THE IMPACT FOREIGN DIRECT INVESTMENT HAS ON THE SOUTH AFRICAN ECONOMY

Luvo Sigonyela - 448405
Mathapelo Malatji - 448431

Introduction

This paper focuses on the impact that the FDIs in general have had on the South African economy over the last five years. South Africa is the economic powerhouse of the African continent, with a Gross Domestic Product (GDP) of US$283 billion - four times that of its southern African neighbours, and comprising 30% of the entire GDP of Africa. EY Africa (2015) reports that Southern Africa attracts about one-third of FDI projects in Africa, and their numbers have been growing at a compound annual growth rate (CAGR) of 10.8%.

This year, its inbound FDI projects fell 11.4%. Capital inflows more than doubled to US$33.6b in 2014, this can be attributed to a massive energy sector deal, but there was a marked fall in FDI projects announced in South Africa. The region's anchor economy netted 121 FDI projects, down 17.7% on 2013. Although the country remained Africa's FDI champion, the amount of investment and the number of jobs created per project were more modest. South Africa's project lead narrowed for the first time since 2010. Companies from both the US and the UK, South Africa's largest investors, announced fewer projects in 2014, like those from Germany and Spain.

1. What is FDI

Pascal (2008) defines Foreign Direct investment as a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor. The motivation of the direct investor is a strategic long-term relationship with the direct investment enterprise to ensure a significant degree of influence by the direct investor in the management of the direct investment enterprise.

In South Africa the investor must have a "lasting interest", which is evidenced when the direct investor owns at least 10% of the voting power of the direct investment enterprise. Direct investment may also allow the direct investor to gain access to the economy of the direct investment enterprise which it might otherwise be unable to do. The objectives of direct investment are different from those of portfolio investment whereby investors do not generally expect to influence the management of the enterprise.

2. Importance of FDIs in Economic Development

In a study that was conducted to test whether or not there was a relationship between Foreign Direct Investments (FDIs) and economic growth, Jong (2003) concluded that FDIs play a significant role in a country's economic growth. Spaulding and Graham (2014, pp. 2-3) concur with Jong as they argue that FDIs play an extraordinary and growing role in global business. They maintain that FDIs can provide a firm with new markets and marketing channels, cheaper production facilities, access to new technology, products, skills and financing.

For a host country or the foreign firm which receives the investment, it can provide a source of new technologies, capital, processes, products, organizational technologies and management skills, and as such can provide a strong impetus to economic development.

3. What has been happing in South Africa in the past five years in terms of the FDIs?

As South Africa is one of the emerging (developing) countries in Africa it also has so many challenges that it is currently facing which has great impact on FDIs. Some of the things which impacted the FDIs in South Africa for the past five years are: lack of innovation; economic slow-down; banking reputational risk; Ebola virus outbreak; insufficient electricity supply; shortage of skills; increase in strikes; action Euro zone crisis 2013 impact to SA and property registering.

3.1. Property registering

The information was taken from the Bureau of Economic and Business Affairs (2012). In South Africa there is the Department of Trade and Industry (DTI) and Trade and Investment South Africa (TISA) which provides assistance to foreign investors. Since both divisions are from the government it normally takes a while for the process to be completed unlike if a private entity was responsible for such tasks.

Leading to several investors having troubles gaining access to senior decision makers to provide support for the investment. Furthermore, South Africa has begun scrutinizing merger and acquisition related foreign direct investment more closely for its impact on jobs and local industry. The S.A. government want the investors not only to invest in a form of money only but also invest on infrastructure and other physical ways.

Though some private sector representatives and other interested parties are concerned about politicisation of South Africa’s posture towards this type of investment. In November 2011, Moody’s downgraded South Africa’s credit outlook from “stable” to “negative," citing greater political risk due to increasing constraints on public finances. Fitch followed suit in January 2012, but S&P maintained a “stable outlook rating.

Foreign investment within South Africa is also affected by South Africa’s Broad-Based Black Economic Empowerment (BEE) program. BEE is a government program to increase the participation in the economy of historically disadvantaged South Africans. BEE requirements are specified in the Codes of Good Practice, which were published in the Government Gazette in February 2007.

3.2. Euro zone crisis 2013 impact to SA

According to Investopedia; “The European sovereign debt crisis occurred during a period of time in which several European countries faced the collapse of financial institutions, high government debt and rapidly rising bond yield spreads in government securities. The European sovereign debt crisis started in 2008, with the collapse of Iceland's banking system, and spread primarily to Greece, Ireland and Portugal during 2009. The debt crisis led to a crisis of confidence for European businesses and economies”.

Grant Thornton Johannesburg CEO David Campbell (2013), said “The impact of the Euro zone crisis on South Africa was exacerbated by the internal problems, particularly unrest in the important sectors of mining and agriculture”. Lesetja Kganyago (2012); “FDI flows from the European Union (EU-27) to Sub-Saharan Africa were EUR 11.5 billion in 2010 and this was a decline from EUR 13.1 billion the previous year; and these flows of FDI were mainly to South Africa. To Africa as a whole, FDI inflows reached Euro 21.3 billion in 2010”.

According to Unctad's World Investment Report (2014), South Africa was the best Foreign Direct Investment performer in 2013 for the intra-African investment. Because of the increase seen from $4.5bn in 2012 to $8.2bn in 2013 meanwhile Mozambique was at $5.9bn, Nigeria $5.6bn, Egypt $4.2bn and Morocco $3.5bn followed. An increase was also seen in terms of the outflow of FDIs in South Africa moving from $2.9bn in 2012 to $5.6bn in 2013.

Foreign Direct Investment in South Africa averaged 345.75 ZAR Billion from 1956 until 2015, reaching an all-time high of 1624 ZAR Billion in the third quarter of 2014 and a record low of 1 ZAR Billion in the fourth quarter of 1957. Foreign Direct Investment in South Africa is reported by the South African Reserve Bank.

3.3. Banking reputational risk

Lesetja Kganyago (2012); said “The South African banking system is rated amongst the best in the world. It is rated just behind that of Canada by the World Economic Forum. It is a very strong financial system and is rated ahead of the financial system of the USA. Whilst credit in Europe is only growing at only 1 per cent, credit in South Africa is growing at close to 8 per cent, which means that indeed credit is flowing”. There is too much unsecured lending which creates uncertainty in the economy.

According to Lesetja Kganyago (2012); “the National Credit Regulator decided they want to go and dig and understand what is driving this unsecured lending in South Africa. The South African Reserve Bank has asked the Registrar of Banks to go around and understand what is driving this unsecured lending”.

3.4. Insufficient electricity supply

Eskom is a South African electricity public utility, established in 1923 as the Electricity Supply Commission by the government of South Africa in terms of the Electricity Act. According to Carte Blanche (2013); reported that “part of the problem is related to the supply of coal to the coal-fired power plants. Several other causes have been postulated, including skills shortages and increasing demand for electricity around the country”.

Antonie van der Hoek, managing partner for BDO Cape Town (2015); said “In a country where we are already struggling to attract FDI, load shedding further detracts from our competitiveness. We need to start investing in alternatives in order to keep the lights on, businesses operating smoothly and potential investors confident in our country,” .News24 (2015) reported that “98% of Western Cape respondents to the survey reported that the uncertainty about the future of electricity supply in South Africa impacts negatively on investor perceptions of the country”.

3.5. Increase in strikes action

African Economic Outlook (2015), strong labour unrest marked a crack in the tripartite alliance between the ANC, the South African Communist Party (SACP) and the Congress of South Africa Trade Unions (COSATU). COSATU lost its biggest affiliate union, the National Union of Metalworkers of South Africa (NUMSA), as well as its leadership position in the platinum sector to the Association of Miners and Construction Union (AMCU), a new union.

Strikes by miners in 2014 brought platinum mining to a halt. In June 2014, Zuma and the ANC announced a National Development Plan that was claimed would stimulate economic growth using a market-based, long-term strategy.

3.6. Ebola virus outbreak

Since March 2014, over 3,000 people have died from the relentless spread of the Ebola virus throughout the West African countries of Guinea, Sierra Leone, Liberia and Nigeria. Cath Everett (2014); reported that “although South Africa has had no confirmed cases of Ebola and is thousands of miles from the epicentre of the epidemic in West Africa, it appears that its tourist industry is being hammered anyway”.

3.7. Other things

South Africa has a certain amount of weaknesses: High rate of criminal violence and corruption, a highly regulated labour market and poor or unclear regulations in some of the key sectors like telecommunications, the import-export process could be complex. These factors contribute negatively to foreign investment.

IMD World Competitiveness Centre director Prof Arturo Bris said South Africa's challenges included deteriorating education and high youth unemployment, corruption, lack of capacity in electricity generation and distribution, and an insufficient supply of skilled engineers and technicians. African Economic Outlook (2015), asserts that skills shortages continue to act as a constraint on growth.

4. New FDI regulations vs the old FDI regulations (South Africa)

South Africa's policy framework on investments is undergoing review, which prompted the decision in 2013 to terminate certain bilateral investment treaties (BITs). Adeleke (2015) has argued that the Promotion and Protection of Investment Bill of 2013 (PPIB) has been introduced merely to promote and protect investments so as to limit the role of international investment agreements (IIAs) in protecting FDI.

It is important to note that this review was prompted by the Piero Foresti case, in which foreign investors challenged South Africa's black economic empowerment (BEE) policy in international arbitration and unsettled the South African government. As a result, the proposed regulation aims to strike a balance between the rights and obligations of investors and the state's sovereign right to regulate in the public interest; replace international investment arbitration with domestic dispute resolution; and afford equal treatment to foreign and domestic investors.

Although this may have come as a surprise when it was announced by the Southern African president, Jacob Zuma, some of the justifications that have been put forward in support of South Africa's recent policy shift are the constitutional guarantees that mitigate the risks to foreign investors, the constitutionally mandated need to reclaim policy space from BIT practice; the unpredictability of interpreting BIT provisions; the ambivalent empirical evidence on the importance of IIAs in attracting FDI; and the importance of developing local institutions.

5. Way forward

Pickworth (2014) stated that South Africa needs to do more to make its economy attractive to foreign investors and catch up with other developing countries, despite rising two places to become the 13th-most attractive foreign direct investment (FDI) destination globally. Furthermore, the public sector has a responsibility to see that the workers' needs are attended to before things such as strikes escalate to big issues that my affect the economy negatively. Another factor that may contribute to make the economy healthy and making the country attractive again is the privatisation of Eskom (the country's main power supplier) or allowing more competition in that sector.

Conclusion

Foreign direct investment has proved to be resilient during financial crises (Loungani & Razin, 2001). It (FDI) has also proven to be a key element in this rapidly evolving international economic integration, also referred to as globalisation. The South African government has adopted the concept of FDI as a means for creating direct, stable and long-lasting links between economies. Although it has a handful of new regulations, some stringent, under the right policy environment, FDIs can serve as an important vehicle for local enterprise development, and it may also help improve the competitive position of both the recipient, which is the host country and the investing ("home") economy.

In particular, FDI encourages the transfer of technology skills and other resources between economies. It provides an opportunity for the host economy to promote its products more widely in international markets. FDI, in addition to its positive effect on the development of international trade, is an important source of capital for a range of host and home economies (Pascal, A., 2008).

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