enact a legislation meant to limit or prohibit foreign investment if such a move will help achieve the country's economic policy. For example, an investment abroad may lead to loss of jobs at home. Thus, the government may enact a law imposing a strict period of notice before workers are laid off. Similarly, investment abroad may mean the export of technology, which calls for government protection.

Another control may issue from the impact of a multinational corporation on its home country's foreign policy. In this case, the home country may want to use governmental influence to protect the interest of international business firms. Such influence may be detrimental to relations between countries. Thus, a country may shy away from protecting private investment of its home companies abroad if such protection is likely to jeopardize the diplomatic relations of both countries.

Some alternatives can be used to stay clear of intervening in areas that may cause problems between countries. A review of political impact to the examination of proposed outbound investment can be added.

Another alternative is to screen only those projects that apply for government risk insurance. Still another alternative is for the home country to be neutral and allow international firms of its nationality to fend for themselves. However, the latter alternative is feasible only if the foreign interest of national firms is small. But when such interest is large, multinational firms become an important force.

Due to the fact that attempts to restrain the foreign operation of units already established in foreign countries necessarily lead to a conflict of sovereignty, home countries have tended to focus their major attention on the point at which transfer out of the nation of jobs, technology or finance might take place. This is very crucial and welcoming for every country receiving FDI because, if the economy is to be revamped and expanded as a result of job creations, technology advancements, and transfer of finance to the receiving country it will be protected and not exploited.

2.5.2 Control by Host Countries

Incentive Control

Less developed and developing countries very much are used to offering incentives to Multinational Corporation, to set up businesses within their national frontiers, However, a country may offer attractive incentives at an early stage of development, and later reduce its incentives or impose restraints. It may also have inducements for some industries and restraints for others. Therefore, incentives usually reflect a nation’s stage of economic development, its specific development priorities or its need to attract new industries. In all, its developmental objective must be taken into consideration.

Small newly independent countries with very few or little local industries may offer a broader range of incentives that are not selective as to the type of industry while an already industrialized or semi industrialized country would choose particular areas in which to give inducement. Incentives may fall under one of the following types:

Tariff Protection in which potential import competition is reduced by special or high tariffs or tough import control. Thus the foreign multinational is induced to produce for local consumption. Here too, there is usually a problem because when a potential import competition is reduced, the foreign multinational may monopolize the economy. Where there is no competition, it dictates the prices for the local consumers.

Duty –Free imports:

This is when new technology, capital goods or equipment are allowed to enter the country duty–free or on special concession terms.

Financial Assistance

Generally, Government agencies give short term or long term loans at special or low interest rates to multinational corporations. In an ailing economic, assistance of this nature is usually sorted for such financial assistance. There is a grace period attached to that assistance, a period within which the beneficiary of the loan invests the capital without paying back. There after, it is paid with laid down conditions.

Tax Concessions

This includes tax reduction, deferrals, or long term (usually 10-years) tax holidays. In some countries there is what is called the free trade zone in which foreign firms are induced to locate at very low tax rates mainly for the purpose of offering employment, and producing for export.

Foreign exchange guarantees.

Which are special governments guarantees that foreign exchange will be granted for profit remittances and capital repatriation. This guarantee can be the exploitation of natural resources by the donor country within a specified period of time or a certain quantity of these resources.

Other government assistance:

The government may agree to secure and offer parcels of land or provide facilities like roads or energy needed for a given project. Or it may even offer direct subsidies.

In some cases governments have even created free ports to facilitate the importation of materials needed by the multinational.

With the growth of regional integration there is much competition among countries to offer incentive to induce multination corporations to locate in their territories. This is because the breakdown of trade barriers and free movement of goods increase the market of many companies, leading to greater benefits to the host country. These benefits can be seen in the provision of job opportunities, provision of infrastructure, and technological advancements

Restraining Control

Given the differences in national objectives, the national control of FDI varies with the business of the multinational corporations targeted. As such most of the incentive measures employed is in varying proportions, a growing tendency is to discriminate in the implementation of policies aimed at encouraging investment. Thus, the government may systematically limit or refuse the said inducements to foreign corporations while favoring home companies. In this way the government acts as a protector to the home based companies which may eventually wind off in the face of competition with foreign investors

Specific laws or the nation's constitution may establish some control policies while others may be periodically formulated as part of national economic planning. For example, the various five years economic plans of India have always specified which areas are to be open to foreign investors within the period. This take into consideration the priority needs of a country as far as investments are concerned for those five years.

A very common practice is to make the entry and take-over condition very tedious and complicated and to attach some commitment to entry. The construction of roads or the provision o some basic social amenity is a frequent means of limiting multinational firms' activities in developing countries.

However, the involvement of many government agencies with different time perspectives and responsibilities in the formulation and coordination of control programs has caused enormous difficulties to governments. Some countries have resorted to creating special or interdepartmental structures to collect data and formulate policies to restrain foreign investment. Malaysia is a good example with its national action committee and federal industrial development authority.

2.6 INTERNATIONAL CONTROL OF FDI

At the moment, there is no universally established organ or legal system that is responsible for the control of FDI or the activities of Multinational corporations. Thus, there is no international agency or court system that can resolve conflict between MNC's and host governments. At the same time governments are aware that the interest of MNCs, are out of the purview of the regulatory domain of individual national. Also, the objectives of MNC and human rights or environmental concerns hardly converge. As a result MNCs usually face legal uncertainties, and governments are worried because they think that MNCs can eschew national control policies. Consequently, governments have resorted to bilateral and multilateral, regional or infrastructural treaties and structures to regulate the activities of MNC at the international level[2].

However, the numerous treaties, agreements or conventions that exist can only be executed by the contracting parties. There is therefore no enforcing structure. These treaties, agreements or conventions vary from country to country, and from investment to investment. The net result is that all the parties have to couple. Failure leads to disruption of the agreement.

Suffice it to note that the bulk of these international instruments dwell on environmental issues and human rights. It is also important to note that the main purpose of most of these instruments is to prevent the unilateral breach of contractual duties. That is, they are meant to promote and protect rather than limit FDI. However, there are clauses in them that grant to parties the right to cancel, modify or expropriate in case of environmental abuse or some

[2] Ibid p.147

other major element thereto. Some regional or multilateral agreements through which FDI can be controlled internationally include:

2.6.1 The Association of South East Asian Nations (ASEAN) Investment Agreement

Article II (i) gives the host country a wide discretion to impose inter alai environmental conditions upon the investor. It states that the agreement shall apply only to investment which are specially approved in winning and registered by the host country and upon such conditions as it deems for the purpose of this agreement. Article II (ii) ensures that the laws and regulations applying to foreign investment in each country are preserved as it is obvious that foreign investment is received into a country on a condition that it abides by the existing laws applicable to it in the host state. This agreement is to protect investment, the benefits of which are for the home country and the foreign firm.

Therefore even though the purpose of the agreement is to protect investment, a government can impose environmental conditions on the investor when it deems fit. It thus goes without saying that when the investor refuses to accept or abide by the new environmental condition the host government can take any measures to compel him to abide.

2.6.2 North American Free Trade Agreement (NAFTA)

Contrary to the ASEAN investment agreement, the foreign investment regime of chapter 11 or the NAFTA specifically deals with environmental concerns. Paragraph 1 of Article 1114 provides that noting in this chapter shall be construed inconsistent with this chapter that it considers appropriate to ensure that an investment activity in its territory is undertaken in a manner sensitive to environmental concerns therefore, under this paragraph, a host country cannot introduce a new environmental legislation nor preclude the other party from carrying activities that are sensitive to its environment.

2.6.3 Infrastructure Treaties

There exist many infrastructure treaties and conventions under the auspices of the United Nations organization regulating various professional or specialized fields for example, the Universal postal union (UPU) controls investment in the post and courier industry, the international civil aviation organization (ICAO) fosters the development of safe, regular and efficient international civil aviation.

2.7 RELATIONSHIP BETWEEN FDI AND ECONOMIC DEVELOPMENT

The question as to whether FDI and MNC's contributes to a country's economic development or not is an on going and controversial issue, on the one hand there are those who think that FDI and MNCs are agents of development. Such is the view of one time United State of America Secretary of State. Henry Kissinger. Who thought that the multinational corporation is "one of the most effective engines of development"? On the other hand there are those, such as Ronald Muller, Co author of Global Reach, who think that the MNC is "one of the most powerful impediments to third world development". Thus, FDI is a double edged sword in the sense that it can bring development if effectively implemented to boost infrastructural development, technological development and alleviate poverty in an ailing economy. On the other hand, it can impede development if the foreign investing company transfers all the profits resulting from investments back to its home country.

Postulates of the former view argue that there is a direct relationship between FDI and economic development, and that there are some externalities that result from FDI, especially in developing countries. They claim that MNC-related externalities have been attracting increased interest from developing economies because of the perceived benefits in term of the injection of capital, technology and knowledge, as well as the potential generation of economic growth in host countries. Externalities are the mechanism through which productivity gains by locally based firms, leading to the generation of economic growth in the host country. Key externalities here include knowledge spillover and linkages from MNCs to domestic firms in host countries. They also think that there has been a serious opening up to FDI by developing countries in recent years, resulting from aggressive liberalization of hitherto strict rules, on FDI and privatization with the blessing or prescription of the international monetary fund (IMF) and the World Bank.

In the same light, Reinsen and Soto (2001) are of the opinion that FDI is less volatile than other private capital flows and provides a stable source of finance to meet capital requirements in developing contexts. Capital requires is actually what the state requires as money to run its affairs by investing, payment of salaries of workers, building of roads etc.

Khatir (2001) says that FDI has contributed tremendously to the development of Asian economies in many ways including the transfer of technology and funds across borders, foreign exchange earnings and employment. Similarly, Lwin Oo (2000) as has demonstrated that the economic development of Myanmar between 1990 and 1997 witnessed FDI contributions ranging from 0.37 to 28. 447% GDP.

Conversely postulants of the opposite view such as Narula and Portelli (2004) hold that FDI is not a sine qua non for development they propose that FDI-Led Growth is not a process that occurs automatically in the host country, and this reflects the complex nature of the interrelationships between multinational enterprises and the host country economic agents, in the same inequality and the level of MNC penetration. Personal income inequality has been used as the most important indicator of this phenomenon. A remarkable unequal distribution of income among households was linked to MNC penetration in the 1960s. MNC penetration was linked with less income inequalities in developed countries than in less developed ones.

2.7.1 Technology Spillovers

Djankow and Hoekman (1999) show that firms receiving FDI or involve in joint ventures tend to acquire new technologies more frequently than those without FDI. Thus FDI activities may involve the explicit transfer of technology and complementary resources such as management expertise and processes from home country to host country. Of course, if expertise staff is transferred from the foreign country to the host country, they bring with them all the qualities they have. This includes management ability, knowledge on technological advancements etc.

However it is difficult to measure the level of technology spillover in an economy and also to determine the means by which technology transfer through FDI affects productivity growth of a host country. Consequently, most researchers have resorted to taking the view that the technology gap that may exist between local firms and MC affiliates is reflected in the observed differences of total factor productivity (TFP). That is, how capital and labor are utilized in the most country. The effects of MNC technology spillover can be captured by changes in the level of TFP observed at the firm level, after controlling the impact of other variables that may influence the firm's productivity performance. In this way some studies indicate efficiency gains as a result of technological spillover from MNC affiliates to local firms in the same industry. Blomstrom and Person (1983) have showed this in the case of Mexica and Blomstrom and Sjoholm (1999) have done it for Indonesia[3].

2.7.2 MNC Linkages

Two ways in which FDI transfer technology to the host country is through MNC backward linkages, and labor mobility. MNC can benefit the host economy through the generation of backward linkages. That is their relation with local suppliers of intermediate inputs in their production processes. As a result, MNC affiliates may transfer technology know how to local firms in their value chain.- Firms which supply them with intermediate goods or local buyers of their products.

[3] Adopted from Narula, R. And Portelli, B. "Foreign Direct Investment: Opportunities and Limitations from a developing country perspective", April 2004.

However it has been advanced that backward linkages are linked to the size of the host market and the sophistication of the technological capabilities of the local suppliers. The larger the market, the more sophisticated the technology, and the more pronounced the linkage.

On its part, labour mobility has been noted to account to technological transfer in that workers employed by MNC affiliates are most likely to receive and acquire knowledge on superior technology and managerial practices. Personnel switching and in-house training usually results in human capital development that can spill over to other local firms in the host country. Katz (1987) finds that many managers of local firms in Latin America were previously trained in MNC affiliates at the start of their careers. Meanwhile, GErberg (1987à) shows that MNCs provide more management training than local private firms and that a small percentage of job changes involve a movement from multinational to domestic firm's slaugher. Fosfur et al (2001) opine that spillovers from labour linkages are determined by the type of training given to the labour force and as well as labour mobility.

2.7.3 Economic growth

Economic growth is the most widely used measurement of development, and the realization of MNC externalities through technological spillovers or linkages potentially leads to the generation of economics growth. At the aggregate level, evidence from empirical research by Borenstein et al (1998). Carkovie and Levine (2002), and Alfaro et al (2003), lends little support that FDI has an external positive effect on economic growth none the less their evidence suggest that local conditions such as education and the development of local financial markets play an important role in causing the positive effects of FDI to materialize. Borensztein et al (1998) find that FDI is an important vehicle for transferring technology and higher growth only when the host country has a minimum threshold of human capital.

Likewise. Xu (2000). Using data on US MNCs, finds that a country needs to reach this threshold.

Conversely, De Millo (1999) finds a positive and significant impact if FDI on the output growth in OECD and ASIAN non –OECD countries. Similarly, Reisen and Soto (2001) find a positive link between FDI and portfolio equity flows on the one hand and GDP growth on the other. Most countries use the GDP as an index to measure the economic growth if an investment which determines whether there is success or not.

Unpublished evidence exists to the effect that FDI has contributed to the development of many less developed countries through the provision of social amenities and the provision of employment; especially in countries operating what is known as economic for zone or industrial free zone.

Cameroon seems to be a case in point. At the advent the economic crisis, the country sign agreements with many MNC to invest. The local population constituted the labour force which was employed. The benefit have in a large way contribute to alleviate poverty

CHAPTER THREE

CAMEROON'S ECONOMIC STRUCTURE

3.1 COUNTRY LOCATION

The Republic of Cameroon a sub Sahara country located between central and West Africa on the Golf of Guinea, is a former German colony that was mandated to British and French rule by the league of nation after the First World War (1919) and later became a trust territory of the United Nation Organization in 1946, still under British and French rule. It has neighbors Nigeria to the West (1690km), Lake Chad to the North, Chad to the North West (1094km), Central African Republic to the East (797km), Congo Republic to the South East (528km) and Equatorial Guinea to the South (189km) and the Atlantic ocean to the South – West (402km). It has a surface area of 475.442sq km (land 469,442sq km water. 6.000sq km). the relief extends from low land around the sea (0 meters above the sea level) to the highest point in West Africa, Mount Cameroon 4100m and hot in the Far North. This variation influences the economy to a large extent because it determines the various crops grown around the country since the economy is predominantly agrarian. [Arable land: 12.81% permanent crops 2.58%other; 84.61 %(2001)5

3.2 COUNTRY PROFILES

Cameroon has a population of approximately 16.79 million, 48% of who live below poverty level, with the following age structure: 0-14 years 41.7% 15-64 years 55% and 65 years and over3.3% (2005 estimate.)

The birth rate is 34.67 births/l,000 population (2005 est.) and the death rate is 15.4 deaths /1,000 population (2005 estimate) giving a population growth rate of 1.93% (2005 estimate.) life expectancy in male: 47.04 years. Female: 48.67 years and total population: 47.84 years (2005 estimate.) [These estimates explicitly take into account the effects of excess mortality due to AIDS; this can result in lower life expectancy, higher infant mortality and death rates, lower population and growth rates, and changes in the distribution of population by age and sex than world otherwise be expected (July 2005 est.)] GDP; purchasing power parity -$30.17 billion

GDP —real growth rate: 4.9%

GDP — per capita: purchasing power parity -$1 P900

GDP — composition by sector agriculture: 43.7$ industry: 20.1% and services: 36.2% Investment (gross fixed): 16.1 % of GDP

Inflation rate (consumer prices): 2.3% Labor force: 6.68 million, that is, 40.78% of population.

Labor force-by occupation: aquiculture 70% industry and commerce 13%, others 17% Unemployment rate: 30% (2001 estimate.)

Budget: Revenues: $2.493 billion)

Expenditures: $2.248 billion, including capital expenditures of NA

Public debt: 69.1% of GDP

Debt — external: $8.46 billion\debt-external — per capita: $516 per capita

Reserve of foreign exchange: $687.5 million

Current account balance: $-I 49.1 million

Current account balance per capita: $-9per capita

Information gotten from CIA world fact book on the internet

Industries: petroleum production and refining, aluminum production, food processing. Light consumer goods, textiles. Lumber, ship repair agricultural products: coffee. Cocoa. Cotton. Rubber, Bananas Oil seed, Grains, root starches; livestock; timber.

Currency and currency code; Communaute Financier Africaine Franc-XAF (issued by the bank of central African states —BEAC).

3.3 STRENGTHS AND WEAKNESSES OF THE ECONOMY

Cameroon’s economy is one of the best —endowed with primary commodity economies in sub- Sahara Africa. This is due to the country’s resources and favorable agricultural conditions. The country has very rich. Fertile volcanic soils (15.39% of

Land Mass) that are very favorable for agriculture and a considerable reserve of crude oil deposits, mainly off shore [94,000bbl! day (2004 estimate)]. Its electricity production [3.571 billion kWh (2002 estimate)] is estimated to be large enough to support heavy industries. While there is large supply of well educated labor force with a 30% unemployment rate (2001 estimate) and 79% literacy rate (2003 estimate.)

Cameroon has the second largest reserve of tropical rain forest in African after the Democratic Republic of Congo. The country’s land is 35% forest and has a variety of very hard and expensive tropical timber including many species of non-timber forest products and primates that are a great pull to western investors.

The location of Cameroon is a potential for investment. With a 402 km coast line with the Atlantic Ocean, Cameroon has three ports that serve not only its economy but also as a gateway to central African counties. And being a member of the economic and monetary community of central African states (CEMAC), most of the region’s import comes in through Cameroon. Thus it is a center of economic activities in the Central African sub region. Most companies that invest in Central Africa always locate in Cameroon before moving to other countries. This is more so because, in addition to having 52% of its GDP. Together with Nigeria that has an estimated population of 150 million and free movement of people and goods with Cameroon, the country is a potential market for consumer goods.

The economy also has the strength of capital availability from western banks. This is because almost all Cameroon’s banks are funded mainly by foreign capital. Thus it would be easier for foreign firms to obtain funding.

Basically, there are many opportunities for investment in Cameroon, especially within the construction industries that are expanding at a very fast rate (13% 2002).

On the part of weakness, the economy of Cameroon is too liberal. Because of IMF and World Bank prescriptions, Cameroon’s economy is too open to uncontrolled business practices. While this may be an opportunity to some FDI, it is a serious weakness because many dubious businesses operate without the due formalities. When any FDI is involved with investors in such areas, there is always a court case.

Cameroon’s infrastructure in general and transport network in particular is a serious drawback to the economy. Most firms are forced to locate in the big cities and the port areas, mainly because of accessibility. With an area of 475, 442 square km, Cameroon has only 34,300km of all season roads (4,288 km paved and 30,012 unpaved) and 1008 km of railway. This is highly responsible for the unexploited reserves of mineral resources (such as gold) in the Eastern province (an endive of the country.

Corruption is another weakness of the Cameroonian economy. Transparency international, an international NGO that published corruption indices of countries in the world, classified Cameroon as the most corrupt nation in the world in 1998 and 1999. However, the situation has improved, but not very much because it has remained between the 6th and 8th positions from 2000 to 2004

3.4 ECONOMIC STRUCTURES

Since independence in 1969 Cameroon’s economy had been on the good footing for more than two decades. A basically agrarian economy with a small population in the early years of independence, economic stability was engendered by stable basic product prices in the world market. This encouraged the government to create many government corporations to cater for the agricultural sector .Even the few existing manufacturing firms that existed at the time had government influence either through mix venture or direct government ownership .The economy was a mixed system with a great indignation to centralization.

In 1977, Cameroon started exploiting and exporting crude oil, and this was a great booster to the economy. However, in the mid I 980s falling prices of basic products in the world market, coupled with plummeting oil prices caused the economy to face a serious crisis. Contrary to expectation, government did not respond to the crisis as prescribed by international bodies' .instead, it undertook such harsh measures as salary reduction in general government spending while avoiding the sensitive issue of liberalizing the economy through privatization and enactment of laws that would encourage private investment. But this was not to last for long because the IMF and the world bank could not continue to grant loans to the government .Consequently, it was forced to liberalize the economy and carry out privatization of most of its corporations. This was a welcome measure because this exercise came just after the regional currency: the franc C F A was devalued at 50 %(jan.1994). The result of all this was a sudden improvement in the economy, from a growth rate of -3.0% to 4.9 % in 2004

b. The economic structure reflects dependency on three growth areas: agriculture, industry (including crude oil) and services. Cameroon's agricultural sector, the foundation of the economy and the country's main employer (70% of labor force), suffers from low world prices. However, some private investors see opportunities for expansion. Cameroonian households consume large quantities of palm oil (one of the main products), and significant export opportunities within the sub-region could be tapped with increased oil production. European Union compliance with W T 0 rulings means that banana export to Europe has decreased. Some firms believe that large- scale, high-yield farming of commodities like bananas could make Cameroon a competitive producer, even without the preferential access to develop the -country markets. However, developing such an agricultural production would mean a substantial transformation of Cameroon's agricultural sector, which is now marketed by small poorly financed land holdings. The ongoing privatization of the government—owned Cameroon Development Corporations (CDC) tea, rubber, palm oil, will provide opportunities for transformation of the agricultural sector.

The construction sector grew steadily in 2002, spurred in part by foreign donor financing for road construction the EU financed road construction in the hinterlands and on roads with neighboring countries, while the French Development Corporation financed some road maintenance in the cities.

Though oil production has been decreasing since 1985, reaching 101,000 barrels day in 2002, Cameroon passed an investor —friendly oil and gas code in 1999 to encourage new exploration and further exploration of maturing fields, So far , it has stimulated mostly offshore interest and exploration , though there are several onshore areas with promising geological characteristics. In 1999/2001, oil revenue continued to support government revenues despite a drop in prices (50% of GDP). In addition , in 2001 , the government passed a new law to promote terrestrial mining , and discoveries of rich cobalt and nickel deposits which have the potential to make Cameroon into the worlds largest cobalt producer, have stimulated interest in the sector.

Manufacturing accounts for 13.5% of GDP, and has the potential to be larger thanks to Cameroon’s relative political stability compared to its neighbors, unique geographic situation, and membership in the central African Economic and Monetary Community (CEMAC) zone, sandwiched between Nigeria to the west and central Africa to the south and east, Cameroon is surrounded by large markets. Furthermore, goods manufactured in Cameroon may be sold duty-free in other CEMAC countries. The country’s light manufacturing sector assembles and exports imported components for local and regional consumption. However, activities in this sector are subject to frequent disturbances resulting from cuts in electricity supply that has become very unreliable for the past three of four years.

Cameroon’s economy is the strongest in the CEMAC zone, and accounts for more than 50% of the region’s GDP. Its service sector is dominated by banking, insurance, commerce, transportation and communication, hotel and other services. In 2001/2002 this sector contributed to approximately 36% of GDP. This contribution was the driving force of the economy for two years running, and was due to a gradual recovery in household purchasing power spurred by the redemption of domestic bonds by the public treasury. Also, roads and port renovation and the privatization of the mobile phone networks enhanced the vigor of the transport and communications sector. The construction of the Chad Cameroon oil pipeline also helped the growth of transport, commerce and other traded service. Pushed by economic crisis, the informal sector also expanded to about 51% of GDP in 2001/2002, according to the national statistics institute.

If Cameroon’s economy recorded positive figures in the last four years, it was due partly to some fiscal and monetary policy endeavors. In June 2000 it was admitted into the heavily indebted poor countries (HIPC) initiative, making it eligible for debt relief upon implementation of economic reforms. In December of the same year Cameroon signed a new agreement with the IMF giving it access to $139 million in poverty reduction and growth facility (PRGF) funds over three years. These measures led to a notable improvement in government finances despite the low price of oil and a heavy debt service burden.

Inflation in Cameroon has also reduced between 1994 and 2004.After the devaluation, it stood at 3.25 but as of last year {2004} it was 2.3%.

The devaluation of currency together with the HIPC and PRGF funds has resulted in trade surpluses in the past years, and it is expected that this will lead to a reduction of government spending on debt services from 23% of GDP in 2000 to 10% in 2008.

It is therefore, clear that the present economic structure of Cameroon has led to an improved economy that could even be better had it not been for rampant and very widely spread corruption in the country in general and government circles in particular, Cameroon is noted for corruption as indicated by transparency internationals corruption index for 1998 and 1999 in which the country was rated as the most corrupt nation in the would. The situation has just slightly improved but much needs to be done.

3.5 THE INVESTMENT ENVIRONMENT

Cameroon environment has greatly evolved over the past decade in a bid to attract foreign investment and reflect what follows below.

3.5.1 Openness to FDI

Investment in Cameroon is presently governed by the Investment Code of 1990. In order to boost investment and savings, a new Investment Charter was adopted in April 2002 to attract international investors. The 2002 Investment Charter is expected to replace the 1990 Investment Code, which, though attractive on paper, suffered from arbitrary’ application by government officials and courts, and has been said to be less liberal. However, the 1990 Investment Code will be in force until 2007.

The 1990 Code makes investing in Cameroon simpler and establishes some attractive financial incentives in exchange for eligibility/performance requirements. The code seeks to attract productive investment through incentives that are identical for both foreign and domestic investors. It provides fourteen basic guarantees to investors, including property ownership, and ability to repatriate capital and income, prior compensation in case of expropriation, freedom of movement within Cameroon and free egress for personnel.

General benefits of the investment code are available to all new and exciting enterprises in Cameroon which process goods for export or use inputs from the local or regional markets of CEMAC. In addition to these benefits, firms may gain more advantages by the code. {See section on performance requirements and incentives below)

The governments Investment Code Management Unit {ICMU} screens investment, dispensing investment authorization under the 1990 Investment Code. Screening is done on a national treatment basis, but evaluation of both foreign and domestic investment is hampered by a lack of publicity known evaluation criteria and slow evaluation process. There is no appeals process for rejected applications.

The 2002 Investment Charter establishes three procedures for government screening of both foreign and domestic investment. The "automatic regime" permits investment without prior government approval. The" return regime' permits investment after application and the passage of two days without government objection, while the 'approval regime" permits investment after application and the passage of fifteen days. However, pending issuance of implementing regulations, it is unclear which process applies to which kind of investment.

The government plans to offer additional incentives to firms that export or invest in "strategic" sectors. Investment in those sectors will be governed by special sectoral codes, and the duration of benefits will be defined by social regulations. The government has already enacted new codes for the mining, forestry, and petroleum sectors.

The 2002 charter does not discriminate according to equity ownerships, permitting 100 percent foreign ownership, compared with the 1990 code which proves limits on. However, substantial local equity ownership may assist in the investment approval process. Investors intending to make direct investments of 100 million cfa francs (approximately USD 200,000) or more must declare them with the ministry of economy and finance (MINEFI) 30 days in advance.

Foreign bidders are permitted to participate in privatization programs including the selection of the privatization consultant. Privatization programs are managed jointly by the government and the World Bank and are largely transparent. But it is worth noting that total privatizations are rare, as the government generally continues to hold 20-45 percent of "privatized" companies (though it is seeking to reduce these ownership shares in most cases) buyers of some former state monopolies enjoy concession limiting the entry of competitors in the sector for specific periods.

3.5.2 Conversion and Transfer Policies

The unit of currency used in Cameroon is the Commuaute Financiere Africaine {CFA} franc. In 1999, the exchange rate was fixed at I Euro to 656.095 CFA francs. For now, this rate is fixed and facilitates financial conversion and transfer. Dividends, capital returns, interest and principal on foreign debt, lease payments, royalties and management fees, and returns on liquidation all can be freely remitted abroad. However, liquidation of foreign direct investment must be declared with the Ministry of Economy and Finance {MINEF) and BEAC 30 days in advance. Also, commercial foreign exchange transfers must be authorized by the ministry of Economy and Finance. These authorizations are routinely granted if they conform to investment and fiscal regulations, though it takes an advantage of 12 days to obtain such an authorization.

3.5.3 Expropriation and Compensation

Foreign and domestic investors receive legal guarantees that substantially comply with international norms, including full and prior compensation in the event of expropriation in the public interest. The 2002 Investment Charter recognizes property rights and facilitates land acquisition. The Cameroon law does not require local ownership of land.

3.5.4 Dispute Settlement

The 1990 investment code states that, at the time of incorporation or application for investment code benefits, a firm may choose one of several procedures, including adjudication by local courts, arbitration by the international court of justice and international arbitration centers, all according to the Cameroonian law and the arbitration regimes of which

Cameroon is a member. Under the 2002 charter petitions for redress or non-compliance with the provisions of the charter will be forwarded to a regulation and competition board, which was created in September 2004, but the government has yet to appoint any members.

Difficulty in resolving commercial disputes, particularly the enforcement of contractual rights, remains one of the serious obstacles in promoting investment in Cameroon. The court system is very slow and corrupt, while the enforcement of judicial decisions is also slow and fraught with administrative and legal bottlenecks.

Cameroon is a member of the international center for the settlement of investment disputes (ICS1D, also known as the Washington convention). And is signatory to the 1958 convention on the recognition and enforcement of foreign arbitral awards (also known as the New York convention). In early 2001, CEMAC established a court in N'djamena, Chad to judge regional commercial disputes. Cameroon is a signatory of the treaty for the organization to harmonize business laws in Africa (OHADA in French).Among other things, OHADA provides for a uniform business law and arbitration procedures in the 16- members OHADA area.

Cameroon is a signatory to the 1985 Seoul convention that established the multilateral investment guarantee agency (MIGA) aimed at safeguarding non-commercial risk. It is also a signatory to the Lome convention (as revised in Mauritius in 1995), which created an arbitration mechanism to settle disputes between African, the Caribbeans, the and Pacific States (ACP) and contactors, suppliers, and service providers financed by the European development fund (EDF)

3.5.5 Investment Requirements and Incentives

Depending on the size and nature of the investment, Investment will fall under one of the following regimes of the 1990 code, each of which has specific eligibility and performance requirement:

1) The basic regime

2) The small and medium size enterprise regime;

3) The strategic enterprise regime.;

4) The reinvestment regime; and

5) The free zone regime

Under the “basic” regime, firms must export at least 25 percent of their annual product, use natural resources for at least 25 percent of the value of their inputs. And create at least one local job for every 10 million CFA francs invested (approximately $20,000)

Benefits to the regime include an initial 3-year reduction of 15 percent on many corporate taxes and custom fees as well as an exemption on purchase taxes relating to production and operational equipment. Furthermore, the company will be entitled to claim a number of exonerations and other exemptions for the next five years of the operational phase.

Under the small and medium scale enterprise (SME) regime, which applies to firms having total capital of less than I .5million CFA francs ($3.000) there is no requirement for job creation. However, SME must have at least 35 percent Cameroonian equity ownership.

Under the “strategic” regime, firms must export a least 50% of their annual product, use natural resources for at least 50 percent of the value of their inputs. And create at least one local job for every 20 million CFA francs invested (approximately $40. 000)

The industrial free zone regime, which can apply at any location, grants broad exemptions from taxation and regulation, so long as 80 percent of production is exported. This provision of the 1990 code is still in force, though it is unclear how the implementation of the 2002 investment charter will affect it, See section 3.4.11 below for further details on the IFZ regime.

Procedures for enforcing the 1990 investment codes performance requirements are not dearly defined. The government has not made any public statements concerning performance requirements. It is not yet dear how the provisions of the 2002 investment charter, once implemented, will increase clarity on this issue.

Foreign participation in government financed and/or subsidized programs is restricted to research and development programs that are beyond the technical capacity of Cameroonian firms, visa, residence, and work permit requirements do not inhibit foreign investors.

3.5.6 Taxation

In 1994 Cameroon implemented a new CEMAC. Regional Reform Program including tax reforms. This led to a reduction in the number of taxes applied to imports from over seven to only four and reduces the overall rate from a maximum 200% to maximum 70% on luxury goods. Since 1999 only the value added tax (vat) of 18% is collected on intraregional goods. In addition, many other price controls were abolished in 1998, and now remain only on “strategic” goods and services such as electricity, water, public transportation (roads) telecommunication, cooking gas, palm oil, imported fresh fish, pharmaceuticals, schools books, and port-side activities (such as stevedoring).

The government also reduced by half (down to 5%) taxes on non forestry exports.

3.5.7 Governorship and protection of property rights

Secured interests in property are recognized and usually - enforced. The Cameroonian law provides foreign and domestic investors with property rights ownership and protections that substantially comply with international norms and does not discriminate between foreign and domestic firms. Cameroon is a member of the 16-nation African intellectual property organization (OAPI in French) which is a member of the world intellectual property organization and offers patent, and trademark registration in cooperation with member state.

Cameroon is also a party to the Pans convention on industrial property and the universal copyright convention. Locally there are many agencies responsible for copyrights in various creative and artistic works.

3.5.8 The Regulatory System.

While Cameroonian business laws are clear on paper, their implementation can be problematic, however, the recently implemented OHADA treaty may improve the enforcement of business law, and the government hope that the 2002 investment charter will criticisms about implementation and make the interpretation of the many different business law in existence more consistent.

3.5.9 Capita Markets.

Investment rates are influenced by BEAC, which is closely monitored and regulated by the French government. Foreign investors are able to obtain credit on the local market, but usually borrow offshore due to high domestic interest rates. A stock exchange was created in 2003 but may face serious problems because of the regional stock exchange in Libreville Gabon.

Cameroon has 10 fully operational commercial banks, with aggregate assets of 1.356 billion CFA francs (USD 2.7 billion). Commercial banks constitute the largest part of the financial sector. However, the amount of non-performing assets they hold is unknown.

3.5.10 Labor

Cameroon’s labor-management relations are governed by the 1992 labor code, which restored collective bargaining in wage negotiations, eliminated fixed wage scales; abolished employment based on education levels, eliminated government control over layoffs and firings, and reduced the government's role in the management of labor union's labor leaders think that the code is too favorable to investors and detrimental to workers.

Cameroon has a high literacy rate and offers a relatively well-educated labor force along side a surplus of unskilled and non-technical labor. Many Cameroonians speak both French and English and can thus be of service to people who speak these languages.

Under Cameroon law, an individual who want to raise a case against an employer may bring the case in the town where he resides, not where he works.

3.5.11 Industrial Free Zone

While Cameroon presently has no designated foreign trade zone or free ports, it has an industrial free zone {IFZ} regime applicable at any location through "industrial park" or "single-factory" zones. Created in 1990 to promote internationally competitive export industries, the IFZ regime created certain board regulatory and tax exemptions for investors and it is unclear how the 2002 Investment Charter will affect the IFZ regime privileges.

To qualify for IFZ status, the goods or services produced by an enterprise must not have detrimental effects on the environment, and 80 percent of production must be exported.

IFZ firms receive a 10-year exemption from taxes and are subject only to a flat tax of 15 percent on corporate profit beginning in the eleventh year. They have a right to tax —free repatriation if all funds earned and invested in Cameroon, are exempt from foreign exchange regulations. They are also exempt from existing and future customs duties and taxes, including those on locally purchased production inputs.

3.5.12 Corruption

The major problem that Cameroon faces is corruption. Transparency International classified the country as the most corrupt nation in the world in I 998and 1999. Government has created a national anti corruption observatory, which has no powers of sanction against culprits. As a result, the situation does not seem to improve. Although Transparency International's recently classified Cameroon as not being the most corrupt nation in 2004, it does not mean that corruption has dropped. It may simply mean that other countries became more corrupt.

3.6 THE SURVEY STUDY

In order to test the hypotheses, a sample of 398 respondents comprising 198 officials of the ministry if Economic Planning and Regional Development and 200 business operators responded to the questionnaire addressed to test the variable under investigation. They were selected using both the purposive and simple random sampling procedure. The officials from the Ministry of Economic planning and Regional Development possess all the characteristics from respondents required for the purpose of this study. They were selected from the ten regional delegations and comprised the regional delegates and their immediate two assistants. Official form the 56 divisional delegations nation wide comprised the divisional delegates and their immediate two assistants. The two hundred business men were randomly selected from Douala and Yaoundé, during their general meetings in equal proportions of 100 each.

Table 1: Distribution of sample Per Province

Province	N° of Divisions	Sample selected at the regional Delegation	Sample selected at Divisional levels	Economic operators selected	Total Sample
Adamaoua	4	3	12	X	15
Centre	8	3	24	100	127
East	5	3	15	X	18
Far North	8	3	24	X	27
Littoral	3	3	9	100	112
North	5	3	15	X	18
North West	7	3	21	X	24
South	3	3	9	X	12
South West	6	3	18	X	21
West	7	3	21	X	24
Total Sample Selected		30	168	200	398

Economic operators were selected from Douala (Littoral Region) and Yaoundé (Centre Region) because only these two towns have centers for economic operators who regularly hold meetings after each 3months.

The instrument that was used to gather the opinions of respondents was the questionnaire. It was constructed bearing in mind the variables under investigation. It was constructed in sections. Section “A” carried items relating to the background information of the respondent Section B consisted items relating to FDI and alleviation of poverty. Section C consisted of items on FDI and technological advancement, while Section D consisted of items on FDI and attraction of donor countries. Face validation of the instrument was achieved when copies of the questionnaire were distributed to some colleagues for some peer review. The corrections they made helped to improve on the quality of the questionnaire. Content validity was achieved when ten copies of the questionnaire were distributed to ten officials of the regional delegation of Economic Planning and Regional Development of the South West Province who formed part of the population but were not involved in the sample. Their responses showed that there was no ambiguity in the items of the questionnaire and these responses could be used to answer the research questions. Reliability was attained through the test and re-test method. That is after administering the questionnaire to achieve content validity; the same questionnaire was repeated on the same subjects a forth night later. Comparing the results of the two tests showed a 95% similarity in all respects.

The questionnaire was subsequently administered on the sample, who responded to it and all the copies were collected back for analyses.

The Chi-Square test of independence was the test statistics used from the statistical package for social sciences (SPSS) for analyses, version 2.0 for windows.

Where the chi-square calculated value was greater than the chi-square critical value (table value) the null hypothesis was rejected and the alternative hypothesis retained where the chi square calculated value was less than the chi square critical value the null hypothesis was retained and the alternative rejected.

CHAPTER FOUR

FINDINGS AND DISCUSSIONS

Table 2: Presentation of Results obtained from Analyses from the statistical Package for Social Sciences (SPSS)

Hypothesis	$\chi 2$ Calculated Value	$\chi 2$ Critical value	α -Level of Significance	Degree of Freedom	Decision	Magnitude of Influence	
						C.C	Cmax
1	21.71	5.991	0.05	2	$\chi 2$ cal > $\chi 2$ crit Reject Ho Retain Ha	0.28	0.71
						Low influence	
2	23.65	5.991	0.05	2	$\chi 2$ cal > $\chi 2$ crit Reject Ho Retain Ha	0.29	0.71
						Low influence	
3	47.62	5.991	0.05	2	$\chi 2$ cal > $\chi 2$ crit Reject Ho Retain Ha	0.29	0.71
						Low influence	

Key

$\chi 2$ = chi – Square

α = Alphas Level

C.C = Contingency coefficient

Cmax = Contingency maximum

The results on table 2 shows that for all the hypotheses, the chi-square ($\chi 2$) calculated value was greater than the Chi-square ($\chi 2$) critical value at 0.05 alpha level of significance with degree of freedom 2. This led to the rejection of the entire null hypothesis, leading to the following conclusions.

1. FDI contributes significantly in alleviating poverty.
2. FDI contributes significantly in technological advancement.

3. FDI contributes significantly to attract the interest of donor countries.

The influence which FDI has on the variables under investigation was determined by comparing the contingency coefficient value and the contingency maximum value. The results showed that

- FDI has a high influence in attracting the interest of donor countries
- FDI has a low influence in technological advancement
- FDI has a low influence in alleviating poverty.

1. FDI AND ALLEVIATION OF POVERTY

The analyzed results show that FDI contributes significantly to poverty alleviation. The magnitude of influence of FDI on poverty alleviation was determined to be low. This implies that, despite the fact that FDI contributes to poverty alleviation, if the resources are not well managed, it will contribute very little to poverty alleviation. This has been the case of Cameroon in that, during the period of Economic recession as a result of the Economic crisis between 1986 to 2006, all what was pumped in by foreign donors could not much help in alleviating poverty, because of corrupt and embezzlement of public funds.

In line with this study, Narula and Portelli (2004) hold that FDI is not a sine qua non for development. They posit that FDI led growth is not a process that occurs automatically in the host country, and this reflects the complex nature of the interrelationships between multinational enterprises and the most country economic agents. Development has as one of its facts, the alleviation of poverty. If FDI is not a sine qua non for development, we can rightly be said that it is not a sine qua non for alleviation of poverty.

Reinsen and Soto (2001) are of the opinion that FDI is less volatile than other private capital flows and provides a stable source of finance to meet capital requirements in developing countries. This is true in the sense that, private capital flows directly to private individuals. This capital is capable of alleviating poverty and change the lifestyle of individual's in the positive direction since the impact is direct. With FDI, most of the citizens will not feel its impact particularly when embezzlement and corruption index is high. Most at time the funds may end up with the upper class.

2. FDI AND TECHNOLOGICAL ADVANCEMENT

The analyzed results show that the chi square calculated value (23.65) is greater than the chi-square critical value (5.991). This led to the rejection of the null hypothesis following the decision rule.

Inference made led us to the conclusion that FDI significantly contributes to technological advancement. In line with this study, Djankow and Hoekman (1999) showed that firms receiving FDI or involved in Joint Ventures tend to require new technologies more frequently than those without FDI. Thus FDI activities may involve the explicit transfer of technology and complementary resources such as management expertise and processes from home country to host country.

In Cameroon for example, initially, all constructions involving high level technology were done by foreign expertise. Gradually, there was this transfer of knowledge from abroad to the host country. This transfer of knowledge had always been in the increase particularly during the economic crisis, when donor countries stepped in with huge investments. Japan for example, contributed large sums of monies for the construction of schools, work which was supervised by experts from Japan. The technical knowledge gain by the local community involved in construction of these schools has gone a long way to improve on technology in the construction of bridges, homes, small and large scale industries etc.

3. FDI AND ATTRACTION OF THE INTEREST OF DONOR COUNTRIES

The analyzed results showed that, the chi square calculated value (47.62) was greater than chi square critical value (5.991), at 0.05 alpha level of significance, the degree of freedom 2. These led to the rejection of the null hypothesis following the decision rule. Inference made led to the conclusion that FDI contributes significantly to attract the interest of donor countries.

The Contingency Coefficient value of 0.45 and the contingency maximum value of 0.71 led to the conclusion that the magnitude of influence of FDI on the attraction of donor countries is high.

To support this result, Keegan and Green (2004) see the concept of FDI which explains why firms go abroad, why firms expand abroad by means of FDI, why FDI takes place in some industries, why some countries are the source of outward flow of FDI and others mainly recipients, and what advantages foreign investors have over local ones. They see that when favorable conditions are set up in a recipient country, confidence is built up in the donors who put in their utmost to invest in that foreign country.

This confidence is built if the donor knows that his resources are not put at risk. That is if, the desired expectations will be achieved. This has to do with proper accountability in the part of the receiving nation, good governance policy and a positive economic climate. No firm, no industry and no country put its resources at risk. For donors to be attracted in foreign country, then, they must be assured of reaping the expected results.

Amongst the three hypotheses tested, the variable which the FDI influences most was attraction of foreign donors. This is true because, for any foreign nation to invest in order to alleviate poverty and to advance its technology the conditions in the recipient country must first of all be attractive to the donor.

4. ECONOMIC CRISES AND THE ADVENT OF FDI IN CAMEROON.

Prior to 1990 FDI in Cameroon was limited only to a few firms involved in offshore oil drilling. But in 1986, the government announced an economic crisis that was to lead to many reforms. After trying to solve the crisis for four years without success, the government was forced to attract foreign investment. This was highly favored by the IMF and the World Bank that were reluctant to give any loans without economic liberalization. Government, thus had no option than to accept the terms, consequently, it reluctantly started to lay grounds for more private investment, especially from abroad. The most plausible way to do this way to privatize the hitherto heavily subsidized government corporations that were the backbone of the economy but whose efficiency was very low. Thus in 1990 the president signed a degree listing most of the government corporations to be privatized and launching a privatization program. The program was not only a means to attract FDI but also a source of income for ready cash to meet up with government spending initially meant to last only for four years. The program did not yield the expected results. As such in 1994, the president again signed another decree extending it and listing many more cooperation's for the exercise. The program is still going on, and as tabled. 78.25% of the program has been carried out. (That is, 18 out of 23)

4.2. Time Frame.

The time frame for securing adequate FDI to help Cameroon out of the economic crisis was set to coincide with the privatization program. It was initially hoped that within four years, there would have been enough FDI to effect economic recovery .That is from 1990 to 1994.But this yielded results and after the currency was devalued to further attract FDI, a new time frame was set to prolong the program from 1994 to 2004.

Table 3: List of Corporations Privatized or in course of Privatization

	Company	Activity	Status
1	Cameroon sugar Company (CAMSUCO)	Agriculture	Privatized
2	HEVECAM	Agriculture(rubber)	Privatized
3	SOCAPALM	Agriculture(palms)	Privatized
4	Regiefercam (now Camrail)	Transport (Railway)	Privatized
5	Cameroon Shipping Lines (CAMSHIP)	Transport(shipping)	Privatized
6	National Electricity Corp. (SONEL) [now AES-SONEL]	Electricity Supply	Privatized
7	CAMTEL Mobile(Now MTN)	Telecommunication	Privatized
8	SODECOTON	Agriculture(cotton)	Privatized
9	BICIC(Now BICEC)	Banking	Privatized
10	SOCAR	Insurance	Privatized
11	CAMTAINER	Maritime freight	Privatized
12	SNAC	insurance	Privatized
13	Cameroon Banana’ Corp.(OCB)	Agriculture	Privatized
14	Societe d’Eploitation des Parcs Bois	Forestry	Privatized
15	SCTM	Heavy Metals	Privatized
16	SOCAMAC	Heavy Metals	Privatized
17	Contre-Plaque du Cameroun(COCAM)	Wood Processing (ply wood making)	Privatized
18	Siciete Camerounaise de Bangue	Banking	Privatized
19	Cameroon Development Corporation (CDC)	Agriculture	Partly Privatized In course of Privatization
20	National Water Corporation(SNEC)	Water Supply	Privatized
21	Cameroon Telecommunication(CAMTEL)	Telecommunication	In course
22	Cameroon Air Lines	Air Transport	Privatized
23	CNR	Insurance	In course

Source: Ministry of the Economy and Finance

This flow of FDI within this time coincides with Cameroon's economic recovery

4.3 Stronger Incentives

In chapter three of this work, an account of the various incentives made by the government of Cameroon to woo FDI at the beginning of the crisis was given. However, while the liberalization and privatization program was being implemented, the government, between 1998 and 2001, offered stronger incentives to FDI. There is no official reason given for this. But one can guess that previous endeavors to attract FDI were yielding the expected result and there was need for more investment if the crisis were to be combated. The new incentives included the:

Inclusion of an IMF commission in the selection of privatization tenders. This was meant to avoid corruption and bias.

Elimination of tax exemption granted to some eight market firms in enterprise specific conventions.

Liberalizing the interest rate and allowing it to reflect market conditions.

Establishing a regulatory framework authorizing and facilitating foreign exchange. Abolishing the fixed commission set by government for bank transactions.

Providing energy at a reduced rate to firms despite the privatization of the national electricity corporation,

Reducing the cost and clearance time for import especially the industrial and capital goods,

Improving the road network by privatizing road maintenance,

Creating an industrial Free Zone with a ten years tax exemption, Creating a National Anti corruption Observatory.

4.4 FDI Inflow

FDI inward flow to Cameroon is very insignificant compared with FDI to other African and less developed countries. This is explained by the fact that all the data for FDI flow from the

World Bank or the United Nations Conference on Trade and development (UNCTAD) indicate that more FDI flows to developed economies than to less developed or developing economies. Also, Cameroon's economy is very small compared with other giant less developed economies like Nigeria or India.

The size of FDI flows, not withstanding, according to UNCTAD, World Investment report, 2004, shows that there has been a remarkable effect of it in Cameroon's economy in the last decade. In 1990 FDI inflow was estimated at $ 40 million, in 2000, $ 31 million in 2001, $ 75 million in 2002 $ 176 million in 2003: it surged to a record high estimate at $ 215 million. This gives a progression of — 22%, 58.6%, 134% and 78.9% respectively (see table 2 below) .This was due to the construction of the Chad-Cameroon pipeline that is estimated to cost over $3.7 billion.

In the same light, on Cameron profile, publishing by World Investment Directory online Africa 2002, Cameroon's inflow of FDI shows some differences in some of the figure. The report estimates Cameroon's inward FDI flow as follows: $31 million in 2000 and $87 in 2002, given an increase of 180.6% in two years. Although there is some disparity between these two reports, it is evident that there was an unprecedented increase in FDI inward flow between 2000 and 2002. As stated earlier, this is due mainly to the Chad-Cameroon oil pipeline that brought along a lot of investments. This is reflected in the sharp drop from 134% to 78.9% in just one year - between 2002 and 2003 It is worth pointing out that the National Statistics institute could not provide any record to collaborate any of the figures above

Table 4: Inflow of FDI to Cameroon in relation to Africa (1999-2003)

Destination	1999	2000	2001	2002	2003
Cameroon	40	31	75	176	215
Percentage of flow in relation to total flow to Africa	0.34	0.35	0.38	1.49	1.43

Source: UNCTAD, World investment report, 2004

These figures point to the fact that although they represent only the second half of the period scheduled to attract FDI to Cameroon, there is a correlation between them and the privatization of enterprises (1994-2003)

4.5 FDI Inflow to Cameroon According to Countries.

This section examines the flow of FDI to Cameroon according to countries. France and the US have been the largest sources of FDI to Cameroon in the last decade.

4.5.1 France

FDI inflow to Cameroon according to countries indicates that France is the highest investor in Cameroon. French companies have 160 affiliates in Cameroon employing 30,000 people. This excludes some 200 private enterprises owned by French residents in Cameroon (source: UNCTAD).

The value of French FDI inflow into Cameroon in 2001 and 2002 was estimated at 131 million and 156 million Euros respectively (that is approximately $161.9 million and $191.7 million respectively), an increase of 19% in one year - Meanwhile the total value of French FDI stock in Cameroon between 1998 and 2001 rose from 256 million Euro to 367 million Euro (that is approximately $316.7 million and $453.1 million respectively), an increase of 43.35%. In 2001, the value of French FDI stock in Cameroon (approximately $453.1 million) represented 0.1% of total French FDI to the world.

4.5.2 USA

US FDI inflow to Cameroon is the second largest, though the number of US affiliates is smaller than that of France, their contribution I s remarkable because they are mainly in sectors that require huge amount of capital such as petroleum, chemicals energy, and services. In 2003 the stock of US in Cameroon was $3.7 billion up from $2.8 billion in 2002, an increase of 32.41%.

The figure above does not include the investment of the US utility firm, AES, which took over Cameroon's giant electric company and is running it as a monopoly. The company invested $69 million in 2001, owning 51% of the corporation. The figures, however, include US investment in the Chad-Cameroon pipeline, which was undertaken by American and Malaysian firms, and amounted to $3.7 billion, with US investing over $1 billion in it.

*Exxon Mobil 40%, Petronas Malaysia 35% and chevron 25%)

4.5.3 Other countries

Other major sources of inward FDI flow to Cameron include the United Kingdom, Germany, the Netherlands, Malaysia and Belgium. The figure below shows some of the largest FDI affiliates in Cameroon in 2002, their sales and their employment.

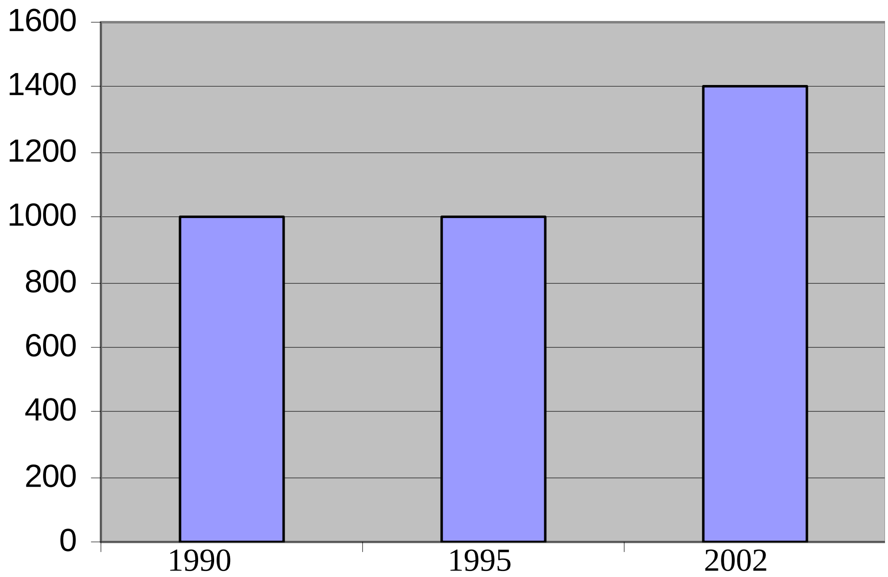

Fig 1 Largest FDI Affiliates to Cameroon in 1990, 1995 and 2002.

Source: World Investment Directory, Africa, 2003. Figures on the horizontal axis are in millions.

4.6 Macro Economic Effects of FDI

4.6.1 GDP and Capital Formation

Even though the value of FDI inflow to Cameroon may be very small compared with many other countries, its effects on the economy have been remarkable. As indicated by UNCTAD, FDI inward stock made significant gains from $1 billion in 1990 to $1.4 billion in 2002, an increase of 40% in twelve years. As a percentage of gross fixed capital formation (GFCF) FDI inflow doubled between 1996 and 2002m from 2.5% to 5%

As to the contributions of FDI to GDP, FDI inward stock was 13% in 1994 and rose to 16% in 2002. Conversely, although the capital stock of FDI in Cameroon is large (16%), its real contribution to GDP has been very minimal; in 2001 it was 0.9% and was estimated at 1% in 2003. In terms of percentage this is small. But in terms of monetary value and real contribution, the multiplier effects are quite substantial for a poor economy like that of Cameroon.

Table 5: Affiliates of foreign Trans National Corporations (TNCs) in Cameroon, 2002 (Millions of dollars)

Company	Home economy	Industry	Sales	Employees
A. Industrial				
Mobil Oil Cameroon	United States	Petroleum	195.5	294
Societe Camerounaise Equatoriale	France	Petroleum	160.7	854
Colgate Palmotive Cameroun	United States	Chemicals	29.0	154
Societe Nationale	United States	Electrical and electronic equipment	24.4	825
Milchem Cameroun	United States	Diversified	22.2	233
Guinness Cameroun	Netherlands	Beverages	20.9	124
Plantation Pamela	United Kingdom	Food	18.0	200
Compangie Equatoriale de Peintures	France	Food	11.0	2,500
Plantes Du Cameroun-Medicam	France	Food	6.8	232
Societe Froeshere Industrille	France	Tobacco	6.8	53
Socopao Cameroun	France	Tobacco	4.4	81
Sibal	France	Chemicals	2.4	109
SDV Cameroun	France	Chemicals	2.2	37
Sael Cameroun	France	Chemicals	2.1	43
Sodexho Cameroun	France	Chemicals	1.4	23
B. Tertiary				
Pioneer Genelique Cameroun	United States	Electricity, gas and water	11.7	331
Eludes Et De Tranaux	France	Electricity, gas and water	9.0	120
Hoechst Cameroun	Germany	Trade	6.9	30
Rhone Poulenc Afrique Centrale	France	Trade	6.8	38
Societe Camerounaise de Manutention et D'acconage	France	Trade	6.8	39
Geosiap	France	Trade	3.9	62
Salom Cameroun	France	Trade	3.8	5
Laborex	France	Trade	3.8	34
Societe industrielle des crayons et fournitures	France	Trade	0.5	250
Societe Camerounaise D'Oxygene El Acetylene	France	Trade		233
Messagerie De Presse	France	Trade		88
Societe Du Haut Ogooue Cameroun	France	Trade		100
Pierre Loti	France	Trade		
Societe D'Achons pour le Developpment Economique	France	Trade		
Bernabe Cameroun	France	Construction		
C. Finances and Insurance				
Credit Lyonnais Cameroun	France	Finance	2759.0	
Banque des Etats de l'Afrique Centrale	Central Africa Rep.	Finance	294.0	

Sources: The Banker's Almanac, 2003 (London, Dun and Bradstreet, 2003).

4.6.2 Employment

In terms of employment, FDI has contributed much to Cameroon's economy. In a country with a very high unemployment rate (30% in 2001), any job offer is important to the government it is estimated that French FDI alone employed 30,000 people while US FDI employed about 1837 people in 2003 (Bankers Almanac 2003), excluding the national electric company, AES-Sonel, an American Affiliate which alone employed 3443 permanent and more than 3000 part time and seasonal workers. In a labor force of approximately 6.68 million people (2003), the impact of these figures on employment may seem insignificant. That is, French FDI employed 0.44% of the labor force while American FDI, including AES-Sonel employed approximately 0.12% (induding part time workers). It is, however, important to note that the employed figures mentioned here do not include thousands of people employed as a result of the construction of the Chad-Cameroon pipeline that generated many other jobs directly or via local employers through the service sector and those employed in the forestry (55,000 people) and the agricultural sector, which has a high FDI input and a large employment, but on which there is no data on FDI.

4.6.3 Relationship between FDI and economic growth.

Although this study indicates that there is no direct correlation between FDI and economic growth ,there seems to be a noticeable relationship between the two from 2000 to 2002.FDI inflow between two years was on the increase ,resulting to an unprecedented upsurge in FDI stock in 2002.However,considering the stock and inflow of FDI between 1994 and 2003, the recovery period ,one is tempted .to believe that the absence of data or adequate records is responsible for the irregular relationship between the two phenomena.

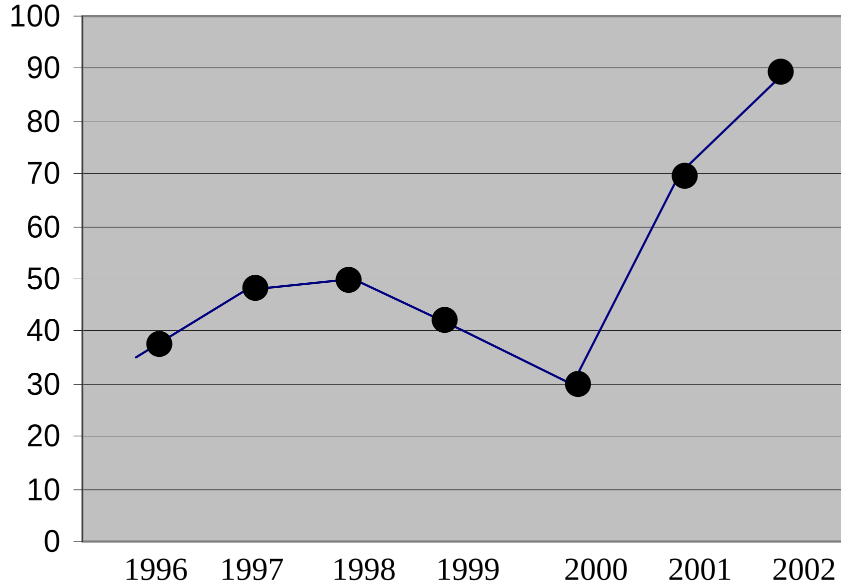

Fig 2 FDI inflow to Cameroon, 1996-2002

Source: UNCTAD World Investment Directory online, Africa, 2000

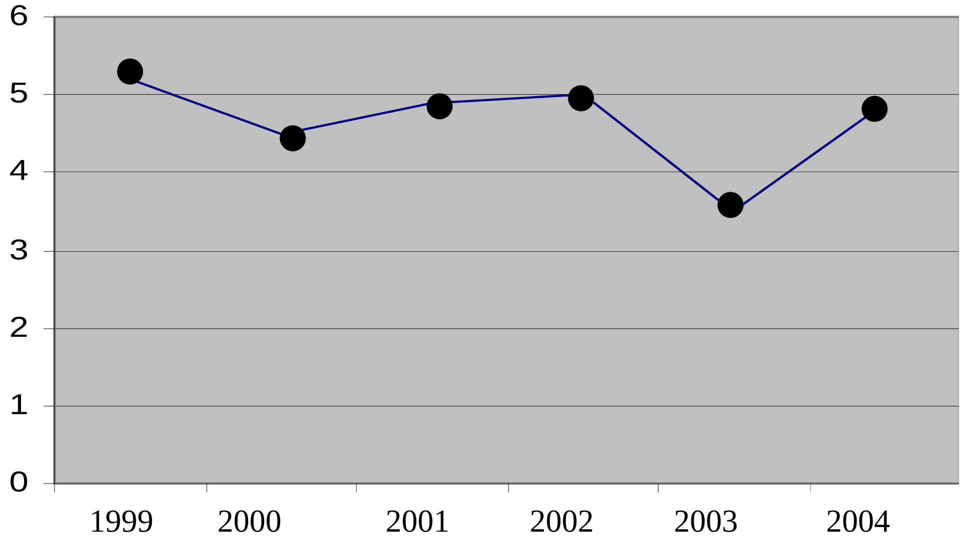

Fig 3: Cameroon's real GDP growth, 1994-2004

Source: CIA World fact book, 2005

4.7 Microeconomic contributions of FDI

The biggest challenge in this work was to get the contributions of FDI in individual sectors or industries of the economy. However, some data worth nothing was got from the internet and from the National Institute of Statistics.

4.7.1 Petroleum

The petroleum sector is one of the areas in which FDI is very noticeable in Cameroon. Before 1999, the government of Cameroon owned bat least 40% of petroleum proceeds. But with the implementation in 1999 of a petroleum code, the government share dropped because it was left to be decided on bargaining terms with individual Companies. As such the present ownership of petroleum companies in Cameroon is as per the table below (2003)

Table 6: Major Companies in Cameroon's petroleum sector

Activity	Company	Share %
Exploration/Production	Total E & P	20.00
	Pecten Cameroon	20.00
	Pecten Cameroon	20.00
	Mobil Producing Cameroon Inc.	20.00
Quality control	HYDRAC	97.00
Trading	TRADEX	44.00
Refining	SONARA	20.00
Storage	SCDP	15.00
Naval repairs and dockyard	CNIC	41.50
Insurance	Chanas Assurances S.A.	20.00
Hotel	Cameroon Hotels Corporation	6.21

Source: *Cameroon Hydrocarbon Corporation (SNH), 2003*

The table above indicates the shares of various foreign affiliates in the various activities involved in the petroleum business in Cameroon. With the expectation of the hotel sector that caters for petroleum workers which has 6.21 % of the hotels run by the petroleum companies, this sector is mainly FDI. Although its contribution to the GDP has been decreasing due to falling world oil prices, there was a sudden rise in its contributions in 2004.Total proceeds from this sector were 237 billion CFA (approximately $443. 7million)

Between 2000 and 2003, FDI contributions from petroleum to Cameroon's GDP were as follows:

Table 7: FDI contribution of Cameroon's GDP, 2000-2003

Year	2000	2001	2002	2003
Contribution to GDP (%)	11	7	5	6

Source: *BEAC, BAFD/OECD*

Results on table 5 can be translated into the graph in fig. 3

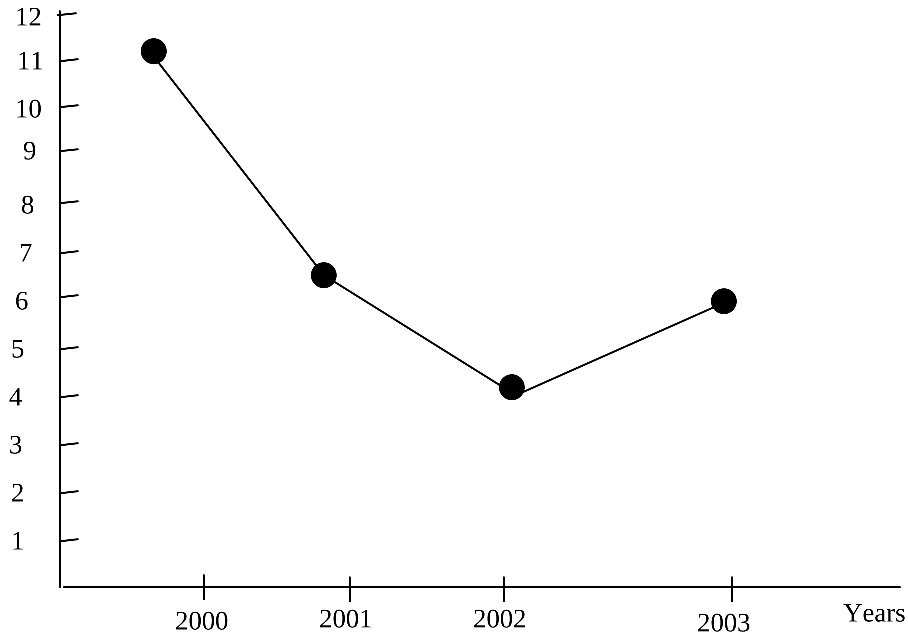

Fig 4: A line graph showing FDI contributions from 2000 to 2003 the line graph in figure 3 shows that, there was a sharp decline of FDI contributions to Cameroon between the year 2000 and 2002, and in 2003, there was a rise.

4.7.2 Telecommunications

Cameroon's telecommunications sector is mainly in the hands of foreign operators. There are two mobile telephone companies-One South African and the other French-and one line Phone Company (state owned).While line subscribers rose only from 70,000 to I 10.,000 between 1999 and 2003, mobile phone users rose from 400,000 in 2001 to 1,077,000 in 2003

The gross contribution of the telephone sector to GDP was as according to the table below.

Table 8: Gross contribution of the telephone sector to GDP, 1994-2003

1994	1995	1996	1997	1998	1999	200	2001	2002	2003
0.6%	0.53%	0.53%	0.59%	0.67%	0.97%	1.23%	1.14%	1.25%	1. 42%

Source: National Institute of Statistics

These results can be translated into the graph in fig 4.

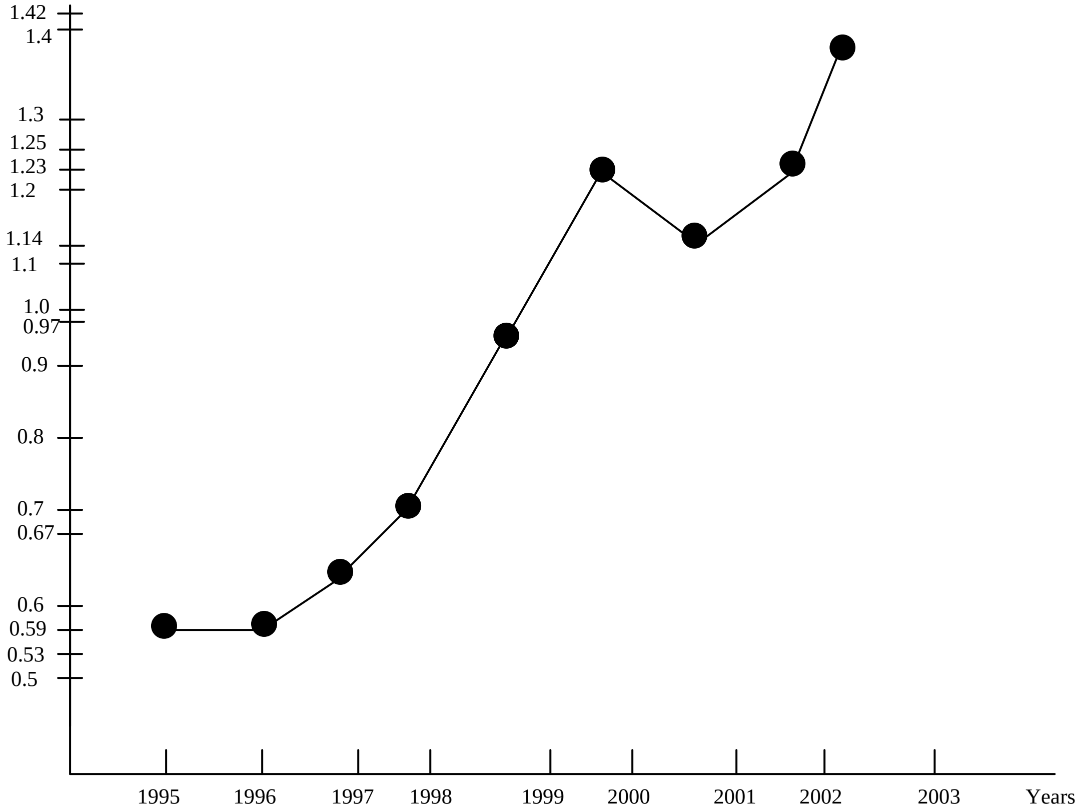

Fig 5, a line graph showing FDI contributions of the telephone sector to GDP Between 1995 to 2003.

Fig 5 Shows that, there was a gradual increase in the percentage contribution of the telephone to the GDP Between 1995 to 1998, then a sharp rise up to the year 2000, a fall in a year after, then another sharp rise between 2001 and 2003.

The sharp increase in GDP contribution between 2000 and 2003 was due to the privatization of the mobile phone sector in l999 and an influx of new technology and more capital from the buyers. Unfortunately, it was not possible to get what fraction of this contribution came from FDI alone.

4.7.3 Electricity

The only existing electric Company is an FDI owned by the American Utilities Corporation AES. The Company alone employed 1837 workers in 1993 and since its take over has contributed to Cameroon’s GDP as follows: 0.63% in 2001, 0.61 % in 2002 and 0.63% in 2003.

4.7.4: Banking

Prior to 1994 the government of Cameroon owned at least 33% shares in all commercial banks in the country. But during the privatization program, government sold a majority of its shares and since then the banking sector has been in private hands. It accounted for 1.16% of GDP in 2001, 1.21 % in 2002 and 1.25% in 2003.With the exception of two banks, the entire commercial banking sector is FDI (80%).Therefore, it can be rightly concluded that the contribution of the banking sector to GDP is FDI.

The table below shows the existing commercial banks in Cameroon as officially recognized by the Banking Commission of Central Africa (COBAC), the arm of the sub regional Central Bank in charge of regulating banking activities.

According to table 7 below, all but one commercial bank in Cameroon have at least some foreign capital. The share ownership indicates that the sector is almost all FDI. From the figures of contribution of this sector to the GDP, which has been above 1% from 2001 to 2003, it can thus be concluded that GDP in the banking sector contributed more than one percent of GDP within this period. This is because the share of the only two non FDI banks cannot be very substantial as to vitiate the contribution of the other nine.

Table 9: List of Commercial Banks in Cameroon and their Foreign Shareholdings

	Bank	Foreign Shareholder	Percentage of Shares (%)
1	BICEC	Group Bangue Populaire (France)	5.25
2	Afriland First Bank	SBF and CoJFBO Netherlands	56.42 (36.62&1 9.8 Resp.)
3	Citibank Cameroon	Citibank New York	100
4	Commercial Bank of Cameroon (CBC)	DEG Germany	15
5	Credit Lyonnais Cameroon	Credit Lyonnais Credit Banking (France)	65
6	Ecobank Cameroon	Holding Ecobank Transnational Inc.	80
7	SGBC	Societe General, France	43.42
8	Standard Chartered Bank Cameroon	Standered Chartered (Int.)	100
9	Amity Bank Cameroon	CDC Bangkok	3.72
10	Union Bank of Cameroon	/	/

Source: Drawn by author with data from the website wwwizf.net

4.7.5 Others

Similarly, with the exception of the national airline company, all of Cameroon's major transportation routes are FDI. For example, the railway company CAMRAIL is owned by a South African company, the national shipping line was sold to the French while the seaports were privatized, the entire transport sector accounted for 4.46% in 2000, 4.63% in 2001, 4.75% in 2002 and 5.23% in 2003 of GDP. The contributions made by the agricultural sector are also quite important as most of the nation's major state corporations in the sector were privatized and some are still to be privatized. It was rather impossible to have FDI figures in the area because the existing ones are for the entire industry. On its part, the forest sector, which is dominantly made of European firms employed 55,000 in 2000 and paid taxes amounting to $60 million while contributing to 5% of GDP.

4.8 Problems of FDI in Cameroon.

Through out this research, the only data on the abuses, of FDI came from the forest sector; however, there were reports on some issues that we can consider as problems worth highlighting.

4.8.1 Labor.

One of the major FDI labor problems in Cameroon concerns wages, prior to the economic crisis; workers in the private sector were highly protected by the labor code. Lay offs were very risky for employers. But the new labor code provides for lay off after a month's notice. This is considered by labor unions as unfair. The labor code abrogated a previous law that stipulated wages on qualification basis. In theory, the labor markets, but such a market has not emerged.

4.8.2 Social Amenities

Investment in the past was usually linked to the provision of social amenities such as roads, water or health services to the local population.

But FDI do not respect this now and the government does not take any measures to compel them.

4.8.3 Non-respect of terms of entry

As mentioned above, there were some problems in the forest sector. These were mainly related to the non-respect of terms of entry. For example, some companies flouted local laws such as illegally exploiting more resources than their concessions provided. As estimated by the rain forest foundation (2004), 50% logging in Cameroon in 2002 was illegal. However the government reacted to this by imposing fines on the offending companies. This measure was responsible for the reduction of forest receipt from 3% of GDP in 2001 to an estimated 2% of GDP in 2002.

4.8.4 Corruption

A major problem associated with FDI in Cameroon is corruption. Due to deliberate bottlenecks in the issuing of business licenses, coupled with a very slow judicial system, most foreign companies always find themselves forced to bribe government officials to have their files treated or to put an end to a long judicial process. However, during this research, no data was found of people who have testified of corruption.

CHAPTER FIVE

CONCLUSION

The purpose of this research was to investigate the role of foreign direct investment in the recovery of the economy of Cameroon from 1994 to 2003. After a study and analysis of the data and information that was available, it was discovered that there was enough inflow of FDI to Cameroon during the period under study. There was also a considerable increase in the stock of FDI in the country. But the value of FDI as a percentage of GDP, which is the most appropriate way to determine economic growth, was very small (approximately I %). After a study of the contribution of some individual industries, and considering their contribution to Cameroon's GDP, it was discovered that the relation between FDI and GDP was more realistic at the microeconomic level than at the macroeconomic level. Thus we came to the conclusion that FDI did contribute to Cameroon's economic recovery. If the considerable inflow and large stock of FDI did not reflect in the GDP, it was due mainly to the fact that data collection in Cameroon is not developed. There is no central body, even at the level of the chamber of commerce that collects data and information on the output companies.

Consequently, if there should be any meaningful assessment of FDI in Cameroon and its role in the economy, then the government should set up an agency charged with collecting statistics and data on businesses, especially FDI. Such data and information should be made available to researchers and investors or the general public.

The government should also be sincere in the desire to woo FDI by increasing its fight against corruption and restrict using the judiciary and giving it all the working tools needed to dispense justice equitably.

It has also been demonstrated from the business environment in Cameroon that if there was a big inflow of FDI between 1994 and 2003, it was as a result of a conducive environment stemming from an open door policy of the government and many incentives to lure foreign investors, If the economy should benefit from more FDI, the government must maintain or increase these incentives. In particular basic infrastructures such as roads and communication should be improved and widened. Finally, the objectives of this work might have been attained, but the there is still much to do about the economy of Cameroon as a developing country with much economic and business potential. In any related study, it is hoped that this work could serve as a source of material or that it might be useful as far as FDI studies in Cameron are concerned.

APPENDIX A

UNIVERSITY OF

DEPARTMENT OF

QUESTIONNAIRE FOR RESPONDENTS

Dear respondents,

I am a Masters Degree student undertaking research on “Foreign Direct Investment in Cameroon. This questionnaire is purely for academic purposes and your responses is guaranteed

SECTION A – BACKGROUND INFORAMTION

1) Name ……………………………………………………………………………

2) Function in Society Regional Delegate ☐ Assistant Regional ☐

Delegate ☐ Divisional Delegate ☐ Assistant Divisional Delegate ☐

3) Gender Male ☐ Female ☐

SECTION B – FDI and POVERTY ALLEVIATION

4) The in-flow of foreign capital can significantly raised the purchasing power of the common Cameroonian

a) Strongly Agree ☐ b) Agree ☐ c) ☐ Disagree d) ☐ Strongly Disagree

5) Foreign Direct Investment created many Job Opportunities during the period of Economic Crisis

a) Strongly Agree ☐ b) Agree ☐ c) Disagree ☐

6) The proper use of funds from foreign Direct Investments can greatly alleviate Poverty in an ailing economy

a) Strongly Agree ☐ b) Agree ☐ c) Disagree ☐ d) Strongly Disagree ☐

SECTION C – FDI AND TECHNOLOGICAL ADVANCEMENT

7) Foreign Direct Investment activities may involve the transfer of technology from home country to host country

a) Strongly Agree ☐ b) Agree ☐ c) Disagree ☐ d) Strongly Disagree ☐

8) Technical knowledge gained by the local community as a result of FDI can be used in the construction industry

a) Strongly Agree ☐ b) Agree ☐ c) Disagree ☐ d) Strongly Disagree ☐

9) Foreign Direct investment has largely contributed to advancements in technology.

a) Strongly Agree ☐ b) Agree ☐ c) Disagree ☐ d) Strongly Disagree ☐

SECTION D- FDI AND ATTRACTION OF DONOR COUNTRIES

10) The host country receiving FDI is able to attract other donor countries depending on the confidence building measures

a) Strongly Agree ☐ b) Agree ☐ c) Disagree ☐ d) Strongly Disagree ☐

11) For donor to invest in a foreign country there must be assurance of reaping the expected results

a) Strongly Agree ☐ b) Agree ☐ c) Disagree ☐ d) Strongly Disagree ☐

12) Countries with ailing economies usually attract the interest of donor countries

a) Strongly Agree ☐ b) Agree ☐ c) Disagree ☐ d) Strongly Disagree ☐

APPENDIX B

Chi-square ($\chi 2$) distribution table

df	10	05	02	01
1	2.706	3.841	5.412	6.635
2	4.605	5.991	7.824	9.210
3	6.251	7.815	9.837	11.341
4	7.779	9.488	11.668	13.277
5	9.236	11.070	13.388	15.086
6	10.645	12.592	15.033	16.812
7	12.017	14.067	16.622	18.475
8	13.362	15.507	18.168	20.090
9	14.684	16.919	19.579	21.666
10	15.987	18.307	21.161	23.209
11	17.275	19.675	22.618	24.725
12	18.549	21.026	24.054	26.217
13	19.812	22.362	25.472	27.688
14	21.064	23.685	26.873	29.141
15	22.307	24.996	28.259	30.578
16	23.542	26.296	29.633	32.000
17	24.769	27.587	30.995	33.409
18	25.989	28.869	32.346	34.805
19	27.204	30.144	33.687	36.191
20	28.412	31.410	35.020	37.566
21	29.615	32.671	32.343	38.932
22	30.813	33.924	37.659	40.289
23	32.007	35.172	38.968	41.638
24	33.196	36.415	40.270	42.980
25	34.382	37.552	41.566	44.314
26	35.563	38.885	42.856	45.642
27	36.741	40.113	44.149	46.963
28	37.916	41.337	45.410	48.278
29	39.087	42.557	46.693	49.588
30	40.256	43.773	47.962	50.892

Source: Gilbert (1978: 372), Statistics, The Editions HRW Montréal

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