

https://dspace.org/

Perceived determinants of foreign direct investment into South Africa.

Akinsete, Fedile Mmamajara

2016
http://hdl.handle.net/10539/22612

Downloaded from a DSpace repository. https://dspace.org/

Perceived determinants of foreign direct investment into South Africa

Fedile Akinsete

A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Business Administration

Johannesburg, 2016

ABSTRACT

The economic growth and development of South Africa depends on its ability to bolster inward foreign direct investment (FDI). FDI is an important supplement to low domestic savings and investment. In addition, FDI promotes economic and technological advancement, skills development and access to global markets. However, South Africa fails to attract a sufficient volume of FDI as compared to other developing regions, even though capital inflows to South Africa have increased significantly since the opening of its economy in 1995. The bulk of these inflows are short term investments rather than long term FDI.

This study investigates the type and the determinants of FDI in South Africa. In so doing, it seeks to identify measures that can be taken to promote inward FDI. The research paradigm of this study is qualitative as it seeks to develop an in-depth and holistic understanding of factors that attract or hinder inward FDI. The views of participants were obtained through in-depth face-to-face interviews.

Reinforcing the literature, results indicate that South Africa mainly attracts resource-seeking and market-seeking FDI. The large mineral deposits in South Africa make it a natural destination for resource-seeking FDI. Despite the small market size and stagnant growth, South African consumer buying power and high GDP growth rates in the rest of the continent are strong drivers for market-seeking FDI, because South Africa is regarded as an entry point into the continent, the SADC region in particular. Interestingly, the study found that there is some element of efficiency-seeking FDI that is reinforced by the other two types of FDI.

Further, results show that inward FDI is deterred by uncertainties in government policy, an unstable regulatory framework, an unfavourable labour regime and high labour costs relative to productivity. Consistent with the literature, favourable determining factors include; openness to trade, property rights, the rule of law, the availably of infrastructure and a skilled labour force compared to the rest of the continent. Finally, the importance of a clear policy direction and a stable regulatory framework in promoting inward FDI cannot be understated.

DECLARATION

I, Fedile Mmamajara Akinsete, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Signed at ……

On the …….. day of …… 20…..

DEDICATION

This work is dedicated to my parents, Lineo and Nkwebe Moshesh, who inspired me and sacrificed a lot to give me a better future.

It is also dedicated to my daughter, Toluwani Akinsete, who represents that future.

Finally, this research is dedicated to the people of Africa who through no fault of their own have suffered the humiliation of poverty and oppression.

ACKNOWLEDGEMENTS

I am grateful to my supervisor, Prof. Eric Schaling, for his guidance, interest and the tough questions, this research better because of it.

I am also grateful to Dr Kambidima Wotela, for his advice, time and patience.

I am indebted to all my respondents for their valuable time, enthusiasm and genuine interest in my research. Their contribution formed a vital part of this work.

I am forever indebted to my brother, Sempe Moshesh, for his support, encouragement and assistance during the completion of my MBA. Mokena kea leboa.

To my daughter, Toluwani Akinsete, thank you for giving me the space and time to complete this work, even though you did not always understand why mommy had to be away at school all the time.

I am grateful to my husband, Akintunde Akinsete, without whom this work would have never been possible. My sincere thanks for his love, encouragement and forever believing in me.

Finally, to God the all mighty, who empowered me to undertake this work with zeal and courage.

TABLE OF CONTENTS

ABSTRACT ..... **ii**

DECLARATION ..... **iii**

DEDICATION ..... **iv**

ACKNOWLEDGEMENTS ..... **v**

LIST OF TABLES ..... **ix**

LIST OF FIGURES ..... **x**

CHAPTER 1. INTRODUCTION **1**

1.1 PURPOSE OF THE STUDY 1
1.2 CONTEXT OF THE STUDY 1
1.3 PROBLEM STATEMENT 3
1.3.1 MAIN PROBLEM 3
1.3.2 SUB-PROBLEMS 3
1.4 SIGNIFICANCE OF THE STUDY 4
1.5 DELIMITATIONS OF THE STUDY 5
1.6 DEFINITION OF TERMS AND ABBREVIATIONS 5
1.6.1 DEFINITIONS 5
1.6.2 ABBREVIATIONS 6
1.7 ASSUMPTIONS 6

CHAPTER 2. LITERATURE REVIEW **7**

2.1 INTRODUCTION 7
2.2 OVERVIEW OF FDI INFLOWS 7
2.3 THE IMPACT OF FDI IN THE HOST NATION 9
2.4 STRATEGIC MOTIVATIONS FOR FOREIGN DIRECT INVESTMENT 10
2.4.1 OVERVIEW 10
2.4.2 THE ECLECTIC PARADIGM 11
2.4.3 STRATEGIC MOTIVATIONS FOR FDI 11
2.4.4 MARKET-SEEKING FDI 12
2.4.5 RESOURCE-SEEKING FDI 12
2.4.6 PRODUCTION EFFICIENCY-SEEKING FDI 13
2.4.7 TECHNOLOGY AND STRATEGIC ASSET-SEEKING FDI 13
2.4.8 RESEARCH QUESTION 1: STRATEGIC MOTIVATION FOR FDI 13
2.5 FDI PUSH FACTORS 13
2.6 FDI PULL FACTORS 14
2.6.1 MARKET SIZE AND AGGLOMERATION 15

2.6.2 Natural resource endowment 16
2.6.3 Availability of infrastructure 17
2.6.4 Investment climate 17
2.6.5 Trade openness 18
2.6.6 Corporate tax and labour costs 18
2.6.7 Government policy 19
2.6.8 Financial market development 20
2.6.9 Political environment 21
2.6.10 Domestic saving 21
2.6.11 Interest rates and inflation 21
2.6.12 Research Question 2: Determinants of FDI 22
2.7 Conclusion of literature review 22
2.7.1 Research Question 1: 22
2.7.2 Research Question 2: 23

CHAPTER 3. RESEARCH METHODOLOGY 24

3.1 Research methodology / paradigm 24
3.2 Research design 24
3.3 Population and sample 25
3.3.1 Population 25
3.3.2 Sample and sampling method 26
3.4 The research instrument 27
3.5 Procedure for data collection 27
3.6 Data analysis and interpretation 28
3.7 Limitations of the study 29
3.8 Validity and reliability 30
3.8.1 Internal validity 30
3.8.2 External validity 31
3.8.3 Reliability 31

CHAPTER 4. PRESENTATION OF RESULTS 32

4.1 Introduction 32
4.2 Strategic motivations for inward FDI in South Africa 32
4.2.1 Mineral resources 32
4.2.2 Public infrastructure investments 33
4.2.3 Retail and food manufacturing 34
4.2.4 Efficiency-seeking FDI 35
4.3 Push factors in the home country 36
4.3.1 Saturated domestic markets 36
4.3.2 The drive to secure resources 36
4.3.3 Proximity to markets 37
4.3.4 Competition in the home country 37
4.3.5 Government influence 38
4.4 Pull factors in South Africa 38
4.4.1 Policy uncertainty 38
4.4.2 Protection of property rights and legal framework 40
4.4.3 Availability of infrastructure 41
4.4.4 Resource endowment 44
4.4.5 Market size and economic growth 44
4.4.6 Availability of a skilled labour force 45

4.4.7 Labour relations 46
4.4.8 Cost of labour 48
4.4.9 Trade policy agreements 49
4.4.10 Structure of the economy 51
4.4.11 Geographic location 51
4.4.12 Culture, crime and lack of information 52
4.4.13 Gateway into Sub-Saharan Africa 53
4.5 Summary of the results 55

CHAPTER 5. DISCUSSION OF THE RESULTS 58

5.1 Introduction 58
5.2 Demographic profile of respondents 58
5.3 Types of FDI into South Africa 58
5.3.1 Resource -seeking 58
5.3.2 Market-seeking 59
5.3.3 Efficiency-seeking FDI 61
5.4 Push factors of inward FDI to South Africa 61
5.5 Pull Factors of inwards FDI to South Africa 62
5.5.1 Economic policy and regulatory framework 62
5.5.2 Property Rights and the legal framework (Investment Climate) 63
5.5.3 Availability of reliable infrastructure 64
5.5.4 Availability of natural resources 65
5.5.5 Market size and economic growth 66
5.5.6 Availability of skilled labour and labour Relations 67
5.5.7 Labour costs 68
5.5.8 Trade Policy 68
5.5.9 Geographic Location 70
5.5.10 Financial Market Development 70
5.5.11 Market structure 71
5.5.12 Culture, crime and lack of information 71
5.5.13 Gateway into Sub-Saharan Africa 72
5.6 Conclusion 73

CHAPTER 6. CONCLUSIONS & RECOMMENDATIONS 76

6.1 Introduction 76
6.2 Conclusions of the study 76
6.3 Recommendations 77
6.4 Suggestions for further research 79

REFERENCES 81

APPENDIX A: RESEARCH INSTRUMENT 86

APPENDIX B: CONSISTENCY MATRIX 88

LIST OF TABLES

Table 3.3-1: Profile of respondents 26

Table 4-1 Results matrix 57

LIST OF FIGURES

Figure 2-1: FDI inflows by region (data from: UNCTAD (2014b) Statistics) 7

CHAPTER 1. INTRODUCTION

1.1 Purpose of the study

The purpose of this study is to identify factors that determine the inflow of foreign direct investment (FDI) into South Africa. The study identified strategic business motivations that drive FDI, home country push factors and host country pull factors that determine the inflow of FDI to South Africa. In so doing, it aims to enhance the understanding of FDI drivers into South Africa and to help guide policy to facilitate the promotion of FDI.

1.2 Context of the study

“The future for hundreds of millions of Africans depends on enhancing investment opportunities in Africa. Yet, African governments receive very little foreign direct investment inflows” (Darley, 2012, p. 62). Sub-Saharan Africa (SSA) constitutes 12 percent of the global population, 60 percent of the uncultivated arable land (Mühlberger, 2012) and it is endowed with oil and mineral resources. Despite these advantages, SSA accounts for only two percent of global economic output, one percent of global manufacturing, two percent of world trade and it receives a meagre three percent of global FDI inflows (K. Adams, Debrah, Williams, & Mmieh, 2014; Mühlberger, 2012). Furthermore, the African continent is plagued by challenges of poverty and inequality, dependence on commodities, underdevelopment, high levels of unemployment, and low integration of the continent in the global economy (UNCTAD, 2014a).

Despite its prominence as the second largest, the most sophisticated and developed economy in Africa, South Africa is not immune to these challenges. Its economic growth rate lags behind other African nations and the fast-growing developing countries of Asia (UNCTAD, 2015).The World Bank estimates that South Africa’s gross domestic product (GDP) growth slowed to a meagre 1.3 percent per annum in 2015, as compared to a GDP growth rate of 4.2 percent per annum for Sub-Saharan Africa as a whole (World Bank, 2015b). The GDP growth rate peaked at 5.5 percent

per annum in 2007 and it bottomed at a negative 1.5 percent per annum during the 2009 global economic crisis (World Bank, 2015b). The South African economy has not been able to regain its pre-crisis GDP growth rate.

In an attempt to find a solution to these socio-economic challenges, the South African government appointed the National Development Commission (NDC). It is tasked with developing a long-term strategic plan for South Africa, the National Development Plan (NDP). The objective is to eradicate poverty and reduce inequality by 2030; one of the key priorities is to accelerate economic growth and reduce unemployment through increased investment (NDC, 2010).

The NDC recognises that “South Africa has a low level of savings and relies heavily on foreign capital to finance its investments” (NDC, 2010, p. 21). This is corroborated by the United Nations Conference on Trade and Development (UNCTAD, 2014a), that highlights that one of the reasons for South Africa’s sluggish economic growth is the low investment rate compared to other developing countries. The UNCTAD (2014a) indicates that low domestic savings hinder investment in South Africa.

Leshoro (2014) found empirical evidence that the level of domestic saving in South Africa is low compared to other emerging economies. Furthermore, saving methods are different from the traditional Western methods of saving. The main channels of saving are funeral policies, stokvels and life insurance policies. Leshoro (2014) affirms the importance of FDI as a source of funds to close the investment funding gap in South Africa. In addition, he found that FDI leads to technological advancement, which has a positive impact on economic growth. Access to FDI supplements low domestic savings in South Africa (Odenthal, 2001). It fills the capital funding gap and it provides the capital required to meet developmental goals and the necessary economic growth (Odenthal, 2001).

Capital inflows to South Africa have increased significantly since economic liberation in 1995 (Gossel & Biekpe, 2015). However, the bulk of these inflows consists of portfolio investments and other short-term investment rather than FDI (Borensztein, De Gregorio, & Lee, 1998; Gossel & Biekpe, 2015). According to Gwenhamo and Fedderke (2013), FDI is more beneficial than portfolio inflows because it facilitates

the transfer of new technology, it enhances the development of new skills and it increase access to world markets.

Equally important, FDI is more stable and resilient during periods of financial difficulty than volatile portfolio investments (Gossel & Biekpe, 2015; Gwenhamo & Fedderke, 2013). Thus, a high proportion of FDI in total capital inflows is an indication that the host country is financially stable and less prone to economic crises (Gwenhamo & Fedderke, 2013). Furthermore, Gossel and Biekpe (2015) found that portfolio inflows are susceptible to business cycles, both in the home country and in South Africa. Therefore, South Africa's reliance on portfolio inflows to fund its current account deficit increases the risk of cyclical boom–bust cycles. They recommend that domestic policymakers should develop industrial and trade policies that stimulate economic growth and attract a greater proportion of FDI.

Despite the need to attract more FDI and the reliance on capital inflows for economic development, few studies have investigated the determinants of capital inflows into South Africa (Gossel & Biekpe, 2015). Therefore, it is important to understand the factors that determine FDI inflows into South Africa and to identify measures that can be taken to increase the volume of inward FDI. This study aims to identify factors that attract foreign investors to invest in South Africa and recommend policy handles that can be used to increase FDI inflows.

1.3 Problem statement

1.3.1 Main problem

The purpose of this study was to identify key determinants of FDI inflows to South Africa. It aimed to identify strategic motivations that drive FDI to South Africa and the type of inward FDI to South Africa. In addition, it identified push and pull factors that determine South Africa's attractiveness to foreign direct investors.

1.3.2 Sub-problems

The first sub-problem was to identify strategic motivations that drive foreign investors to invest in South Africa and to identify the type of FDI that flows into South Africa.

The second sub-problem was to identify push and pull factors that determine South Africa's attractiveness to foreign direct investors.

1.4 Significance of the study

The distribution of FDI remains highly skewed in favour of developed nations, Africa receives the least amount of global FDI (K. Adams et al., 2014; Moolman, Roos, Le Roux, & Du Toit, 2006). Moolman et al. (2006) indicate that it is important to understand reasons for this skewed distribution and identify the means by which more FDI can be drawn into SSA. This study aimed to answer these questions by identifying factors that influence FDI inflows into South Africa.

In her analysis of the impact of labour market flexibility on FDI inflows to South Africa, Sompondo (2013) observed that South Africa is losing its competitive advantage as an investment destination and an entry point into other African markets. She asserts that practical measures are needed to improve South Africa's attractiveness to foreign investors. This study aims to identify factors that deter FDI inflows to South Africa.

Similarly, Dupasquier and Osakwe (2006) assert that that there is a need to reverse the trend of declining FDI inflows to Africa. Africa needs to create an environment conducive to FDI inflows, which can play a significant role in the continent's developmental efforts. They argue that it is important to identify actions that are required to improve Africa's dismal record of FDI inflows. This study also aimed to identify measures that could be taken to attract FDI into South Africa. Findings of the study could also be extended to other Sub-Saharan countries.

According to Asiedu (2006), despite the importance of FDI inflows to Africa, there is insufficient research on the factors that attract FDI into the region. Asiedu (2002), as cited by Asiedu (2006), found that determinants of FDI in Africa are different from those of other regions, hence the need for more studies dedicated to Africa. K. Adams et al. (2014) draw attention to the shortage of research on factors influencing FDI inflows into Sub-Saharan Africa. Furthermore, the majority of research on the determinants of FDI is of an empirical nature. Thus, this study contributes to the literature in two ways. Firstly, it studies an important subject in an under-researched

area. Secondly, it provides an in-depth and holistic examination of the factors that determine FDI inflows into South Africa.

1.5 Delimitations of the study

This study was limited due to the research sample. It aimed to identify the type of FDI and determinants of inward FDI in South Africa through the perceptions of local consultants, analysts, economist and foreign trade agents who facilitate investment and trade in South Africa. The sample did not include representatives of multination national companies. Therefore, it was not representative of the entire population of participants involved in FDI transactions.

1.6 Definition of terms and abbreviations

1.6.1 Definitions

This study adopts the UNCTAD definition of FDI. The UNCTAD (2015, para.2) defines FDI as

> "an investment made to acquire lasting interest in enterprises operating outside of the economy of the investor. The investor´s purpose is to gain an effective voice in the management of the enterprise. The foreign entity or group of associated entities that makes the investment is termed the direct investor. The foreign investor owns 10% or more of ordinary shares or voting power of an enterprise and is able to exercise effective influence over the management of the enterprise. The most important characteristic of FDI, which distinguishes it from foreign portfolio investment, is that it is undertaken with the intention of exercising control over an enterprise."

The main foreign direct investors are multinational corporations.

Multinational corporations (MNCs), or "transnational corporations (TNCs), are enterprises comprising parent enterprises and their foreign affiliates. A parent enterprise is defined as an enterprise that controls assets of other entities in countries other than its home country" (UNCTAD, 2015, para.4).

1.6.2 Abbreviations

The following is a list of abbreviations used in this report.

AGOA	African Growth and Opportunity Act
BBBEE	Broad-Based Black Economic Empowerment
ECOWAS	Economic Community for the West Africa States
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IPA	Investment Promotion Agencies
IPZ	Investment Promotion Zones
NAFTA	North American Free Trade Agreement
MNC	Multinational Corporation
R&D	Research and Development
SACU	Southern African Customs Union
SADC	Southern African Development Community
SSA	Sub-Saharan Africa
TFTA	Tripartite Free Trade Area
UNCTAD	United Nations Conference on Trade and Development

1.7 Assumptions

The following assumptions were made regarding the study:

- The literature review provided a sufficient and relevant basis on which the study was designed.
- Respondents acted reasonably, were forthcoming and truthful. Their responses reflected their personal opinion, were unrestricted and unbiased.

CHAPTER 2. LITERATURE REVIEW

2.1 Introduction

This literature review is divided into a number of sub-sections. The first section describes the current state of FDI inflows into Africa. The second section deals with the effect of FDI to the host nation and the third section deals with strategic motivations that drive FDI at the firm level. The last section deals with the determinants of FDI, including the home country macroeconomic push factors and pull factors that attract FDI into the host country.

2.2 Overview of FDI inflows

FDI to developing and emerging countries has increased significantly in the last two decades. However, Africa has not benefited from the recent boom in global FDI, even though returns from African investments are among the highest in the world (Darley, 2012). As shown in figure 2.1 in 2013, Africa received a meagre 8.3 percent of FDI to developing economies.

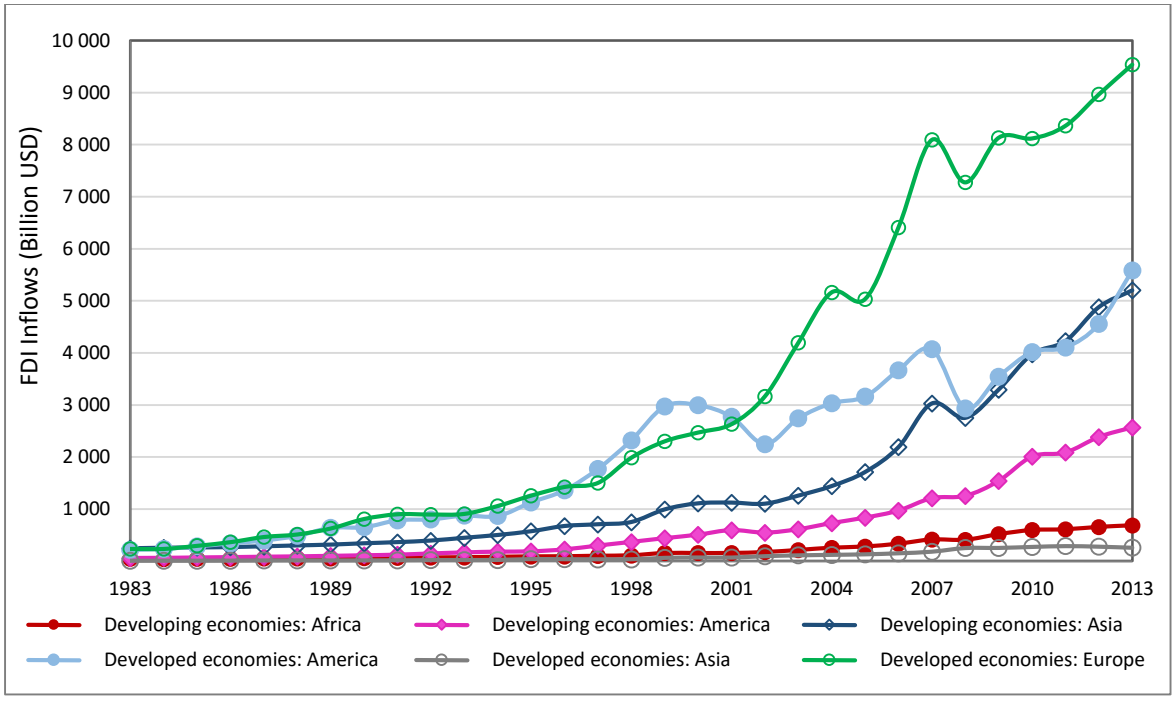

Figure 2-1: FDI inflows by region (data from: UNCTAD (2014b) Statistics)

According to Sichei and Kinyondo (2012), compared to other developing regions the volume of FDI inflows into Africa is minuscule and declining. The argument corroborates Asiedu (2002, p. 107) who asserts that Africa, the poorest region in the world, did not benefit from the "FDI boom despite efforts to attract FDI". She argues that Africa's failure to attract FDI is a concern because FDI is an important source of capital in Sub-Saharan Africa. Due to low saving levels, external sources of funding are needed. Asiedu (2002, p. 116), asserts that Africa is perceived as being overly risky and, therefore, there is a negative regional effect for countries in SSA, "a country in SSA will receive less FDI by virtue of its geographical location".

South Africa, together with Nigeria and Angola are the dominants recipients of FDI in the region (Mebratie & Bedi, 2013). However, the level of investment to GDP ratio at under 18 percent in South Africa is low, compared to the 25 percent investment to GDP ratio recommended by the UNCTAD (2014). Data from the World Bank shows that the FDI net inflows to GDP ratio averaged 1.25 percent in the period 2011 to 2014 (World Bank, 2015a) .

Based on a broad study of 127 countries, Groh and Wich (2012) developed an FDI index which ranks countries according to their ability to attract foreign investment. The study identified that a country's attractiveness to FDI depends on the level of economic activity, the legal and political systems, the business environment and infrastructure. Their study confirmed that, despite the rapid increase in FDI inflows to developing countries in the last two decades as shown in figure 2.1, FDI inflows are still skewed in favour of developed nations, which accounts for approximately 75 percent of FDI inflows. They further explain that developing and emerging countries are less attractive to FDI due to poor legal and political systems and poor infrastructure. Based on rankings of their index, South Africa is the fourth most attractive country in Africa and it ranks 54th amongst all the countries studied.

The UNCTAD (2014) indicates that the level of investment into Africa is below the level needed to reduce poverty and achieve international development goals. It argues that the continent has to sustain an average GDP growth rate of seven percent in the medium to long term to make significant progress in reducing poverty. The Istanbul Program Action of the least developed countries aims to achieve an annual FDI to GDP ratio of 25 percent, the volume of FDI required to achieve the

target growth rate of seven percent (UNCTAD, 2014a). More conservatively, research on the millennium development goals (MDGs) indicates that a 33 percent investment to GDP ratio is required to achieve 7 percent GDP growth rate in Africa.

The UNCTAD (2014) further states that investment rates above 25 percent of GDP are rarely sustained in Africa, highlighting that over the last two decades, Africa has only been able to achieve an average FDI to GDP ratios of approximately 18 percent. Africa's inability to attract FDI is problematic because FDI is a potential solution for development and growth on the continent (Darley, 2012).

Darley (2012) asserts that there is a lack of strategic motivation to invest in Africa. Foreign investments in Africa are based on colonial ties, as evidenced by the fact that most of the FDI inflows into Africa come from the United Kingdom and France. This is corroborated by Adefeso and Agboola (2012) who found that even though other developing countries like China, India and Malaysia have emerged as major sources of FDI on the continent. France, the Netherlands, the United Kingdom and the United States of America (USA) dominate FDI inflows to the continent. The absence of strategic motivation may explain the low level of foreign investment in Africa compared to other developing regions.

2.3 The impact of FDI in the host nation

There is a consensus amongst most researchers that FDI has a positive effect on efficiency, economic growth and development in the host country. Fedderke and Romm (2006) argue that, in the long run, FDI has more impact on development than domestic investment due to technological spillovers and knowledge transfer from multinational corporations originating from more technologically advanced countries to domestic enterprises. Similarly, Borensztein et al. (1998, p. 134) assert that "FDI is a vehicle for the adoption of new technologies because training is required to prepare the labour force to work with the new technology", which leads to increased human capital.

Asiedu (2002) explains that FDI is beneficial to the host country because it creates employment, it brings managerial skills and technology, which accelerates growth and development. Similarly, in analysing the impact of Chinese MNCs in the

Ethiopian manufacturing sector, Seyoum, Wu, and Yang (2015) found that increased participation of Chinese MNCs increased the productivity of local enterprises. They found evidence of technological spillovers from Chinese MNCs to domestic firms. Similarly, Gohou and Soumaré (2012) also found a positive correlation between FDI inflows, welfare improvement and poverty reduction in Africa. Interestingly, their study showed that African countries benefit from FDI inflows regardless of their size, level of debt, macroeconomic stability, education, financial development or openness to trade.

On the other hand, Moolman et al. (2006) indicated that FDI is not the only solution to poverty alleviation and development, even though they found a positive correlation between FDI and economic growth. They suggested that, to realise the benefits of FDI, fundamental structural impediments resulting in unproductive investments need to be addressed. This is corroborated by Gohou and Soumaré (2012) who found that the impact of FDI is dependent on the capability and the structure of the economy of the host country. Thus, developing countries need to be strategic in ensuring that the type of FDI they attract is in line with their developmental goals.

Similarly, S. Adams (2009) argues that FDI has both costs and benefits, depending on the type of investments made and how profits from these investments are used. S. Adams (2009, p. 947), argues that policy makers must recognise that “FDI is necessary but not sufficient for economic growth”. He cautions Sub-Saharan countries to be critical of the type of foreign investment they attract, arguing that investment to the most underdeveloped region in the world ought to be orientated towards regional development.

2.4 Strategic motivations for foreign direct investment

2.4.1 Overview

Faeth (2009) describes FDI as a game between two players, the investing MNC and the host government or a contest between countries competing for FDI. The investor’s decision to invest in a country is affected by government policy and incentives as well the investors’ business strategy.

2.4.2 The eclectic paradigm

This study adopts Dunning's influential eclectic paradigm or OLI framework. Dunning (2001, p. 176) proposes that three forces determine "international production, financed through FDI and undertaken" by MNCs, which is the ownership advantage of the firm, location advantage of the host country and the internalisation advantage of the firm. According to Dunning (1998), all three components of the OLI (ownership, location and internalisation) framework are equally significant and supportive of each other in determining the outflow of FDI and MNC activity. He asserts that firms invest and internalise across markets instead of licencing their knowledge or exporting goods to foreign markets to gain from these three advantages.

The ownership advantage is the advantage that a firm has acquired through the ownership of patents, property rights, expertise and other intangible assets (Anyanwu, 2012). This allows a firm to compete with others despite the disadvantage of operating in a foreign market (Anyanwu, 2012; Dunning, 1998). The firm gains an advantage from its ability to co-ordinate complementary activities such as distribution and manufacturing (Anyanwu, 2012; Dunning, 1998). The location advantage is the host countries' attractiveness because of the natural resource endowment, import restrictions, low transport costs, macroeconomic stability, cultural factors and low labour cost (Anyanwu, 2012). Internalisation advantages are gained from exploiting imperfections in foreign markets, such as the reduction of risk due to uncertainty and transactional cost reduction, the reduction of state generated inefficiencies such as tariffs and foreign exchange controls(Anyanwu, 2012).

2.4.3 Strategic motivations for FDI

The decision by an MNC to invest in a foreign country is driven by strategic motivations, behavioural and economic considerations (Akpansung, 2013). Akpansung (2013) found that financial considerations have little impact on FDI. The type of FDI foreign investors make determines whether sequential investments occur (Faeth, 2009).

Horizontal FDI (market seeking) occurs when an MNC has production plants producing the same goods in both the home country and the host country. Vertical FDI (export-oriented FDI) occurs when an MNC exploits international differences in costs of production. Various stages of production are fragmented, with the headquarters in the home country and production plants that produce different goods or components in various foreign countries. According to Dunning (1998), these strategic motivations determine the type of FDI outflow. He classified them into four categories; market-seeking, resource-seeking, efficiency-seeking and technology or strategic asset-seeking FDI.

2.4.4 Market-seeking FDI

Market-seeking investors produce in the local market to meet domestic demand or to export to markets other than the home country (K. Adams et al., 2014; Akpansung, 2013). Market-seeking FDI is attracted by factors such as market size and growth, access to regional and global markets, consumer preferences in the host country and the structure of the economy (K. Adams et al., 2014; Akpansung, 2013). FDI to South Africa has mainly been market-seeking, concentrated in the manufacturing, financial services, food and beverages and telecommunications sectors (Ajayi, 2006). Similarly, Gwenhamo and Fedderke (2013) found that FDI in South Africa tends to be capital intensive, which suggests that it is horizontal.

2.4.5 Resource-seeking FDI

Resource-seeking investors invest in foreign markets to meet the demand for raw materials or human resources in the home country. They extract raw materials for export, further processing and consumption in the home country (K. Adams et al., 2014; Akpansung, 2013; Sichei & Kinyondo, 2012).

According to Darley (2012), FDI to Africa is mainly concentrated in the extractive industries, which suggest that FDI into Africa is resource-seeking. Similarly, Anyanwu (2012) found that most of the FDI into Africa is directed toward natural resource exploitation, the top investments being in oil and gas and the mining industries.

However, Adefeso and Agboola (2012) state that there is growing evidence to suggest that the composition of FDI is diversifying from the oil and mineral extraction sectors into the industrial and services sector, an indication that motivations for FDI into Africa are shifting away from the traditional resource-seeking FDI to efficiency-seeking FDI. Resource-seeking FDI driving factors include the availability of natural resources, low labour costs and the availability technology and infrastructure (K. Adams et al., 2014).

2.4.6 Production efficiency-seeking FDI

Production efficiency-seeking investors invest in other markets to improve production efficiency, to exploit differences in the cost of productions and the economies of large scale production. They produce in host countries where the cost of one or more of the production inputs is lower than the home country. Investment into China and most of East Asia is mostly efficiency-seeking (K. Adams et al., 2014; Akpansung, 2013; Sichei & Kinyondo, 2012).

2.4.7 Technology and strategic asset-seeking FDI

Technology and strategic asset-seeking investors want to gain access to new technology, managerial skills and expertise, with the goal of improving competitiveness and for growing market share. Strategic asset-seeking investment often takes place through mergers and acquisitions (K. Adams et al., 2014; Akpansung, 2013; Sichei & Kinyondo, 2012).

2.4.8 Research Question 1: Strategic motivation for FDI

What are the strategic motivations and types of FDI that flow into South Africa?

2.5 FDI push factors

The macroeconomic determinants of FDI can be classified into two groups - push factors, that are home-country related and pull factors, which are host-country-specific (K. Adams et al., 2014). According to K. Adams et al. (2014), push factors

include home country economic cycle, for instance, a recession in the USA leads to a decrease in the global supply of FDI. Domestic regulation and restrictions limiting operations in the home country is also a driver for FDI outflows. FDI outflows are also pushed by high-interest rates (Sichei & Kinyondo, 2012).

Competition in the home country is also a driving factor for outward FDI. Akpansung (2013, p. 1483) argues that FDI originates from large corporations that are research intensive and are subject to “oligopolistic competition from domestic and foreign firms”. Similarly, Kimura (2013) notes that Chinese electronic appliance manufacturers who invested in South Africa in the early nineties before China’s *Zǒuchūqū Zhànlüè (*go out*)* policy were driven by increasing competition in China. Corroborating this, Lu, Liu, and Wang (2011) found that competition in the domestic Chinese market induces market-seeking FDI.

2.6 FDI pull factors

Owing to the interdependence of African economies, risk assessment of the entire continent affects the investment prospect of the sovereign countries in Africa (Dupasquier & Osakwe, 2006). Due to lack of information, foreign investors associate occurrence in one country, with the likelihood of similar occurrences in the region (Dupasquier & Osakwe, 2006).

Interestingly, Onyeiwu and Shrestha (2004) found that factors that have been found to be important for FDI inflows to other developing countries were considered inconsequential in Africa, as corroborated by Asiedu (2006). A review of the literature reveals a multitude of host country factors that affect the inflow of FDI, including economic, socio-political and structural conditions (Anyanwu, 2012).

Internationally, the USA and China are the leading recipients of global FDI inflows. Ray (1989), as cited by Faeth (2009), found that FDI into the USA manufacturing industry is positively related to the intensity of R&D, industry size and growth rate, economic growth rate, capital-labour ratio, market concentration and the investment rate of operators with the industry.

Cheng and Kwan (2000) found that the market size, regional income and good infrastructure have a positive role in attracting inward FDI, based on their investigation on the determinants of FDI into China. In addition, their study found that although education has a positive impact on FDI, the impact is statistically insignificant. However, special economic zones, open coastal areas, economic and technological development zones created by the Chinese government as part China's open door policy, have a positive effect on FDI. The impact of the Special Economic Zones is much greater than any other policy.

2.6.1 Market size and agglomeration

Market size plays a significant role in attracting FDI in Africa. FDI is attracted to large markets because an MNC can take advantage of the economies of scale (Ajayi, 2006; Akpan et al., 2014). This is corroborated by Anyanwu (2012) who found that market size as measured, based on the urban population size, has a positive impact on FDI inflows. Similarly, Fedderke and Romm (2006) found that FDI into South Africa is highly elastic to market size, based on a panel data analysis for the period 1956 to 2006. A one percent increase in GDP generates a 13.5 percent increase in FDI inflow.

In her seminal work analysing the impact of various macroeconomic and socioeconomic variables on FDI through a panel data analysis of 22 Sub-Saharan countries, Asiedu (2006) showed that market size has a positive effect on FDI inflows to SSA. Likewise, Ajide (2014) found panel evidence that inward FDI to the Economic Community for the West Africa States (ECOWAS) is widely attracted to market size. They concluded that there is a highly positive correlation between FDI and GDP. In other emerging markets, Birsan and Buiga (2009) showed that there is a positive correlation between inward FDI in Romania and market potential and purchasing power.

The agglomeration of regional markets through regional integration and co-operation provides access to other markets, consequently increasing market size which encourages FDI (Anyanwu, 2012). Similarly, Asiedu (2006) found that in Sub-Saharan Africa, regional corporation may enhance FDI because it promotes political stability, it encourages countries to co-ordinate policies and to adopt investor friendly

policies. Most important, it expands the size of the market. This is particularly important in Africa because most African countries have small populations and domestic income is low.

Sichei and Kinyondo (2012) also identified the agglomeration of economies, market size and growth rate and trade openness as determinants of FDI into Africa, based on a large study of 45 African countries. Therefore, regional integration is a means to attract more FDI to Africa.

2.6.2 Natural resource endowment

Most of the literature on inward FDI to Africa points to the availability of natural resources as a strong determinant of FDI to the continent. Anyanwu (2012) undertook an empirical study to identify factors that determine destinations of FDI in Africa and to predict the volume of FDI inflow as a function of various macroeconomic variables. The study found that there is a positive relationship between FDI inflows to Africa and natural resource endowment and exploitation. Asiedu (2006) also found that the availability of natural resources increases FDI inflows into SSA. More recently, Sichei and Kinyondo (2012) found that the availability of natural resources has a positive impact on FDI inflows to Africa, adding that countries with natural resources generally attract more resource-seeking FDI than countries without.

Akinlo, Akinsokeji, and Oziegbe (2013) undertook a comprehensive empirical study to investigate the inflow of FDI into the ten leading recipient countries in Africa. Results confirm that the availability of natural resources attract FDI. Likewise, an empirical investigation by Adefeso and Agboola (2012) revealed that the availability of natural resources increased FDI to Nigeria.

On the contrary, Akpan, Isihak, and Asongu (2014) found panel data evidence that natural resources have an insignificant impact on FDI inflows in the BRICS (Brazil, Russia, India China, South Africa) and MINT (Mexico, Indonesia, Nigeria, Turkey) countries. Nigeria, together with South Africa and Angola, are the largest recipients of FDI on the continent and all three countries have an abundance of natural resources. Therefore, parallels can be drawn between these countries.

2.6.3 Availability of infrastructure

Asiedu (2006) found that the availability of infrastructure has a positive impact on FDI inflows into Africa. Similarly, Moolman et al. (2006) found empirical evidence that the availability of infrastructure increases FDI in South Africa. Their results show that a five percent increase in FDI results in a nine percent increase in FDI inflows.

Anyanwu (2012) posits that FDI follows foreign aid because foreign aid contributes to economic and social infrastructure development. Consequently, the development of social infrastructure increases the level of education and school enrolment. Similarly, Ajide (2014) found that in ECOWAS, secondary school enrolment rate has a significant positive impact on FDI inflows.

2.6.4 Investment climate

Asiedu (2006) found that a positive investment climate and an efficient legal system have a positive effect on FDI inflows. The domestic risk in South Africa has a negative impact on FDI inflows (Fedderke & Romm, 2006). On the other hand, an improvement in property rights has a positive effect on FDI inflows, whereas, corruption and political instability have a negative impact on FDI inflows. On the contrary, Kinda (2012) found that in the case of South Africa, Brazil, Pakistan, Vietnam and Morocco, the investment climate in the host country is not a major hurdle for foreign firms as they have the capacity to overcome them. For instance, MNCs are not affected by power shortages in these countries because they have the capability to install generating units to produce electricity.

However, MNCs are less efficient than local firms when dealing with government regulations (Kinda, 2012). Therefore, it is important for governments in these countries to make regulations easier to understand, in order to attract more FDI. In his investigation of the activities of Chinese TV-set manufacturers in South Africa, Kimura (2013) found that Chinese manufacturers overcome the challenge of operating in an unfamiliar business environment by forming partnerships with leading indigenous firms in the country. The ability to adapt is necessary for MNCs from developing countries, unlike those from developed countries who have the

advantage of brand recognition. Thus, the investment climate may not be a hindrance to FDI inflows.

2.6.5 Trade openness

A liberal trade regime is a very important factor in promoting inward FDI in South Africa. Empirical evidence shows that the openness of the South African economy has a large impact on FDI inflows, an increase in imports lowers FDI by 4.23 and increased exports increase FDI by 6.12 (Fedderke & Romm, 2006). Continentally, Asiedu (2002) found that openness to trade promotes FDI to Sub-Saharan countries and non-Sub-Saharan countries. Interestingly the marginal benefit for trade liberalisation is less for Sub-Saharan countries.

This result is contradicted by Anyanwu (2012) who found that openness to trade has a negative impact on FDI inflows, based on a broad study of 53 African countries. Trade openness deters FDI, however, countries that are export oriented attract more FDI. Similarly, Ajide (2014) found that in ECOWAS, trade openness hinders FDI, but the impact is not significant. On the other hand, Sichei and Kinyondo (2012) argue that trade openness has a positive effect on inward FDI in static panel data models. However, when agglomeration effects are introduced, trade openness becomes a statistically insignificant factor in attracting FDI.

Gossel and Biekpe (2015) found empirical evidence that, in the case of South Africa, FDI inflows are pulled by share prices and trade openness in the short-run and are pulled by the domestic economic cycle factors such as economic output, interest rates and stock prices in the long-run. Furthermore, they showed, that FDI inflows are affected more by push factors in the short-run and pull factors in the long-run. GDP shocks have the most significant impact on all portfolio inflow including FDI, followed by interest rate shocks and share price shocks, in that order (Dupasquier & Osakwe, 2006).

2.6.6 Corporate tax and labour costs

High corporate tax and labour cost deter inward FDI, since both lower the return on investment. Fedderke and Romm (2006) found that an increase in corporate tax in

South Africa has a negative impact on FDI with an elasticity of 2.65. Labour costs also have a negative effect on the FDI inflows into South Africa with a strong elasticity of 5.62 (Fedderke & Romm, 2006).

Fedderke and Romm (2006, p. 748) argue that “labour market conditions that impose an extra cost on investors tend to” hinder inward FDI inflows into a country. Strict employment protection legislation lowers the expected return on investment, in addition, it makes it difficult for investors to respond to supply and demand shocks, which increases the investment risk in a country. Similarly, Birsan and Buiga (2009) found that in Romania, low wages encourage FDI inflows.

2.6.7 Government policy

The South African government established the International Investment Council in 1999 to support and ease the bureaucratic burden on international investors (Mebratie & Bedi, 2013). South Africa also provides investment incentives to foreign investors such as reduced import tariffs, subsidies and a reduced corporate tax rate and it provides incentives through the Foreign Investment Grant Program, which gives foreign investors a cash incentive for green field investments in selected industries and it pays for the recovery of a portion of the capital invested (Mebratie & Bedi, 2013). Furthermore, capital invested can be repatriated with interest, at no cost, with the exception of the financial sector.

Similarly, Sichei and Kinyondo (2012) found that most African governments have taken significant measures to increase their attractiveness to foreign investors, adopting FDI regulatory frameworks, established investment promotion agencies and export processing zones and have opened their markets through bilateral investment treaties and double taxation treaties. However, most investment agencies in Africa are small and under-resourced, therefore, lack the capacity to promote FDI and offer the necessary aftercare services. It can be inferred that measures taken by African governments to improve their attractiveness to foreign investors are failing because of lack of capacity and proper planning.

In contrast, China, which has emerged as one of the largest recipients of FDI in the world, has successfully implemented policy handles to attract FDI. The Chinese

government employs policy instruments such as Investment Promotion Agencies (IPA) and Investment Promotion Zones (IPZ) to increase China's attractiveness to FDI inflows (Ni, 2013). Ni (2013) investigated China's attractiveness to foreign investors and the effect of government policies like IPA and IPZs on FDI inflows to China, based on a micro perspective using firm-level panel data. The study found that Investment Promotion Agencies and Investment Promotion Zones have a positive effect on China's attractiveness to FDI.

Although factors such as sales volumes, the level of R&D and the country's GDP per capita have an impact on the region's attractiveness to FDI inflows, these are not as effective as government policy handles (Ni, 2013). The Chinese government actively and successfully attracts FDI through its policy handles regarding the entry of foreign enterprises into China (Ni, 2013). South Africa needs to be strategic and deliberate when implementing policies to promote FDI. It is not enough to merely improve the policy environment (Asiedu, 2004). SSA needs to keep abreast with the rest of the world which is fast changing, more competitive and more integrated (Asiedu, 2004).

2.6.8 Financial market development

Anyanwu (2012) analysed the effect of various variables including; financial market development on inward FDI in Africa. Based on cross-country data for the period 1996 to 2008, the study found that financial development has a negative effect on FDI inflows.

In contrast, Aregbeshola (2014) found that the extent to which a country can attract FDI inflows is influenced to a large extent by the development of its domestic capital markets. Based on his analysis of the effects of capital market development on FDI inflows to South Africa, he found that countries with developed capital markets were able to attract more FDI because MNCs can finance part of their investment through equity or debt sourced from the host country. In the case of South Africa, the Johannesburg Stock Exchange is the biggest stock market in Africa and the best-regulated stock market in the world (Aregbeshola, 2014). Nevertheless, South Africa is lagging behind other developing countries in its ability to attract FDI. Thus, developed capital markets are neither necessary nor a sufficient condition.

2.6.9 Political environment

Surprisingly, Sichei and Kinyondo (2012) found that the political climate in Africa is not a strong determining factor for FDI inflows, based on a panel data analyses of 45 African countries for the period 1980 to 2009. African countries that are politically unstable and unsecure, such as Algeria, Nigeria and Angola have received large volumes of FDI despite economic instability (Onyeiwu & Shrestha, 2004). Fedderke and Romm (2006) also found that improved political stability and property rights in South Africa have a weak impact on FDI.

However, Asiedu (2006) argues that political instability has a negative effect on FDI inflows in Africa. Akpansung (2013) observed that investors invest in countries that are considered politically stable and there is a low risk of expropriation and political interference in the private sector. Similarly, K. Adams et al. (2014) found that political influence and the regulatory environment are some of the key deterrents of financial FDI into Ghana.

2.6.10 Domestic saving

Leshoro (2014) found empirical evidence that domestic savings directly and indirectly encourage inward FDI in South Africa. Increased savings attract FDI and they also lead to economic growth, which attracts FDI inflows. Similarly Akinlo et al. (2013) found that FDI to the leading ten recipient countries in Africa depends on the level of domestic investment.

2.6.11 Interest rates and inflation

Leshoro (2014) posits that interest rates have a negative impact on inward investment in South Africa, in addition, high inflation also deters inward FDI. Similarly, Asiedu (2006) showed that low inflation rates promote FDI. These findings are corroborated by the UNCTAD (2015), arguing that when real interest rates rise by one percentage point, real investment growth declined by seven percentage points after a year. This opposes the argument by Frenkel, Funke, and Stadtmann (2004), who argue that inflation and the type of exchange rate system implemented

by the host country do not play a significant role on FDI inflows to emerging countries.

2.6.12 Research Question 2: Determinants of FDI

What are the push and pull factors that attract or deter the inflow of FDI into South Africa?

2.7 Conclusion of literature review

MNCs invest in foreign countries to gain from the advantage of ownership, internalisation advantage and the advantage presented by the host country's location. MNCs are driven to invest because of their strategic motivations – market-seeking, resource-seeking, production efficiency-seeking and strategic asset and technology-seeking FDI.

There are macroeconomic factors, both in the home country and the host country, that drive the inflow of FDI into a country. Home country push factors include competition, low-interest rates, and economic growth. Host country pull factors include the size and the rate of growth of the market, the availability of natural resources, human resources, technological advancement, research and development, production efficiencies, domestic savings and investments rate, political stability, the rule of law and foreign aid. FDI is hindered by financial development, corruption and the volume of exports in Africa.

Government policies may have a positive effect in increasing the volume of FDI. Policies have been successful in China. However, government policy is ineffective in Africa, including South Africa. Hence the need for African governments to adopt a proactive and aggressive approach to attracting a fair share of FDI inflows and diversify away from the mineral or oil extraction industries (Asiedu, 2006; Darley, 2012).

2.7.1 Research Question 1:

What are the strategic motivations and types of FDI that flow into South Africa?

2.7.2 Research Question 2:

What are the push and pull factors that attract or deter FDI inflows into South Africa?

CHAPTER 3. RESEARCH METHODOLOGY

This section describes the research methodology that was followed to answer the research questions. The first sub-section explains the research methodology. The second sub-section explains the research design. The population sample is profiled and the method of data collection followed and the research instrument is discussed. The last sections address the limitations of the study, data analysis procedure followed and the reliability and validity of the study.

3.1 Research methodology / paradigm

The research paradigm of this study is qualitative, as it seeks to develop an in-depth and holistic understanding of the factors that attract or hinder the inflow of FDI into South Africa. The qualitative paradigm works on the premise that there are multiple interpretations and constructions of reality that are in a flux and change over time, the reality is not fixed, there is no single solution or a measurable positivist phenomenon (Merriam, 2002). Indeed, the literature survey revealed that FDI, both outflows and inflows, is dependent on numerous factors that are multifaceted.

Although most of research in this field is of an empirical nature, this study is of the qualitative paradigm as it seeks to reveal the nature of multiple perspectives, settings, processes and relationships (Leedy & Ormrod, 2013). The aim of this study is to describe and understand rather than to quantify the extent to which factors identified in the literature influence foreign investors to invest in South Africa. A qualitative methodology is most appropriate for this study because it provides a way to judge the effectiveness of policies and practices (Leedy & Ormrod, 2013). The study aims to evaluate the effectiveness of government intervention policies meant to attract FDI.

3.2 Research design

Creswell, Hanson, Plano, and Morales (2007) argue that researchers who use a qualitative approach work from the statements and experiences of participants and the intention is to understand a phenomenon. For this study, the views of participants

were obtained through in-depth face-to-face interviews, based on a semi-structured interview schedule. According to Qu and Dumay (2011), interviews enable the researcher to learn about the world of others. It provides an opportunity to collect and rigorously examine the world through the accounts of others (Silverman, 2001).

Face-to-face interviews enabled the researcher to expand her understanding through verbal as well as non-verbal communication (Merriam, 2002). It offered the advantage to clarify and summarise responses immediately. In addition, follow-up questions that arose from unanticipated answers were asked and responses were verified to ensure that they were correctly interpreted, as suggested by Merriam (2002).

Semi-structured interviews are ideal for this study because they are flexible and can uncover the hidden facets of human behaviour (Qu & Dumay, 2011). Furthermore, it allows the interviewer to modify the style pace and the order of the questions to evoke the fullest response from the interviewee (Qu & Dumay, 2011). Semi-structured interviews enable the respondent to provide a reply in their terms and to use the language in a way that is natural to them (Qu & Dumay, 2011), while ensuring that all the respondents are asked similar questions using the same "wording" (Bryman, 2012, p. 471).

The ultimate goal of an interview is for the interviewer and the interviewee to work together as equals involved in the production of set accounts though complex interpersonal human interactions (Qu & Dumay, 2011).

3.3 Population and sample

3.3.1 Population

The research sample was a selected group of experts in international trade and finance. The sample included analysts and economists working for financial institutions and foreign trade and investment government agencies in South Africa, from North America and Europe. Government officials in the ministries of trade and industry and energy were interviewed to gain a different perspective. In addition, scholars and consultants were interviewed to gain an unbiased view.

The sample was restricted to the Gauteng area, which is the administrative seat of government and it is where most financial institutions, embassies and consulates are located.

3.3.2 Sample and sampling method

The sampling technique for this study is purposive (Bryman, 2012). Respondents are purposely chosen based on their relevant experience and expertise in international finance, trade and investment. Merriam (2002) asserts that it is important to select a sample from which one can gain much insight into issues that are of importance to the research.

Thirteen respondents were interviewed; this sample size is deemed sufficient to achieve data saturation while optimising costs. The sample size is in line with findings by Guest, Bunce, and Johnson (2006) from their study intended to provide practical guidelines for sample size selection for in-depth interviews. They found that 12 interviews generated 92 percent of the codes. Codes did not change significantly after the 12th interview, implying that data saturation had been reached. Furthermore, they highlight that, based on consensus theory, it can be argued that an expert sample of four people is sufficient to achieve saturation because experts tend to agree in their area of expertise. In this study, the researcher observed that after approximately eight interviews, there were no new themes emerging from the data, data saturation had been reached.

Table 3.3-1: Profile of respondents

Description of respondent (economist/analyst)	Number sampled
Financial Institutions	3
Foreign trade and investment agencies	5
Scholars /Consultants	3
Government officials	2

3.4 The research instrument

The research instrument was a semi-structured interview schedule. The questions were of an open-ended nature, to allow the respondents to elaborate on items that they view as important and meaningful. Questions related to current economic developments were also included to probe respondents more. The questions were divided into two categories:

- Strategic motivations and home country push factors
- Host country pull factors that attract or hinder the inflow of FDI into South Africa.

3.5 Procedure for data collection

Initially, respondents were contacted telephonically to invite them to participate in the study. The purpose of the study was explained in this initial telephonic conversation, details about the research were discussed briefly and the estimated length of the interview was given. Once the respondents accepted to participate in the study, a letter was sent by email to confirm the date, time and the place for the interview. The letter also contained additional information about the study.

Research data was gathered through in-depth face-to-face interviews. The research instrument was administered using an open-ended research schedule. At the beginning of the interview, the purpose of the interview was explained, respondents were guaranteed anonymity and advised that they were free to pull out of the study at any time. All the respondents gave consent for the interview to be recorded. Hence, interviews were recorded on a voice recorder. Key points from the responses were also recorded manually on a pre-prepared answer sheets. The interviews took approximately one hour to an hour and a half.

Immediately after the interview, research notes were made describing the interview and observations made. Recordings of the interviews were downloaded, password protected and saved. Recordings were transcribed word for word.

3.6 Data analysis and interpretation

Transcribed text was analysed using thematic analysis. Thematic analysis aims to identify salient themes in the text, at different levels. This study employed thematic networks to organise data. The thematic network method enables the systematisation of textual data and it serves as an aid in organising and analysing qualitative data (Attride-Stirling, 2001). Attride-Stirling (2001) explains that this method enables the researcher to explore the text in a sensitive and insightful manner and to uncover hidden structures and underlying patterns and themes salient in the text.

Thematic networks facilitate the structuring and depiction of these themes. Data was organised into a web-like network. This technique enables the researcher to break down the text (Attride-Stirling, 2001).

This study followed an analysis procedure described by Attride-Stirling (2001). The process was divided into distinct stages:

- Transcripts and field notes were reviewed and identifiers were given to components that may be of theoretical significance guided by research questions or salient issues that arise in the text (Attride-Stirling, 2001; Bryman, 2012). The codes were then applied to the textual data and the data was broken down into meaningful and manageable fragments of data, mainly quotations and short sentences, each fragment representing a code (Bryman, 2012).
- Themes that were salient, common or significant were abstracted from the coded data, with the aim of identifying underlying patterns and structures. Then the themes were refined, ensuring that they are specific enough to be discrete and broad enough to encapsulate all the information and ideas in the text, with the aim of representing passages concisely, following Attride-Stirling (2001).
- Identified themes were assembled into similar, coherent groupings, which formed the thematic network. Themes were grouped, based on the content and the literature.

- Themes were organised into clusters, identifying underlying issues. Based on the basic underlying theme the main claim, argument, assertion or assumption that the themes reveal was summarised (Attride-Stirling, 2001).
- The networks were described and explored, patterns underlying the themes were identified. The network was used to interpret the original text by returning to the raw data reading it through global themes, organising themes and basic themes to interpreting it. The network was used as a tool to anchor the interpretation of the data based on the summary provided by the network as per Attride-Stirling (2001).
- Finally, the network was summarised to present the summary of the main themes and patterns that characterise it. Deductions and the summaries from the various networks were brought together with the relevant literature to explore significant themes, concepts, patterns and structures that arose in the text. Returning to the research questions and the literature, arguments were made, based on the patterns that emerged when exploring the text.

3.7 Limitations of the study

The following factors limit the study:

- The sampling technique used is purposive. Bryman (2012) argues that one of the weaknesses of purposive sampling is that, given a different set of circumstances and a different population sample, the findings of the study may be different.
- Results from a semi-structured interview rely on the skills and traits of the interviewer, different interviewers will bring to mind different responses from the same interview, given the way the questions are asked and probed (Qu & Dumay, 2011). Therefore, the results of the study may be different if conducted by a different researcher.
- Likewise, the research is limited by perceptions, introspections and biases of the researcher (Mays & Pope, 1995). Silverman (2001) argues that the same researcher may reach different conclusions under different circumstances.
- Cultural differences between the interviewer and the respondent may be a limiting factor. In this study, people of different nationalities were interviewed.

> “Even when the interviewer and the interviewee seem to be speaking the same language, their words may have an entirely different cultural meanings (Qu & Dumay, 2011, p. 239).

3.8 Validity and reliability

Guba and Lincoln (1989) argue that, while all research must be credible, reliable, consistent and unbiased, the naturalistic qualitative paradigm differs from the positivist quantitative paradigm, arguing that each paradigm requires a specific criterion for goodness and quality. In quantitative research, quality is achieved through internal validity, external validity and objectivity. They posit that the qualitative equivalent of validity and reliability is credibility, transferability, dependability and conformability. This argument is corroborated by Golafshani (2003), who states that in the qualitative paradigm, reliability and validity are conceptualised as the trustworthiness, rigour and quality.

3.8.1 Internal validity

To enhance internal validity of the study, ambiguities were avoided by ensuring that in the research instrument the questions are direct and easy to understand. The researcher provided explicit explanations of terms used. During the research process, the researcher also confirmed and summarised responses to ensure that they are interpreted correctly. The research instrument was interrogated by an observer and a research panel. In addition, an observer reviewed the method of analysis.

The researcher was the primary instrument for data collection and analysis in this qualitative research (Mays & Pope, 1995; Merriam, 2002). Thus, to enhance internal validity of the study, human shortcomings and biases that may have been shaping the collection and interpretation of the data, were identified and monitored as recommended by Merriam (2002), these include natural bias and discomfort with silence, cultural differences and language barriers. However, the intent was not to eliminate these biases or subjectiveness, since it is the researcher's bias that enables the research to make a distinctive contribution resulting from the “unique

configuration of their personal qualities" combined with the data and the manner in which it was collected (Merriam, 2002, p. 5).

3.8.2 External validity

Although the sample was purposively selected, data was collected from a broad range of independent sources, to enhance the external validity of the study (Mays & Pope, 1995). These sources included government officials, foreign trade and investment agents, academics and economists and analysts in financial institutions as well as consultants.

3.8.3 Reliability

To ensure the reliability of the study and the analysis, records of the interviews and related documentation were maintained (Mays & Pope, 1995). Silverman (2001) argues that the investigator's categorisation and description of events may influence the outcome of the study resulting in inconsistencies. He argues that different researchers may reach a different conclusion. Indeed, even the same researcher may reach different conclusions under different circumstances

All the respondents gave consent to an audio record of the interviews. These recordings were kept to eliminate problems associated with the inaccuracy and incorrect intepretation of field notes, as recommended by Silverman (2001). A detailed account of the data analysis procedure and assumptions made is given, so that if another researcher replicates the study they may reach the same conclusion (Mays & Pope, 1995).

CHAPTER 4. PRESENTATION OF RESULTS

4.1 Introduction

The results of the study are presented in this chapter. First, results addressing the first research question are presented. Then, results pertaining to the second research question are presented in two subsequent sub-sections. Results are based on themes emerging from textual data. Lastly, the chapter concludes with a summary of the results.

4.2 Strategic motivations for inward FDI in South Africa

4.2.1 Mineral resources

The majority of the respondents identified the mining industry as one of the largest recipient industries of inward FDI in South Africa. Respondent 4 emphasises that South Africa is "*endowed with mineral resources*". According to Respondent 3, this is a major attraction because multinationals are driven by the "*need to control resources"*, a view corroborated by Respondent 8 who asserts that "*mining attracts the bulk of FDI into South Africa*". Respondent 1 further highlights that the portfolio of South African exports to Europe, Asia and North America, its major trading partners, is composed primarily of minerals.

There were mixed views on the mining industry's ability to attract FDI in the short to medium term. Respondents 3 and 5 highlight that investment into this industry has slowed down significantly. In their view, the industry is no longer attractive to investors. Respondent 3 is of the view that resource-seeking FDI has decreased significantly.

> "*The main attraction was resource-seeking FDI historically, I mean those flows are not drying up but they've certainly slowed down a lot".* (Interview: Respondent 3)

However, Respondent 8 argues that, based on empirical data, over the past seven years the extractive industries (mineral resources and oil and gas) received over 35 percent of FDI inflows into South Africa, a view shared by Respondent 2, who believes that foreign investment in mining will be sustained because of the need for resources globally. However, production methods currently being used in the industry are unsustainable, wages are too high and rising fast while productivity remains low. In addition, other operating costs, such the cost of energy and equipment have increased significantly. He predicts that there will be a major transformation in the industry, suggesting that a number of mines will migrate towards mechanisation in an attempt to increase productivity. Investment in this sector will be driven by procurement of new machinery and the move towards mechanisation.

This is corroborated by Respondent 7 who argues that

> *"Either have to mechanise and improve, you know, as a consequence improved productivity, a smaller number of jobs but they'll be more secure jobs because I'll be producing at a price where I can be competitive internationally".* (Interview: Respondent 7)

4.2.2 Public infrastructure investments

Most of the respondents argue that investment in public infrastructure attracts a significant amount of foreign investment into South Africa. Respondent 1 asserts that "*currently, FDI in South Africa is driven by public infrastructure spending*", citing the renewable energy programme by the Department of Energy. This is corroborated by Respondent 2 and 7, who indicate that there is a significant amount of interest from investors from their home countries (Germany and Canada) in the South African renewable energy and nuclear energy projects. Respondent 3 attests that the renewable energy programme encourages investment to South Africa.

> "*South Africa has one of the most successful and most globally admired renewable energy programmes".* (Interview: Respondent 3)

However, he laments onerous regulations, drawing attention to the 60 percent local manufacturing content required by the Department of Trade and Industry on public infrastructure programmes, a view supported by Respondent 1. They argue that this may discourage foreign investment into these projects. Respondent 1 argues that South Africa has no capacity, skills and technology required to produce some of the components required for these installations, cost effectively and to a suitable standard.

> *"We* [South Africa] *have lost three decades of not investing in rail infrastructure, so in terms of sophistication, the technology, they are miles ahead. Therefore, you cannot say that on the first order you have to have 70 percent localised manufacturing. You will only be able to achieve 40 percent in the fourth order"* (Interview: Respondent 1)

Some respondents argue that Transnet's investments in rail infrastructure and locomotives and Eskom's investment in coal-fired power stations also promote inward FDI. Respondent 2 asserts that there is also a growing interest in waste management, water and wastewater treatment projects arguing that

> "*there is a real concern that water could develop into a crisis the scale of energy and Germany has a lot of suppliers that could help scale up water treatment plants and to detect and prevent water leakages*. (Interview: Respondent 2)

4.2.3 Retail and food manufacturing

Approximately half the respondents identified retail, food and consumer goods manufacturing as some of the industries that attract foreign investors in South Africa. Respondent 4 acknowledges that historically foreign investment in the retail sector has been low. He predicts investment inflow in the retail sector will increase substantially due to the expansion of the middle class in South Africa. He attests that

> *"I wouldn't be surprised if there is robust growth in FDI in the retail sector because of what I have mentioned, the growth, the massive growth in the middle class".* (Interview: Respondent 4).

Respondents 2 and 7 also attribute investment into the food processing industry to the size of the South African market and its consumer buying power. Respondent 2 highlights that South Africa has a very large food processing industry, the industry also attracts food processing machine equipment suppliers. Some respondents indicate that the services sector such as the financial and information technology sectors also attract inward FDI. A number of respondents highlight that the automotive industry attracts a significant share of foreign investment, which in turn attracts suppliers of automotive parts who create value chains.

4.2.4 Efficiency-seeking FDI

South Africa also attracts some horizontal FDI. A number of the respondents argue that South Africa attracts investments intended to supply the export market. Respondent 2 indicates that German companies invested in the automotive sector are mainly focused on exporting to the USA. A few of the respondents affirm that government incentives in the automotive industry make it favourable to investors and it encourages exports. Respondent 5 asserts that the African Growth and Opportunity Act (AGOA), a unilateral access measure granted to 39 SSA states, has a positive impact in attracting FDI in the manufacturing sector.

> "*It [AGOA] actually encouraged companies to come and operate here so they can export to the US".* (Interview: Respondent 4)

However, Respondent 3 takes an alternative view, arguing that

> *"we really haven't seen the efficiency-seeking motivation, so if we are talking about setting up or incorporating South Africa into your global value chain, like* [an] *electronics company, for example, a Samsung. Then that kind of investment hasn't come to South Africa. That kind of investment goes to Mexico for instance or East Asia, also East Europe".* (Interview: Respondent 3)

He argues that efficiency-seeking investment is deterred

> *"for a whole range of reasons labour costs are too high, productivity in the ports too low, transportation costs are very high and there are a lot of inefficiencies in the Transnet value chain".* (Interview: Respondent 3)

On the other hand, he indicates that

> *"What we have seen increasingly so but with question marks about the future of it and I would say this is probably efficiency-seeking. That is, multinationals setting up their headquarters here and particularly in Johannesburg. Gauteng is the main gateway into the region, Southern Africa. I think it can be construed as efficiency-seeking investment because it is the role of the headquarters to co-ordinate regional operations, in this case. Co-ordination is essentially about efficiencies".* (Interview: Respondent 3).

4.3 Push factors in the home country

4.3.1 Saturated domestic markets

The majority of respondents argue that multinational companies invest in foreign markets to reduce the cost of production and to grow revenue. A third of the respondents posit that multinational companies invest in South Africa because they have saturated their domestic markets and are looking for new markets. Respondent 3 argues that "*US companies invest abroad when they feel they have saturated the domestic market*". Respondent 2 expresses a similar view, arguing that

> *"Companies invest in South Africa because of the export orientation of the German domestic market. Markets within Germany and the European Union are very small so then you need to send it* [goods] *all over the world where prospects are best. When it comes to investing in South Africa the promise of the African market as a whole is the main driver"*. (Interview: Respondent 2)

4.3.2 The drive to secure resources

Most of the respondents state that multinational companies are driven by the need to control natural resources and ensure that they have security of supply. Thus, the

availability of natural resources is a key determinant of inward FDI to South Africa, due to the abundance of mineral resources in the country. Respondent 1 argues,

> "*South Africa is rich in mineral resources, we talk, Gold, Platinum, Uranium, Manganese and others, they are needed in these markets".* (Interview: Respondent 1)

Respondents 3 argues that there is a major drive to secure and control natural sources by multinational companies. This is to ensure the security of supply and reduce risk. This view is corroborated by Respondent 7, asserting that

> *"Canadians are major players in a global way in mining. The reason for coming to South Africa is to diversify the holding of mineral resources'.* (Interview: Respondent 7)

4.3.3 Proximity to markets

A number of the respondents indicate that one of the major drivers for inward foreign investment in South Africa is to create proximity to the African market. According to Respondent 2,

> "*the main reason you hear from companies is that they want to be close to markets"*. (Interview: Respondent 2)

Furthermore, he argues that the presence of automotive manufacturing companies encourages investment. Stating that, whenever an automotive manufacturer announces that it will produce a new model in South Africa an increase in investment by Original Equipment Manufacturers (OEM) follows.

4.3.4 Competition in the home country

Respondent 1 argues that multinationals are pushed by fierce competition in their home countries. Technological advancement and innovation does not offer a comparative advantage in these markets because of the high level of development. He argues that they use that edge to gain a comparative advantage in emerging

markets, he further states that these companies are all at the same level of development, therefore competition is tough.

4.3.5 Government influence

Interestingly, respondent 6 was the only one who highlighted domestic government influence as a push factor for outward FDI. He argues that investors from Asia and South America are encouraged by domestic government influence to invest in other markets, stating that Chinese companies are pushed by the government to produce and sell in foreign markets.

4.4 Pull factors in South Africa

4.4.1 Policy uncertainty

All the respondents share a common view that appropriate and progressive policies are the most important determinants of FDI inflows to South Africa. They claim that onerous regulations discourage inward FDI, arguing that there is growing uncertainty with regards to the economic and industrial policy direction in South Africa. Most respondents lament government's failure to implement the NDP as the major cause of uncertainty. Respondent 7 asserts that

> *"The uncertain nature of the regulatory environment poses challenges for Canadian investors who want to come here for example we've seen quite a number of changes in the black economic empowerment, for example, we are still waiting for the new evolution of the MPRDA, the mining and petroleum resources development act. Regulations seem to be constantly evolving and changing in a capricious fashion".* (Interview: Respondent 7)

This view was corroborated by Respondent 1 indicating that

> *"in oil and gas development we essentially have no regulations in place".* (Interview: Respondent 1)

Using shale gas exploration in the Karoo as an example, he adds that

> *"Shell, had to halt shale gas exploration in the Karoo because of lack of regulations in the oil and gas sector and he* [Minister of Minerals and Energy] *failed to table the MPRDA*". (Interview: Respondent 7)

Respondent 3 argues that "*policy uncertainty is the single biggest deterrent at the moment"*. Respondent 7 holds a similar view arguing that,

> *If you're going to put down money for a mine or an exploration programme for oil and gas, very large amounts of money, very risky projects to begin with, they have long, long terms over which they pay themselves back. You need a certain degree of stability, that you know, if I'm going to put down a lot of money here on a risky venture to start with, I want to de-risk it as much as you possible*". (Interview: Respondent 7)

While acknowledging that the regulatory environment in South Africa is better than in other developing countries, Respondent 7 stresses that the volume of foreign investment to South Africa would increase significantly if the regulatory environment was reasonable. Respondents 5 and 7 also emphasise that investors need stability and certainty, suggesting that investors are able to overcome bad policy or stringent regulation, provided there is stability and certainty. He makes an example that investors in Zimbabwe

> "*are clear that they will have to give up 51 percent ownership and this is factored in when the investment decision* [is] *made, although this policy stance is hurting overall volumes those investors going into that market are prepared to cover those costs". (*Interview: Respondent 5)"

This argument is buttressed by Respondent 4, lamenting policy uncertainty in South Africa.

> *"Investors need certainty if you create uncertainty you are killing investment".* (Interview: Respondent 3)

A number of respondents attribute the lack of a clear policy direction to ideological differences within the ruling party, consequently the government, indicating that the Treasury and the Reserve Bank are responsible for fiscal and monetary policy,

respectively, are pursuing a liberal free market agenda while the department of trade and industry, which is responsible for the industrial policy, is pursuing a protectionist agenda. Respondent 5 noted that this is as a result of failure in leadership.

> "*They serve those narrow interests of those individual departments, at the end of the day you have these inconsistent policies, so there is no one overseeing these policies, co-ordinating*". (Interview: Respondent 5)

A view supported by Respondent 9

> *"I think policy uncertainty is the single biggest one at the moment nobody knows who's running the economic policy".* (Interview: Respondent 9)

One of the government officials poses a rhetorical question

> *"Are we rallied behind the same vision, do I talk to other departments? No! We are territorial, there is a duplication of efforts".* (Interview: Respondent 1).

4.4.2 Protection of property rights and legal framework

The majority of respondents indicate that the protection of property rights and the legal framework encourages inward FDI to South Africa. According to Respondent 5

> *"Property rights in South Africa are protected, South Africa ranks high on the global competitive index in terms of intellectual property rights protection".* (Interview: Respondent 5)

This view is supported by Respondent 2, who indicates that South Africa has an independent judiciary. When legal disputes arise, investor's rights are protected. Respondent 7 concurs, highlighting that a

> "*comparatively strong legal environment ensures that property rights are protected and there is rule of law".* (Interview: Respondent 2)

Regrettably, there is a growing perception that property rights in South Africa are being eroded. Some of the respondents highlight that the cancellation of investment treaties with various European countries has a negative impact on inward FDI from Europe. It is perceived as a means to enable expropriation of investment. In addition,

respondents highlight that the Broad-Based Black Economic Empowerment (BBBEE) legislation, aimed at enforcing economic participation by the black majority and women who were prevented from participating in the economy during apartheid is considered to be the manifestation of eroding property rights. One of the respondents argues that

> *"BEE* [Black Economic Empowerment] *is interpreted as takeover, it is take over. Investors are reluctant to sell their shares compulsory to black partners it's a moderate take over that is legally enforced".* (Interview: Respondent 1)

Similarly, Respondent 3 argues that there is "a *broad pattern of the erosion of property rights in South Africa*", citing a number of examples including; the protection of investment bill, BBBEE and the proposed restriction of land ownership by foreigners. He states that

> *Black Economic Empowerment, which definitely is an erosion of property rights, protection of investment bill says that you are not really protected in the event that your investment is expropriated. Expropriation bill saying that we are going to make it easier to expropriate you …. The mining sector where you must give up 20 percent share of your investment to the state and the state can increase that to 80 percent at a price to be decided by the state...they are being eroded systematically. The foreign ownership of land issue as one amongst a broader thrust to erode property right".* (Interview: Respondent 3).

Notwithstanding, the consensus amongst the respondents is that transformation is necessary, however, the government needs to be decisive on how it is implemented and avoid frequent changes in legislation, again raising the issue of policy uncertainty, in addition, it needs to ensure that the regulation is not excessively onerous on foreign investors.

4.4.3 Availability of infrastructure

Most respondents indicate that the availability of infrastructure is a key determinant of FDI inflows into South Africa. Interestingly, a number of respondents consider the

availability of infrastructure as an attracting factor to inward FDI, while others argue that electricity shortages, characterised by rolling blackouts over the last seven years and bottlenecks in the rail and road networks and congestion in the ports discourages investment.

Respondents who contend that the availability of infrastructure is a deterrent argue that, compared to other developing countries, South Africa lags behind in infrastructure development. However, in the African context, South Africa has by far the most sophisticated and integrated infrastructure in the continent. Respondent 5 highlights that infrastructure constraints are a hindrance on FDI inflows, citing that the constraints in the railway network linking the Richards Bay Coal Terminal to collieries was a major bottleneck in coal exports. He argues that the expansion of the railway resulted in an increase in investment in coal mining resulting in new coal mining projects and new mines being opened.

Respondent 4 laments the shortage of electricity in South Africa, asserting that electricity shortages have destroyed electricity intensive small manufacturing companies and struggling medium-sized manufacturing companies. This view is corroborated by respondent 8 who contends that energy shortages have curtailed investment in heavy industries

> *"For the mining and metal sector because if you look at those smelters, they were actually asked to cut their consumption of electricity so they will undoubtedly look at this and say; no thank you, there will be no new investment coming into South Africa*." (Interview: Respondent 8)

As mentioned in section 4.2, Respondent 1 attributes FDI investments in SA to public infrastructure investments. This view is in line with Respondent 2 who asserts that the decision taken by the government of South Africa to invest in new coal-fired power plants and allowing renewable energy independent power producers to provide electricity into the grid is a positive development.

> *"The renewable energy programme is very successful. I think the electricity issues will be a problem for say the next three to four years. The government made the right choices so that in the long term when the coal power stations and renewable energies come into line the problem will be solved. In the short*

term, it will deter investment, but in the short term it can even attract energy companies". (Interview: Respondent 2)

This view is corroborated by Respondent 9, who argues that

> *"You have electricity shortages and power blackouts, but I think the fact that we have acknowledged it and we are taking action, it's a positive step".* (Interview: Respondent 9)

Respondent 6 is of the view that infrastructure bottlenecks and energy shortages have no impact on FDI inflows to South Africa. He argues that energy shortages have not reached a critical level whereby they can impact foreign investments. This is corroborated by Respondent 7, who highlights that in South Africa *"infrastructure is quite robust"* he states that elsewhere on the continent investors literally have to build the railroad and the port facilities are inadequate, adding that *"Energy is a major constraint to economic growth on the continent"*.

Respondent 2 also highlights that the use of public infrastructure is very expensive in South Africa which increases operating costs.

> *"South African ports are very expensive, in a worldwide context for some companies it causes huge problems. To have a container shipped through Durban can cost more than double in other international ports".* (Interview: respondent 2)

A view buttressed by another respondent arguing:

> *"The deterrent is actually the cost of electricity and other costs. The devaluation of the rand will help bring costs down, but for how long?"* (Interview: respondent 6)

Investment in private infrastructure also attracts inward FDI. Respondents 5 and 7 indicate that in the past few years investment into the South African retail sector has increased due to the increased in the availability of retail space, led by domestic investment in retail properties by insurance companies.

4.4.4 Resource endowment

The majority of the respondents indicate that one of the most attractive industries to inward FDI is the mining sector. However, most respondents believe that investments in mining projects have declined significantly due to the economic climate. The decline is attributed to the increase in operating costs, the collapse in commodity prices and most importantly, the uncertainty in the policy environment.

According to Respondent 7, one of the attractions into the mining sector is the knowledge and experience that is present in South Africa. He argues that supporting industries such as

> "*the financial sector and operational community have a base knowledge about mining projects and operations. The infrastructure essential for modern mining is present in South Africa such as roads, railroads, ports and telecommunications. A major attraction for resource development."* (Interview Respondent 7)

4.4.5 Market size and economic growth

The majority of the respondents indicated that the size of the South African market has a positive impact on the volume of inward FDI. Some respondents argue that although the South African economy is currently growing at a very slow rate, the growth of the middle class in South Africa and high GDP growth in the rest of the continent are key attracting factors for FDI into the country. Respondent 2 argues that although the slowdown in economic growth is a concern for investors and investors are cautious, South Africa benefits from growth in the rest of the continent.

> *"Investors never see South Africa as an island but always as a market within the continent at least the Southern region and generally Africa is still growing quite promisingly. From a gross point of view the region is amongst the fastest growing in the world".* (Interview: Respondent 2)

Respondent 3 asserts that the size of the South African market encourages inward FDI.

> *"In terms of the market by global standard it's small, by African standards it's large. If you want to be in Africa, then South Africa is a large economy. Historically, a major driver of multinationals investing into South Africa is to access the market, particularly the South African market".* (Interview: Respondent 3)

This is corroborated by respondent 4, who highlights that the upside for growth encourages investment in emerging markets. This view is to a certain extent supported by Respondent 2 who believes that

> *Once the electricity crisis is resolved the economy will start growing. South Africa at the moment is not growing but once it will be solved, growth will get better to three to four percent and so still an interesting market to invest.* (Interview: Respondent 2)

Respondent 7 argues that the size and high level of sophistication in the South African market attracts foreign investors. He highlights that

> *"It's the second largest economy in Africa and arguably the most sophisticated and advanced market in Africa and often times they are looking to South Africa as a springboard to other places, a springboard to the Indian Ocean realm and other places in Africa. It has a sort of strategic location that gives it a strategic advantage".* (Interview: Respondent 7)

4.4.6 Availability of a skilled labour force

Most respondents argue that with regard to the availability of skilled labour there is no definite answer, as the availability of a skilled labour encourages investment, on the other hand, it also deters inward investment. Respondent 7 explains,

> *"in some industries you can get skilled people, however in other industries there are no skilled labour or people have to be recruited from afar and in certain instances it is necessary to train people*". (Interview: Respondent 7)

Respondent 8 explains that it may seem like a contradiction, but in South Africa, the availability of skilled labour is both a deterrent and a motivation to inward investment. This view is also corroborated by respondent 9, who argues that

> *"the skill set and the labour force, so on the one hand we are constrained; we won't get a thousand engineers, for example, right? But if you're looking for ten or twenty, you'll find that".* (Interview: Respondent 9)

Furthermore, he highlights that in South Africa, the labour force can be easily be trained compared to other parts of the continent. This is corroborated by respondent 2 who argues that

> "*in South Africa the wages are higher than in other African countries, still the productivity is also higher*". (Interview: Respondent 2)

Nonetheless, a number of respondents argue that in general, increases in wages are much higher than increases in productivity. One of the respondents maintains that,

> *"generally, wages are increasing by almost eight percent but the productivity is increasing by less than two percent, over the last four years. Wages are increasing at a much higher rate than productivity. The focus should be on increasing productivity. But that can't increase if there is a strike for four weeks".* (Interview: Respondent 2)

4.4.7 Labour relations

Volatile industrial relations in South Africa are a major deterrent to FDI inflows. Some respondents stress that labour costs are not the leading deterrent to investment, asserting that strained labour relations have a bigger impact on FDI and productivity than cost. Respondent 2 argues

> "*The major problem is the strikes, especially in the automotive and metal sector. They cause huge disruptions and most OEMs operate 24-hour production facilities and if production is lost for several weeks there is no way to recover especially if they supply the export market. It is a deterrent".* (Interview: Respondent 2)

This view is shared by Respondent 5, who argues that strikes have a big impact on productivity in South Africa, indicating that the number of man-days lost to strikes is unusually high by global standards.

> *"the number of lost man-days in South Africa at the moment are around 50 days, supposed to be working days lost to strike, now you will then worry about productivity".* (Interview: Respondent 5).

Respondent 2 suggests that government intervention is required to limit the occurrence of destructive protracted strikes. On the other hand, Respondent 3 argues *that "business has to get on much better with labour"*, suggesting that business needs to be more inclusive and consultative when making business decisions, referring to the German model of corporate governance where labour is represented in company boards, and arguing that the Anglo-Saxon approach to labour relations does not work in South Africa.

> *"A lot of businesses here particularly the English business has a lot of Anglo-Saxon approach to labour relations and that approach doesn't work in South Africa it may be the most efficient in a narrow cost efficiency sense, economic efficiency sense but it doesn't work in our society either. So there is a problem, the problem is equally on the business side as it is on the union side".* (Interview: Respondent 3).

In contrast, Respondent 1 argues that labour unrests, a common feature in the mining and metals industries of South African are a direct consequence of a government abdicating social welfare responsibilities to the private sector.

> "*You have politics that are shifting social responsibility to the private sector, government is shifting responsibility".* (Interview: Respondent 1).

Respondents 2 and 7 call attention to large government spending towards education in South Africa, yielding very poor results. Respondent 3 and 7 warn that the lack of quality education that produces skills that can be absorbed in the economy results in high levels of unemployed and the high number of unemployed youth is a "*ticking time bomb"* that will lead to more social unrest in the country.

4.4.8 Cost of labour

Approximately half of the respondents indicate that high labour costs discourage inward FDI in South Africa. They argue that the cost of labour is higher than in other markets at comparable stages of development.

Respondents 2 and 7 states that the cost of labour in South Africa is much lower than in Europe and North America. However, productivity levels in South Africa are very low. Respondent 7 also highlights that in the mining sector

> *"Labour demands, particularly on the wage side, have been decoupled from the commodity markets and from productivity. They're asking 15 percent increases when the commodity markets are very low and productivity is not rising*". (Interview: Respondent 7)

This view is shared Respondent 1, who argues that the labour laws are impractical and too stringent for a developing country like South Africa with very high levels of unemployment and an a relatively unskilled labour force. He also makes the point that platinum has lost 50 percent of its value since 2007, adding that wage increases demanded by unions do not seem to be taking the decline in commodity prices into consideration.

Most of the respondents argue that labour unions in South Africa are very strong and command a lot of influence, this results in high labour costs in relation to productivity and a rigid labour regime. One of the respondents argues,

> *"In South Africa,* [the] *labour market is rigid in other words wages are sticky, they are very sticky and that speaks to the inflexibility of working with high wages and productivity levels are very low compared to other middle-income countries". (Interview: Respondent 4)*

This is corroborated by Respondent 3, who argues that

> [labour] *"costs are higher than in Asia, the workers are half as productive." Labour costs in South Africa are comparable to the Czech Republic, a high-income country".* (Interview: Respondent 3)

Indicating that as a consequence,

> *"South African companies are relocating to Lesotho because wages are lower especially the textiles industry mainly because of AGOA*". (Interview: Respondent 3)

Respondents 13 states that labour costs in South Africa are low, compared to Europe but productivity is much lower. On the other hand, labour productivity is very low, compared to China but the wages are higher. According to respondent 4

> *"the wage increases that are slightly above inflation are a significant cost to .0companies. Labour costs in South Africa is very expensive we are among the top ten in the world and we are also the least productive country at the same time. Productivity levels are very low compared to other middle-income countries".* (Interview: Respondent 4)

4.4.9 Trade policy agreements

Respondents 1 and 9 are the only respondents who identified that South Africa's trade policy encourages foreign investment, drawing attention to the Automotive Incentive Program (AIP), an incentive programme aimed at attracting investment into the automotive sector.

Respondent 1 highlights that the government is continuously undertaking measures to encourage trade within the continent, arguing that South Africa played a key role in the formation of the Tripartite Free Trade Area (TFTA), a proposed free trade area between the Common Market for Eastern and Southern Africa (COMESA), SADC and the East African Community (EAC). He asserts that TFTA will boost investment into South Africa because it will enable the country to increase exports to other member countries.

Similarly, Respondent 9 asserts that presently SACU, SADC and possibly TFTA in future give South African companies access to a larger market.

"*if you take into account the tripartite agreement, you're looking at a market, I believe of 700 million people with, is it 1 or 2 trillion GDP of 1 to 2 trillion dollars*." (Interview: Respondent 9)

Respondents 2 and 4 highlight the importance of the AGOA in attracting FDI into South Africa, citing that a number of foreign investors place their production facilities in South Africa with the intention of exporting to the US market, duty-free. According to respondent 4

"It actually encourages companies to come and operate here. South Africa has performed very well under AGOA in terms of exports and has attracted FDI because of AGOA. Each time it has to be renewed, if you look at the trend of exports you can see it goes down because each time it has to be renewed it creates uncertainty". (Interview: Respondent 4)

Respondent 2 also points out that the free trade agreement between South Africa and the European Union enables manufacturers to import parts from Europe to manufacture in South Africa and export to other SADC countries. However, he adds that SACU's impact on FDI inflows is small because the other four countries "*are rather small economies*". He believes that,

*"if there was a SADC customs union then South Africa would benefit because most investors would locate their production centres in South Africa". (*Interview: Respondent 2)

Surprisingly, respondent 6 argues that free trade within SADC countries does not have an impact on inward FDI because of the small size of that market. On the other hand, he argues that free trade across the African continent would attract significant investment to the region. Drawing attention to the success of the European Union and the North American Free Trade Agreement (NAFTA) he claims that these agreements literally transformed those economies. This view is supported by respondent 7.

4.4.10 Structure of the economy

Responded 5 argues that the largely monopolistic and oligopolistic nature of certain industries in South Africa makes it attractive to foreign investors

> "*who can come in with new technologies and gain a competitive advantage over the incumbents in the country. On the other hand, it can be a deterring factor because industry players can raise barriers to entry making it difficult for new entrants into the market."* (Interview: Respondent 5)

4.4.11 Geographic location

It is interesting that three respondents indicated that geographic location is a determinant of inward FDI in South Africa. However, they differ in their view on its impact on the country's ability to attract FDI. Respondent 1 argues that South Africa's location on the "*Southern tip of Africa*" is a deterrent because

> "*it places it far from the major markets of Europe, Asia and the Americas*". (Interview: Respondent 1)

On the other hand, Respondent 6 views South Africa's location and the fact that it is a coastal country is an advantage, indicating that

> *The geographic location of South Africa you know - it also aids its attractiveness. It links East and West, South Africa have got an advantage if you look at manufactured products it's transported by sea, not by air because of their weight to value. South Africa will have an advantage".* (Interview: Respondent 6)

In some respects, this view is corroborated by Respondent 2 stating South Africa's linkages with other markets makes it an attractive place for investment in Africa. He further explains that

> "*Location is not a priority for investors in the bigger scheme of things other factors are more important. What is more* [important] *is that there are direct flights from Europe to South Africa*". (Interview: Respondent 2)

Similarly, Respondent 3 adds that location is a minor consideration when making investment decisions, explaining that location is only a deterrent to efficiency-seeking FDI, not to resource-seeking FDI. He explains that when it comes to efficiency-seeking FDI, location is only a consideration because it adds transportation costs and, therefore, it has an impact on operating costs. He explains that geographically, South Africa is *"pretty far from the major markets in the world, it adds to the costs, shipping costs."*

4.4.12 Culture, crime and lack of information

Two of the respondents also mentioned that culture and crime are determinants of FDI. However, these factors did not emerge strongly as themes. A possible explanation is that most of the respondents interviewed are economists and financial analysts and social factors do not feature strongly in their empirical models.

Although a very insignificant factor, some respondents highlighted that the culture in South Africa and the use of English as a business language makes it attractive for investors from the Commonwealth. Highlighting that the law is similar to their countries, the culture is almost the same and most importantly, the language that is spoken is the same. One of the respondents indicated that

> *"Expatriates find South Africa to be a pleasant and benign place to live"*. (Interview: Respondent 7)

Respondent 8 draws attention to the fact that the bulk of investment into South Africa is from the United Kingdom (UK). Respondents 7 and 9 also highlight that UK and Canadian investors invest in South Africa because of cultural similarities, common laws and a common language.

However, the level of crime in South Africa discourages investment. Though it is not a critical factor, it is one of the factors that would be factored in when making a decision. Some respondents cited that the violent nature of strikes and protest in South Africa has a negative impact on investment. Although such factors are not central in a corporation's decision process, they may be a differentiation factor when

an investor is comparing South Africa against a country with a similar economic advantage.

Respondent 5 highlights that there is a general lack of interest to invest in Africa. Respondents 3 and 10 called it the "*African tax*". This may be explained by the argument made by Respondents 8 and 10 that there is a general lack of information about Africa, arguing that for investors already invested in South Africa they are positive and bullish about South Africa. However, for investors without any presence in Africa, South Africa does not generally feature in their investment considerations.

4.4.13 Gateway into Sub-Saharan Africa

South Africa is considered an entry point into Sub-Saharan Africa, Southern Africa in particular. Most of the respondents point out that South Africa is the first location that investors consider when they want to enter the African market. It is a place where they can set up their regional headquarters. Respondent 8 argues that it is relatively easier to do business in South Africa than in the rest of the continent. This view is corroborated by another respondent stating that

> *"South Africa is the most industrialised country in Africa, so it is easier to invest. It relates to the fact that South Africa with broad industrialisation there is a lot of companies that can supply you and you can buy machinery and equipment".* (Interview: Respondent 2)

One of the respondents argues that infrastructure that is in place in South Africa enables investors to conduct business activities in the rest of the continent.

> *"The infrastructure we have in place that enables you to do business in Africa, our legal system and financial system, you know in terms of the legal system, you have a solid framework, which to work from; it gives you certainty. The financial system, you have in South Africa, banks operating throughout the world and Africa especially.* (Interview: Respondent 9)

Respondent 8 admits that anaemic economic growth in South Africa is a deterrent to FDI inflows, but he emphasises that South Africa is still a very attractive place to do

business compared to the rest of the continent. When asked to identify determinants of FDI into South Africa, he responded

> "*the rationale has been of course the whole Africa growth story, and once companies have made the decision that they want to be based in Africa. They want to headquarter their regional office setup in a country where the infrastructure is better ... it's easier to do business in South Africa, relatively easier than the rest of Africa".* (Interview: Respondent 8)

Respondent 3 also highlights that South Africa is the only country in Africa with broad industrialisation and it is easy to find a market and equally important, suppliers that provide input into the value chain. However, he cautions that

> *"There is some competition growing in East Africa. Some companies are putting their Africa headquarters in Kenya. The main problem at the moment is the security, Al-Shabaab, terrorism and so on".* (Interview: Respondent 2)

This is corroborated by Respondent 8 who argues that security might be a deterrent for companies considering investing in Kenya due to the rise of the terrorist group Al-Shabaab and the increase in attacks carried out within Kenya. Similarly, Respondent 1 argues that

> *"South Africa was a gateway but the regulatory environment in other African countries has been liberalised and investors go directly to those countries. There is no need to have headquarters in South Africa. Other African countries offer trade packages that are even more attractive than South Africa".* (Interview: Respondent 1)

This view is supported by Respondent 3, who states that South Africa is increasingly seen as one of the Gateways into the continent; the other gateways being Kenya in East Africa and Nigeria in West Africa. He asserts that there is a low prospect for growth in South Africa and business perception is that the policy environment is deteriorating. He adds that,

> "*there are better opportunities elsewhere, markets are growing much faster like Ethiopia, like Nigeria, not that these are easy environments to do*

business in, not by any stretch of the imagination, but at 5 percent growth, Nigeria now has an economy that is bigger than South Africa. It's far more attractive than one or two percent here". (Interview: Respondent 3)

Respondent 6 concurs, arguing that

"There is intense competition against South Africa, Nigeria all of a sudden has become a strong competitor, essentially given the recent achievements that it has politically. Look at East Africa, they are making giant strides towards economic development and technological advancement. Most countries in Africa are now recording unprecedented level of, you know institutional improvement and regulatory efficiency and you know infrastructure development as well". (Interview: Respondent 6)

Respondents 2 and 3 also highlight that even within SADC there is increasing competition for foreign investment, with countries like Botswana and Namibia positioning themselves as gateways into the Southern region. However, he explains that, although these countries are not going to be a major competition, they will certainly divert some investment away from South Africa. This view is corroborated by Respondent 9, who argues that

"we're [South Africa] the ideal gateway I know Namibia are promoting themselves as a gateway, I know Botswana, Kenya but I mean Kenya maybe from a logistics perspective. I see it as, not necessarily real competition but they think it might cream of some of the investment that would have come to South Africa, not significantly". (Interview: Respondent 9)

On the other hand, Respondent 5 also stresses that South Africa is not getting the full benefits of its position as a gateway because of low trade volumes between African countries.

4.5 Summary of the results

The majority of the respondents indicate that the portfolio of inward foreign direct investment in South Africa is spread across multiple industries. However, Respondents 8 explains that the extractive industries attract large volumes of capital

due to the capital intensive nature of those investments. Respondent 3 argues that "*South Africa attracts resource-seeking and market-seeking FDI*", adding that there are some elements of efficiency-seeking FDI into South Africa.

The general perception among respondents is that South Africa's attractiveness to foreign investors is deteriorating. Respondent 7 highlights that the

> *"trend in South Africa over the past few years, essentially the downgrading of South Africa's credit rating is not a good sign for stability, it is a negative signal to the international community*". (Interview: Respondent 7)

The overall theme emerging from the results is that South Africa attracts foreign investment earmarked for the African market. The main attraction for FDI into South Africa is the availability of natural resources, the size of the market and the high-level of growth. The major deterrents are the onerous policies and regulations, uncertainty in the regulatory framework and an unclear policy direction, lack of adequate infrastructure and a skilled labour force.

South Africa is generally regarded as a market within the whole continent, not as a standalone market. It's relatively favourable regulatory framework, the protection of property rights, availability of integrated infrastructure and a skilled labour force, gives it a comparative advantage over other African countries. Most MNCs use South Africa as an entry point into Sub-Saharan Africa and Southern Africa in particular.

A tabulated summary of the results is provided in a results matrix, table 4.1.

Table 4-1 Results matrix

Respondent	Market Size	Natural Resources	Policy and regulation	Property rights & rule of law	Location	Financial markets	Skilled labour	Labour costs	Labour Regime	Infrastructure	Trade Openness	Gateway Effect
1	Attracts	Attracts	Deters	Eroding	Deters	Attracts	Mixed	-	Deters	Attracts	Attracts	No impact
2	Attracts	-	Deters	Attracts	No impact	Attracts	Mixed views	-	Deters	Attracts	Attracts	Attracts
3	Attracts	Attracts	Deters	Eroding	Adds costs	-	-	Minor	Deters	Attracts	Attracts	Attracts
4	Attracts	Attracts	Deters	-	-	Attracts	Deters	Deters	Deters	Attracts	Attracts	Attracts
5	-	Attracts	Deters	Attracts	-	Attracts	-	Deters	Deters	Attracts	-	Attracts
6	Attracts	Historical	Deters	Eroding	Attracts	Attracts	Attracts	Deters	No impact	Attracts	No impact	No impact
7	Attracts	Attracts	Deters	Attracts	Attracts	-	Mixed views	-	Deters	Attracts	-	SADC
8	Attracts	Attracts	Deters	-	-	Attracts	Mixed	No impact	Deters	Attracts	-	Attracts
9	Attracts	Attracts	Attracts	Attracts	-	Attracts	Deters	No impact	Deters	Attracts	Attracts	Attracts
10	-	Attracts	Attracts	-	-	Attracts	Deters	-	Deters	Deters	No impact	Attracts
11	Attracts	Attracts	Deters	-	-	Attracts	-	-	Deters	Attracts	-	Attracts
12	Attracts	Attracts	Deters	Attracts	-	-	Deters	-	Deters	Attracts	Attracts	Attracts
13	Attracts	Attracts	Deters	Attracts	-	-	Deters	Deters	Deters	-	-	Attracts

CHAPTER 5. DISCUSSION OF THE RESULTS

5.1 Introduction

This chapter discusses the findings of the study with reference to the literature on foreign direct investment. First, the demographic profile of the respondents is briefly outlined. Next, types of inward FDI to South Africa are discussed and the findings explained. Subsequent subsections discuss and explain push and pull factors of inward FDI in South Africa. Last, conclusions are made, based on the results of the study and the literature.

5.2 Demographic profile of respondents

Respondents interviewed represent ten different organisations, including; government departments, Business Consulting Firms, Commercial Banks, the International Finance Corporation, Universities and Foreign Trade and Investment Agencies. Surprisingly, respondents shared relatively similar views on the type and determining factors of inward FDI in South Africa, irrespective of the organisations they represent. They differed mainly on the factors raised or considered significant for the purposes of this study, refer to table 4.1 for a summary of the results.

5.3 Types of FDI into South Africa

5.3.1 Resource -seeking

Results show that the availability of mineral resources is one of the key determinants of FDI inflows to South Africa. Multinational companies invest in the mining industry to access mineral resources and ensure the security of supply. These findings are consistent with the literature. Anyanwu (2012) and Darley (2012) postulate that FDI inflows into Africa are mainly concentrated in the extractive industries; mineral resources and oil and gas. However, one of

the respondents draws attention to the fact that due to the capital intensiveness of oil and gas and mining projects, these industries receive the largest share of FDI when measured, based on capital invested. However, the number of projects in the mining industry is less than 10 percent of FDI projects in South Africa. The overall spread of FDI in South Africa is diversified across a number of industries. This argument corroborates Adefeso and Agboola (2012), who argue that that the composition of FDI inflows to Africa is diversifying from mineral resources.

The study also found that South Africa's mining experience and knowledge also supports the inflow of FDI to that sector. An interesting result, because it implies that foreign investment into the mineral extraction industries is both mineral resource and efficiency seeking, because, according to Akpansung (2013, p. 1479), "raw material seekers extract raw materials wherever they can be found". The consideration for the availability of skills and infrastructure for investment in South Africa suggest that this kind of investment is also efficiency-seeking.

A possible explanation for this finding is that South Africa attracts resource-seeking FDI due to the availability of natural resources, in addition, resource seekers would rather invest in South Africa because of the infrastructure, skills and mining experience present in the country. Thus, in South Africa, resource-seeking and efficiency-seeking FDI reinforce each other.

5.3.2 Market-seeking

The study finds that infrastructure development, retail, food manufacturing, financial and other services industries are some of the most attractive industries to inward FDI in South Africa. Foreign investment in public infrastructure development is led by government investment in infrastructure projects and the easing of regulations. Government response to electricity shortages in South Africa has enabled Eskom, the power utility, to invest in two coal-fired power stations (Medupi and Kusile power stations). In addition, the Department of Energy has eased regulations governing independent power producers (IPP), enabling them to produce and supply electricity through renewable processes to

the grid. The renewable energy programme has attracted a lot of investment in that sector.

A possible explanation for market-seeking investment in South Africa is that it is mainly driven by growing demand due to the economic growth experienced since the fall of apartheid in 1994. This growth also led to infrastructure constraints, such as the shortage of electricity and inadequate transport networks. Lundahl and Petersson (2009) argue that, at the fall of apartheid, the new government inherited an economy in a recession and an unequal society. It initiated policies to grow the economy and redistribute wealth. Facing constraints due to the size of the economy, South Africa opened up its economy to foreign investments and trade.

Lundahl and Petersson (2009) noted that the first four years of democracy resulted in positive but turbulent economic growth. The next decade saw robust domestic growth until the global economic crisis in 2008. Economic growth was led by economic reform, trade liberalisation, and increased investment, improving education and exogenous causes such as the commodity boom over the last two decades as a result of increasing demand from China. These factors led to a rise in the middle class in South Africa, the black middle class in particular, resulting in increased consumer purchasing power, urbanisation, shifting lifestyles and customer tastes. As a result, the demand for general goods and services increased, including demand for utilities, both for industrial and domestic use.

Furthermore, the African continent as a whole is experiencing an expansion of the middle class, high economic growth rates and the graduation of 21 African countries to middle-income status (Resnick, 2015). The study finds that market-seeking FDI into South Africa is also driven by the *"promise of the African market"* (Interview: Respondent 2), multinational corporations invest in South Africa with the intention of setting up regional head offices from where they can expand to other Sub-Saharan markets. A possible explanation for this kind of investment is that Africa is a large market with over 1.1 billion people. It is among the fastest growing regions in the world. South Africa is the most

developed and most diversified economy within the continent. As one of the respondents points out.

> "*Multinationals headquarter themselves here* [in South Africa], *on the basis that they would be looking to build a presence for Sub-Sharan Africa"*. (Interview: Respondent 8)

5.3.3 Efficiency-seeking FDI

The study finds that there is a general lack of efficiency-seeking FDI in South Africa. Nonetheless, South Africa does attract export oriented investment, mainly driven by AGOA and government incentives. AGOA allows companies that produce in South Africa to import into the US duty-free, substantially reducing the cost. In addition, government incentives such as reduced transportation cost for certain industries also reduce costs.

The setting up of headquarters in South Africa is also an efficiency-seeking investment, because headquarters are co-ordination centres aimed at improving efficiency in the supply chain. It can be argued that the structural factors, such as infrastructure, skills and the financial system present in South Africa reduce the cost of production relative to other countries in Africa. Nonetheless, production costs in South Africa are relatively high and it lacks the labour force essential for mass production. As one of the respondents highlighted

> *"The Chinese do it better and faster than we do*". (Interview: Respondent 3)

5.4 Push factors of inward FDI to South Africa

MNCs invest in South Africa because they have saturated their domestic markets and are looking for new markets; growth of the South African middle class and high economic growth in the continent presents an opportunity for MNCs. Another driver is the need to be close to their customers. Furthermore, there is fierce competition in developed markets due to technological advancement. These findings are in line with the literature. Akpansung (2013, p.

1483) notes that FDI originates from large corporations that are “subject to oligopolistic competition”.

In the case of Chinese investors, government encouragement to invest overseas has pushed FDI from China into South Africa. This finding is in line with the literature, Chinese outward investment is driven by a very competitive and unfavourable domestic market (Lu et al., 2011).

5.5 Pull Factors of inwards FDI to South Africa

5.5.1 Economic policy and regulatory framework

This study found that economic policy and the regulatory framework are key determinants of FDI inflows into South Africa. The uncertainty in economic policy is driving away foreign investment from the country. There is a growing perception amongst investors that the regulatory framework in South Africa is unstable, economic policy is unclear and it lacks direction. This finding is consistent with the literature, K. Adams et al. (2014) found that, in Ghana, political influence and an unfavourable regulatory environment were some of the main deterrents of FDI inflows into the financial sector.

Noticeably, in South Africa, foreign investment is not actually deterred by unfavourable policy, but rather the lack of a clear policy direction, failure by government to implement its own policies, for instance, the NDP, uncertainty caused by the frequent and extensive changes in regulations and, in some industries, the absence of regulations, for example, there are no laws regulating oil and gas exploration in South Africa. The lack of a clear policy direction in South Africa is a result of ideological differences within the South African government and lack of leadership in economic policy formulation. The roles of the various government ministries within the economic cluster are not clearly understood and this causes confusion and inconsistencies. In addition, there is no co-ordination and collaboration between the various government departments.

Investors are discouraged by unclear economic policies than negative or unfavourable policies. To some extent, unfavourable regulations can be managed and overcome. However, if policy is constantly changing, it is impossible for investors to plan and factor in policy implications in business models. Investors want clear and transparent policy. One of the respondents correctly pointed out that “uncertainty kills investment” (Interview: Respondent 4). This finding corroborates Akpansung’s argument that investors invest in countries that are considered politically stable and where there is a low risk of expropriation and political interference in the private sector (Akpansung, 2013).

The finding that government policy has the most important role in attracting FDI inflows supports the literature. Economic reforms and the open-door policy enabled China to attract a considerable amount of FDI, translating its natural comparative advantage into economic growth and international competitiveness (Wei, 2003). China has become a leading global destination for foreign investment. Ni (2013) argues that although there are regional comparative advantages in China, including natural resources, the high level of R&D, GDP per capital, sales volumes that have a positive impact in attracting FDI, they are not as effective as government policy handles. Thus, the importance of a reasonable and clear economic policy and a stable regulatory framework in promoting inward FDI cannot be understated. These findings highlight the urgent need for South African policy makers to formulate policies that encourage investment and to provide the investment community with clear policy direction and follow through with implementation.

5.5.2 Property Rights and the legal framework (Investment Climate)

South Africa’s comparably strong legal framework and the protection of property rights encourages FDI inflows. South Africa has a relatively effective legal system and an independent judiciary that ensures that property rights are protected. It is ranked 24th out of a 140 countries, with regard to property rights on the global competitiveness index (Word Economic Forum, 2015).

However, South Africa risks losing this comparative advantage due to the growing perception that property rights are being eroded. The move by South

Africa to cancel bilateral investment treaties with several European countries had a negative impact on FDI from that region as investors have put projects on hold. Investment treaties provide assurance to investors because their governments guarantee investments that are made under such a treaty.

In addition, the revision of the Broad-Based Black Economic Empowerment (BBBEE) legislation is problematic because it is interpreted as a means to expropriate property and investors are reluctant to sell their shares to black partners. Notwithstanding this, this study found that transformation is welcomed and viewed as necessary. However, policymakers ought to be decisive in policy formulation and its implementation, avoid frequent changes in legislation and have the ability to clearly explain and communicate their intentions, again highlighting the problem of policy uncertainty arises.

Results indicate that the perceived deterioration of property rights decreases the volume of inward FDI. These findings corroborate the model developed by Fedderke and Romm (2006), which predicts that an improvement in property rights in South Africa increases the relative share of FDI in total foreign capital stocks. A possible explanation for these findings is that the protection of property rights lessens investment risk, consequently, the expected return on investment. The risk of expropriation is higher in South Africa, as explained by Gwenhamo and Fedderke (2013), investment is concentrated in capital intensive sectors where the host country can easily expropriate investment.

5.5.3 Availability of reliable infrastructure

The availability of infrastructure is one of the key determinants of foreign investment in South Africa. All the respondents argue that South Africa has one the most developed and integrated infrastructure networks in Africa, arguably among developing countries in general. One of the respondents argues,

> "*South Africa is in a league of its own in Africa and in most of the developing economies, South Africa bears one of the best infrastructural facilities.* (Interview: Respondent 6)

However, the relationship between FDI flows and the availability of infrastructure is not clear-cut. Infrastructure constraints such as bottlenecks in the ports, rail and road networks, the shortage of electricity characterised by rolling blackouts and restrictions in electricity consumption on industrial consumers, have a negative impact on investment inflows into the country. In addition, high transportation costs and high port fees have a negative impact on efficiency-seeking FDI. Nevertheless, a number of respondents argue that infrastructure constraints have not reached the critical level to deter investors. On a positive note, in the short-term, the infrastructure backlog promotes investment mainly driven by government investment in infrastructure and easing of government regulations in power generation.

The availability of adequate and integrated infrastructure has a positive impact on FDI into South Africa, owing to the high level of development compared to other African nations. However, the high cost of infrastructure has a negative impact on inward investment. These findings are consistent with continent-wide empirical studies that show that the availability of infrastructure has a positive correlation to FDI in Africa (Asiedu, 2006). In South Africa, Moolman et al. (2006) found empirical evidence that an improvement in infrastructure increases FDI inflows. An explanation for these results is that the availability of infrastructure allows businesses to run more effectively and to concentrate on the core business, thus increasing productivity and efficiency. In the case of resource-seeking FDI, the availability of adequate infrastructure ensures easy access to the export market.

5.5.4 Availability of natural resources

As expected, the availability of mineral resources is a key factor encouraging inward FDI in South Africa. The mining industry is one of the biggest recipients of investment into the country. South Africa has large reserves of minerals including, gold, platinum, coal, uranium, manganese and others, making it attractive to resource-seeking investors.

The country’s well-developed infrastructure network, as well as the development of its financial markets, makes it an attractive destination for

resource-seeking FDI. Findings of this study reinforce findings by other researchers, Anyanwu (2012) and Darley (2012) both found that FDI inflows to Africa are concentrated in the extractive industries. One of the respondents argues that empirical evidence shows that the extractive industries are the leading recipients of FDI capital inflows into South Africa. The mining industry is one of the industries where FDI is most concentrated.

Nevertheless, the mining industry is under pressure, due to the crash in commodity prices and rising production cost in South Africa, including labour and energy costs. Consequently, the inflow of investment to the industry has reduced. The mining industry has to accelerate the move towards mechanisation in order to increase production efficiency and reduce costs. It is predicted that future investment in the mining industry will be driven by mechanisation and other efforts to improve production efficiency, provided there is an improvement in the regulatory framework.

5.5.5 Market size and economic growth

Results show that the size of the South African market and the purchasing power of consumers have a positive impact on inward FDI inflows. Market size growth promotes inward FDI in South Africa. Growth is driven by middle-class expansion and rising income levels. Although the South African market is small by global standards, it is the second biggest economy in Africa and it has the highest GDP per capita. Therefore, for investors seeking a presence in Africa, South Africa is an attractive market.

These findings are in agreement with the literature which indicates that in Africa, FDI is attracted to large markets and large urban populations (Ajayi, 2006; Anyanwu, 2012). Fedderke and Romm (2006) found panel data evidence that FDI inflows are highly elastic to market to GDP growth in South Africa. Similarly, Ajayi (2006) shows that market size has a positive effect on FDI inflows in Sub-Saharan Africa.

Although, economic growth in South Africa has been anaemic since the global financial crisis in 2008 and the forecast is 1.3 percent GDP growth for 2015

(World Bank, 2015b), South Africa benefits from robust growth in the rest of the continent. Growth in the rest of the continent has a positive effect on inward FDI inflows to South Africa because foreign Investors view South Africa as a market within the continent. One of the respondents points out that,

> *"investors never see South Africa as an island but, always as a market with the continent at least the Sothern region and generally, Africa is growing promisingly." (Interview: Respondent 2)*

This finding is in line with the literature Dupasquier and Osakwe (2006) argue that assessment of the whole continent affects investment prospects of sovereign states in Africa.

Currently, Africa is amongst the fastest growing regions in the world with a growing middle class and increasing income levels. Regardless, the main attraction for market-seeking FDI is to gain access to the South African market. South Africa is the second largest economy in Africa and it is the most sophisticated and advanced market on the continent.

> *The major driver for multinationals investors investing into South Africa is access to the market, particularly the South African market".* (Interview: Respondent 2)

5.5.6 Availability of skilled labour and labour Relations

The shortage of skilled labour and volatile labour relations are a major deterrent to investment inflows. Low productivity rates in South Africa can be linked directly to poor industrial relations and the poor standard of education, especially primary and secondary education. Industrial relations featured strongly as a deterrent to inward investment in South Africa. The volatile labour relations have a significant impact on productivity, consequently, on inward FDI.

Protracted and destructive strikes, most common in the mining and metal industries of South Africa, evoked strong reactions and condemnation by some respondents, arguing that the strikes halt production. Production losses spanning several weeks cannot be recovered, especially on products intended

for the export market. Strikes have a highly damaging impact on productivity. Comparatively, South Africa loses a high number of man-days annually due to strikes. These findings reinforce the literature; Faeth (2009) found that the availability of skilled, efficient labour encourages inward FDI and Akpansung (2013) argues that the availability of a relatively low costs and efficient labour force is an important factor in determining the inflow of FDI into a country.

5.5.7 Labour costs

The study found that the high cost of labour and relatively low productivity deter inward FDI in South Africa. The cost of labour is relatively higher than in other middle-income countries. One of the respondents argues that East Asia is more productive and the cost of labour is lower than in South Africa.

The problem in South Africa is not necessarily the high cost of labour but the low productivity rate. For instance, the cost of labour is relatively low, compared to Europe or North America. However, in those regions, the labour force is highly skilled and productivity is much higher, enabling them to manufacture high-value products. Furthermore, South Africa does not have the skills nor the technology to manufacture high-value products.

Furthermore, the labour market in South Africa lacks flexibility because of the presence of very strong and powerful trade unions. Secondly, wage demands are not related to productivity and do not consider the impact of exogenous factors on industry. Wage increase demands in the mining sector do not reflect the collapse in commodity prices. These findings reinforce the findings by Fedderke and Romm (2006), who found that the cost of labour has a highly negative impact on inward FDI in South Africa. In other developing countries, Birsan and Buiga (2009) argue that increasing labour cost have a negative impact on FDI inflows in Romania.

5.5.8 Trade Policy

South Africa’s openness to trade, evaluated based on trade agreements and trade preferences has a positive impact of inward FDI. The trade preference

between the United States and African countries (AGOA) strongly encourages inward FDI to South Africa. A number of foreign investors place their production facilities in South Africa with the aim of accessing the US market.

A possible explanation for the positive impact of AGOA on inward FDI to South Africa is the access it provides to the US market, the largest and most competitive market in the world. The exemption from import duty removes barriers and it enables South African suppliers to overcome some of the comparative disadvantages in South Africa.

The study found that regional trade agreements such as SACU and SADC also encourage inward FDI. However, the impact of SACU on inward FDI into South Africa is minimal, because the other four member states have very small economies compared to South Africa. On the other hand, the SADC trade agreement has a larger impact in promoting foreign direct investment into South Africa because it provides access to a much larger market. The proposed TFTA agreement is expected to boost investment into the region once implemented. It will give South African producers access to a market of 600 billion people.

This finding supports the literature; trade openness encourages FDI inflows into South Africa (Fedderke & Romm, 2006; Gossel & Biekpe, 2015) and Sub-Saharan Africa (Aside 2002), although it contradicts Anyanwu (2012) who argues that trade openness has a negative impact on FDI inflows to Africa. However, it supports his argument that countries that are export oriented attract more FDI.

Surprisingly, one of the respondents argues that trade agreements have no impact on investment flows into Africa, arguing that Africa will only benefit from a continent-wide trade liberalisation, elimination of trade barriers within the continent and a common currency. An integrated Africa will diversify industry, and enable the continent to trade with itself and eliminate the cost of currency conversion. An explanation for this observation is that trade agreements do not usually facilitate trade between countries with similar economic characteristics. While this applies to most of Sub-Saharan Africa whose economies are largely dependent on agriculture, oil and gas or mining, South Africa is in a unique

position because its economy is diversified. Thus, it can be argued that South Africa stands to benefit the most from integration and free trade in the continent.

5.5.9 Geographic Location

Three of the respondents cited South Africa's geographic location as a determinant of FDI. However, there are contradictory views on its impact. One of the respondents argues that South Africa's geographic location at the Southern tip of the African continent deters FDI inflows because it places it far from major markets of Europe, North America and Asia. However, two of the respondents argue that South Africa's geographic location is an advantage because the majority of goods are transported by sea and South Africa is a coastal country.

This study concludes that South Africa's geographic location is an advantage, solely because of the lack of infrastructure such as large ports and rail networks to move goods across the continent in other parts of Africa. Therefore, its coastal line encompassing both the Indian and Atlantic oceans, the availability of infrastructure including some of the busiest and the biggest cargo ports in Africa and air linkages with the major cities of the world offers South Africa an advantage and it enables it to overcome the disadvantage of its geographic location. Therefore, geographic location is only an advantage in combination with other comparative advantages.

5.5.10 Financial Market Development

To a degree, South Africa's developed financial markets encourage FDI inflows in the country. These findings are in agreement with Aregbeshola (2014), who found that the extent to which a country attracts FDI is influenced largely by the development of its financial markets. He argues that countries with developed markets attract more FDI because investors are able to finance part of the investment through equity or debt from the home country.

On the contrary, South Africa is among the most developed and best regulated financial markets in the world, ranked 12th in the global competitive index (Word

Economic Forum, 2015). Yet, it lags behind other emerging markets in its ability to attract FDI. South Africa attracts more portfolio inflows than FDI due to the low risk in portfolio investments; it is easier to withdraw the investment very quickly. This is corroborated by Gossel and Biekpe (2015), who argue that capital inflows to South Africa mostly consists of portfolio investments and other short-term investments rather than FDI.

It can be argued that South Africa's developed financial markets divert investment from greenfield FDI projects to the stock and bond markets. Some of the biggest FDI transactions in South Africa are mergers and acquisitions of listed companies such as South Africa Breweries, Massmart, Standard Bank, ABSA and other JSE listed companies. This argument supports the argument by Anyanwu (2012) that financial market development has a negative impact on FDI inflows.

5.5.11 Market structure

The generally oligopolistic and monopolistic market structure of major industries in South Africa encourages FDI. Although, this factor was not observed as a determinant for FDI in literature, a possible explanation for this finding is that South Africa had been isolated from the world during the embargo in the 1980s and many companies that dominated, enjoyed support from the government and many of the industries were either dominated by monopolies or oligopolies that usually colluded and fixed prices. The opening up of the economy has attracted MNCs that operate in very competitive markets such the United States and are able to adapt, innovate and out-compete the incumbents.

5.5.12 Culture, crime and lack of information

The South African culture, the high levels of crime and lack of information have an impact on FDI inflows. However, these factors did not occur strongly as themes in the results or in the literature. A possible explanation is that most of the respondents interviewed were either economists or financial analysts and social factors do not feature in their empirical models. In addition, the literature

available on the subject of FDI is empirical in nature and, therefore, would not measure the impact of social factors. Although social issues are not central in a corporation's decision making process, it may be a differentiation factor when evaluating South Africa against a country with a similar economic advantage.

South African culture and the use of English as the language of business makes it attractive to investors from the UK and other commonwealth countries. These investors are encouraged to invest in South Africa because of cultural similarities, common laws and a common language.

> *"Expatriates find South Africa to be a pleasant and benign place to live"*. (Interview: Respondent 7)

One of the respondents argues that the bulk of capital investments into South Africa originates from the United Kingdom. This argument corroborates literature, foreign investment into the continent is based on colonial ties (Darley, 2012).On the other hand, the high level of crime in South Africa has a negative impact on FDI.

There is a general lack of interest and information about Africa, among international investors. Investors already invested in South Africa understand the issues, challenges and opportunities present in the country. However, for investors without any presence in Africa, the continent does not usually feature in their considerations. Some of the respondents argue that there is an "African tax" associated with being in Africa. This is in line with the literature, Sichei and Kinyondo (2012) assert that most African investment agencies are small and under-resourced and lack the capacity to provide information and support to investors.

5.5.13 Gateway into Sub-Saharan Africa

The gateway (entry point) effect has a positive impact in encouraging investment to South Africa. South Africa has a comparative advantage over other countries in Sub-Saharan Africa: it is the most industrialised country on the continent, its economy is diversified, and it has a strong legal framework.

The availability of infrastructure and a relatively sophisticated labour force gives it a comparative advantage. The financial sector in South Africa is among the best in the world and it is well integrated with the rest of the continent.

These advantages attract multinational companies to set up their regional headquarters in the country. It can be argued that the size and the growth of the African market promote inward FDI in South Africa, in addition, the fragmentation of the African continent, characterised by 54 states with relatively small populations necessitates the need for a regional centre to co-ordinate supply chains.

Nevertheless, South Africa faces increasing competition from East and West Africa, especially East Africa, due to the increasing deregulation and political stability in those markets and the growing perception that South Africa's regulations are becoming onerous and unstable, leading to caution among the investor community.

5.6 Conclusion

These results lead to the conclusion that there are mainly two strategic motivations for inward investment in South Africa: market-seeking and resource-seeking. However, there is some element of efficiency-seeking FDI that is reinforced by the other two types. Although South Africa's GDP growth is sluggish, the country benefits from strong economic growth in the rest of the continent, which is amongst the fastest growing regions in the world. Thus, companies invest in South Africa with the intention of accessing the domestic market but also the broader Sub-Saharan market. In addition, the availability of infrastructure, the presence of other industries and the growing middle class encourage market-seeking FDI. As expected, South Africa attracts large volumes of resource-seeking FDI due to large mineral deposits in the country.

This study found that inward FDI in South Africa is pushed by the need to secure natural resources, proximity to markets, saturated markets and competition in the home country and, in some countries, influence by domestic governments.

On the other hand, there are a number of factors that determine the inflow of foreign investment in South Africa. The availability of adequate infrastructure, investments in infrastructure, a relatively skilled labour force, the protection of property rights, availability of mineral resources, openness to trade, market size and economic growth on the continent encourage inward investment. However, policy uncertainty, high labour costs coupled with low productivity, infrastructure constraints and the high cost of infrastructure deter investment.

There is a rising concern in the business community and amongst investors that regulations are becoming onerous; perhaps what is more disturbing is the rate at which policy is changing and the lack of clarity on the policy direction being pursued. In addition, there is a growing perception that property rights are systematically being eroded. This uncertainty in policy direction limits investment in South Africa, both domestic and foreign. Investors are resilient and can overcome even unfavourable policies if they can be accounted for in the return on investment. Nevertheless, policy uncertainty and regulations that are constantly changing makes it impossible to plan and it discourages investment.

The mining industry is one of the most important industries in South Africa. It is a major source of foreign revenue and investment. It absorbs a large number of the workforce and it draws a high volume of inward FDI. On the other hand, production costs in the mining industry have escalated due to a number of factors; including rising energy, labour costs and low productivity as a result of recurring protracted industrial action. Moreover, the industry is under immense pressure caused by the decline in commodity prices. These factors have led to the decline in inward FDI in the mining industry.

The availability of adequate and integrated infrastructure has a positive impact on FDI into South Africa, due to the high level of development compared to other African nations. However, the high cost of infrastructure has a negative impact on inward investment. In addition, infrastructure constraints limit inward FDI. The high cost of labour and relatively low productivity and volatile labour relations deter inward FDI in South Africa. The cost of labour is relatively higher than in other middle-income countries and the labour market is inflexible.

Labour relations in some industries are extremely volatile as characterised by protracted and destructive strikes most common in the mining and metal industries of South Africa. All these factors discourage investment in South Africa

On the other hand, South Africa's openness to trade encourages inward FDI. The positive impact of AGOA in encouraging inward FDI featured strongly in the results, a number of foreign investors place their production facilities in South Africa with the aim of accessing the US market. Regional trade agreements also have a positive impact in attracting inward investment.

Finally, these comparative advantages attract multinational companies to set up their regional headquarters in South Africa. It is an entry point from where they can launch their expansion efforts into the rest of the sub-continent. Nevertheless, South Africa faces increasing competition from East and West Africa, especially due to growing perception that South Africa's regulations are becoming onerous and the policy direction is unclear.

CHAPTER 6. CONCLUSIONS & RECOMMENDATIONS

6.1 Introduction

Conclusions of the study are made in this Chapter. Lastly, recommendations and suggestion for future research are made.

6.2 Conclusions of the study

The findings of this study are generally in line with the literature. South Africa, like most African countries, attracts market-seeking and resource-seeking FDI. However, due to a comparatively high level of development and the availability of infrastructure, government incentives and a relatively skilled labour force, South Africa also attracts what might be classified as efficiency-seeking FDI. South Africa generally lags behind other middle-income countries in its ability to attract FDI. However, in Sub-Saharan Africa, it offers the most favourable environment for business.

South Africa is in a unique position, due to its unusual characteristics. Infrastructure constraints, a relatively small consumer market, the lack of a skilled labour force and policy uncertainty and the shift towards onerous regulations make it difficult for business to operate. However, in the context of Sub-Saharan Africa, it is by far the most attractive FDI destination. South Africa, Nigeria and Angola are the leading recipients of FDI in Africa. However, FDI in the other two countries is concentrated in the oil and gas industry. South Africa is the most advanced, diversified and second largest economy on the continent, after Nigeria, which has a population more than three times its size.

Regional integration and the development of infrastructure are some of the key determinants of FDI into South Africa. Due to its comparative advantage, South Africa is well positioned to take advantage of these investments. South Africa needs to orientate its package around its position as a gateway into Sub-Saharan Africa.

6.3 Recommendations

Africa has a robust growing population constituting 15 percent of the global population, a GDP of 1.1 trillion US dollars. It is home to some of the fastest growing economies in the world. This large market and its potential cannot be overlooked. The African market present opportunities for investors seeking to exploit new opportunities. Consequently, Africa benefits from the injection of capital, skills transfer and the absorption of the labour force.

The South African government must create a conducive environment for investment; this will enable it to retain its position as a leading destination for FDI on the continent. It needs to build on its strengths to bolster its position as a gateway into the rest of the sub-continent. However, it is an imperative for South African policy makers to formulate clear and well thought through policy, follow through on its implementation and create a regulatory environment conducive for business. The South African government cannot continue to formulate policy in a vacuum consultation between the various government departments, business, labour and civil society is crucial in creating an environment conducive for investment.

The government of South Africa needs to take the matter of policy certainty more seriously; in his medium-term budget the Minister of Finance asserted that cabinet has undertaken to strengthen policy certainty, “all future legislation will be subject to a socioeconomic impact assessment to mitigate unintended consequences” (National Treasury, 2015, p. 8). This is a step in the right direction as co-ordinated effort across all government departments and oversight is required to ensure that government sets a clear policy direction and follows through on its implementation. One of the leading factors of uncertainty is that the government formulated the NDP which was a progressive framework aimed at encouraging growth and employment through investment. However, the perception is that the NDP is not being implemented.

While most of the deterrents to inward investment are structural and will take years and, in some cases, decades to resolve, for example, infrastructure constraints, regional integration and the skills shortage. A major deterrent at

present is the uncertainty in government policy and regulatory frameworks. Political will and a common vision, cooperation between government, business, labour and society at large are required to get South Africa back on a growth path.

Given the importance of the mining and mineral processing industry to the economy of South Africa, it is important that the government maximises investment into this industry, by ensuring that as far as possible both primary and secondary processing and beneficiation are carried out in South Africa. The government needs to take a deliberate action to attract investors into the industry for beneficiation purposes. This will have more impact on growth and employment in the country. However, beneficiation requires a skilled labour force. Thus, deliberate and purposive action is required to improve the standard of education in the country. On the other hand, there is a need to make the mining industry competitive, internationally. This can only be achieved through increased productivity. Mining companies have no alternatives other than mechanisation to improve productivity and produce at a price where they can be competitive internationally. The government needs to encourage this to retain the inflow of investment. It needs to ensure that the labour force is trained to operate these sophisticated pieces of equipment.

The South African government needs to put more effort in improving the quality of primary and secondary education and providing more access to tertiary education, in order to develop a skilled labour force that can attract investment. South Africa's network of quality infrastructure is a major attraction for investors. Therefore, it is important that this network is well managed and upgraded to meet the demands of a growing economy.

Governance structures are failing to create conducive labour relations in South Africa, complete transformation of the labour regime is required - one that involves communication and working towards common goals by business and labour. Business needs to bring labour to the table and create a transparent environment where business strategies are discussed, for example, in Germany labour, representation is legally mandated as part of corporate governance (Fauver & Fuerst, 2006). Corporate governance in Germany includes a two-tier

board system where employee representatives sit in the supervisory board and are involved in the decision-making process (Fauver & Fuerst, 2006). This study finds that transparency and a consultative approach to labour relation are required in South Africa. Furthermore, Government intervention and leadership is required to limit the duration of these strikes. In addition, there are structural inadequacies in the South African economy, for example, workers in South Africa spend 17 percent of their income on transportation. The government needs to invest in mass transport infrastructure to transfer people to work quickly and cost effectively.

African governments need to increase their efforts to integrate the continent, promote intra-Africa trade and the free movement of goods. Integration is essential to bolster investment because African markets are highly fragmented and most countries are very small. Although, there are positive moves being made in this regard, such as the TAFT, a sense of urgency is needed to integrate the most fragmented continent in the world. South Africa stands to benefit the most from regional integration and the free movement of goods because it is the most developed and industrialised country in Africa. Therefore, policymakers should push for more integration in the region and the continent to facilitate trade and improve the ease of doing business. This will enable South Africa to attract more FDI.

Following the Chinese model, South Africa needs to be strategic and deliberate when implementing policies to promote FDI. It needs to keep abreast with the rest of the world which is fast changing, highly competitive and integrated (Asiedu, 2004).

6.4 Suggestions for further research

This study found that in South Africa, government policy is a key determinant of FDI. It found that unclear government policy is the major deterrent to FDI inflows. This research can be followed by a study to investigate the effect of economic policy on FDI inflows in post-apartheid South Africa that examines the impact of major economic policy frameworks such as the Reconstruction and

Development Plan (RDP), Growth Employment and Redistribution (GEAR), Accelerated Shared Growth Initiative for South Africa (ASGISA), the NDP and the National Growth Path.

It would be interesting to find out how the determinants of FDI identified in this study affect the rate of domestic investment, the outflow of FDI and divestment from South Africa. Thus, studies investigating the effect of the various determinants of FDI on domestic investment and outward investment in South Africa are recommended.

REFERENCES

Adams, K., Debrah, Y. A., Williams, K., & Mmieh, F. (2014). Causes of financial FDI inflows into Sub-Saharan Africa (SSA): Evidence from Ghana. *Thunderbird International Business Review, 56*(5), 439-459.

Adams, S. (2009). Foreign direct investment, domestic investment, and economic growth in Sub-Saharan Africa. *Journal of Policy Modeling, 31*(6), 939-949.

Adefeso, H., & Agboola, A. (2012). Determinants of foreign direct investment inflows in Nigeria: An empirical investigation. *International Business Management, 6*(1), 83-89.

Ajayi, S. I. (2006). The determinants of foreign direct investment in Africa: A survey of the evidence. In S. I. Ajayi (Ed.), *Foreign Direct Investment in Sub-Saharan Africa: Origins, Targets, Impact and Potential* (pp. 25-46). Nairobi: African Economic Research Consortium.

Ajide, K. B. (2014). Determinants of foreign direct investment in ECOWAS countries: The roles of governance and human capital. *The Empirical Econometrics and Quantitative Economics Letters, 3*(2), 61-74.

Akinlo, T., Akinsokeji, R. A., & Oziegbe, T. R. (2013). Determinant of foreign direct investment in ten African countries: A panel data analysis. *Asian Journal of Business and Management, 1*(5), 232-237.

Akpan, U. S., Isihak, S. R., & Asongu, S. A. (2014). Determinants of foreign direct investment in fast-growing economies: A study of BRICS and MINT. *African Governance and Development Institute WP/14/002*.

Akpansung, A. O. (2013). Motives and determinants of foreign direct investments: A survey of literature. *European Journal of Humanities and Social Sciences, 28*(1), 1477 - 1495.

Anyanwu, J. C. (2012). Why does foreign direct investment go where it goes?: New evidence from African countries. *Annals of Economics and Finance, 13*(2), 425-462.

Aregbeshola, R. A. (2014). *Effects of capital market development on inflow of foreign direct investment to African countries.* (PhD thesis), University of the Witwatersrand, Johannesburg.

Asiedu, E. (2002). On the determinants of foreign direct investment to developing countries: is Africa different? *World Development, 30*(1), 107-119.

Asiedu, E. (2004). Policy reform and foreign direct investment in Africa: Absolute progress but relative decline. *Development Policy Review, 22*(1), 41-48.

Asiedu, E. (2006). Foreign direct investment in Africa: The role of natural resources, market size, government policy, institutions and political instability. *The World Economy, 29*(1), 63-77.

Attride-Stirling, J. (2001). Thematic networks: an analytic tool for qualitative research. *Qualitative Research, 1*(3), 385-405.

Birsan, M., & Buiga, A. (2009). FDI determinants: Case of Romania. *Transition Studies Review, 15*(4), 726-736.

Borensztein, E., De Gregorio, J., & Lee, J.-W. (1998). How does foreign direct investment affect economic growth? *Journal of International Economics, 45*(1), 115-135.

Bryman, A. (2012). *Social Research Methods* (Fourth ed.). New York: Oxford University Press.

Creswell, J. W., Hanson, W. E., Plano, V. L. C., & Morales, A. (2007). Qualitative research designs selection and implementation. *The Counseling Psychologist, 35*(2), 236-264.

Darley, W. K. (2012). Increasing Sub-Saharan Africa's share of foreign direct investment: Public policy challenges, strategies, and implications. *Journal of African Business, 13*(1), 62-69.

Dunning, J. H. (1998). Location and the multinational enterprise: a neglected factor? *Journal of International Business Studies, 29*(1), 45-66.

Dunning, J. H. (2001). The eclectic (OLI) paradigm of international production: past, present and future. *International Journal of the Economics of Business, 8*(2), 173-190.

Dupasquier, C., & Osakwe, P. N. (2006). Foreign direct investment in Africa: Performance, challenges, and responsibilities. *Journal of Asian Economics, 17*(2), 241-260.

Faeth, I. (2009). Determinants of foreign direct investment–a tale of nine theoretical models. *Journal of Economic Surveys, 23*(1), 165-196.

Fauver, L., & Fuerst, M. E. (2006). Does good corporate governance include employee representation? Evidence from German corporate boards. *Journal of Financial Economics, 82*(3), 673-710.

Fedderke, J. W., & Romm, A. T. (2006). Growth impact and determinants of foreign direct investment into South Africa, 1956–2003. *Economic Modelling, 23*(5), 738-760.

Frenkel, M., Funke, K., & Stadtmann, G. (2004). A panel analysis of bilateral FDI flows to emerging economies. *Economic Systems, 28*(3), 281-300.

Gohou, G., & Soumaré, I. (2012). Does foreign direct investment reduce poverty in Africa and are there regional differences? *World Development, 40*(1), 75-95.

Golafshani, N. (2003). Understanding reliability and validity in qualitative research. *The Qualitative Report, 8*(4), 597-606.

Gossel, S. J., & Biekpe, N. (2015). Push–Pull Effects on South Africa's Capital Inflows. *Journal of International Development*. http://dx.doi.org/10.1002/jid.3099

Groh, A. P., & Wich, M. (2012). Emerging economies' attraction of foreign direct investment. *Emerging Markets Review, 13*(2), 210-229.

Guba, E. G., & Lincoln, Y. S. (1989). *Fourth generation evaluation.* Newbury Park Sage.

Guest, G., Bunce, A., & Johnson, L. (2006). How many interviews are enough? An experiment with data saturation and variability. *Field Methods, 18*(1), 59-82.

Gwenhamo, F., & Fedderke, J. W. (2013). The composition of foreign capital stocks in South Africa: The role of institutions, domestic risk and neighbourhood effects. *Economic Modelling, 35*, 763-770.

Kimura, K. (2013). Outward FDI from developing countries: A case of Chinese firms in South Africa (Discussion Paper). Retrieved 14 December 2015, from Institute of Developing Economies, Japan http://ir.ide.go.jp/dspace/handle/2344/1212

Kinda, T. (2012). Foreign ownership, sales to multinationals and firm efficiency: the case of Brazil, Morocco, Pakistan, South Africa and Vietnam. *Applied Economics Letters, 19*(6), 551-555.

Leedy, P. D., & Ormrod, J. E. (Eds.). (2013). *Practical research planning and design* (10 ed.). Essex: Pearson

Leshoro, T. L. (2014). The effects of foreign resource inflow and savings on the economic growth of South Africa: A VAR analysis. *Journal of Economics and Behavioral Studies, 6*(3), 232-241.

Lu, J., Liu, X., & Wang, H. (2011). Motives for outward FDI of Chinese private firms: Firm resources, industry dynamics, and government policies. *Management and Organization Review, 7*(2), 223-248.

Lundahl, M., & Petersson, L. (2009). Post-apartheid South Africa: An economic success story? (Research Paper). Retrieved 14 December 2015, from UNU-WIDER https://www.econstor.eu/dspace/bitstream/10419/45144/1/61607588X.pdf

Mays, N., & Pope, C. (1995). Rigour and qualitative research. *British Medical Journal, 311*, 109-112.

Mebratie, A. D., & Bedi, A. S. (2013). Foreign direct investment, black economic empowerment and labour productivity in South Africa. *The Journal of International Trade & Economic Development, 22*(1), 103-128.

Merriam, S. B. (2002). Qualitative research in practice: A guide to design & Implementation. San Francisco: Jossey-Bass.

Moolman, C. E., Roos, E. L., Le Roux, J., & Du Toit, C. B. (2006). Foreign direct investment: South Africa's elixir of life? Retrieved 22 February 2015, from University of Pretoria - Department of Economics http://archivedpublicwebsite.up.ac.za/UserFiles/WP_2006_05.pdf

Mühlberger, M. (2012). Sub-Saharan Africa: The continent of the 21st century? *Deutsche Bank Research*. Frankfurt.

National Treasury, R. (2015). Medium Term Budget Policy Statement. Retrieved 30 October, 2015, from http://www.treasury.gov.za/documents/mtbps/2015/mtbps/MTBPS%202015%20Full%20Document.pdf#page=1&zoom=auto,-107,843

NDC. (2010). Executive Summary- NDP 2030: Our Future Make it Work Retrieved 20 February, 2015, from http://www.gov.za/sites/www.gov.za/files/Executive%20Summary-NDP%202030%20-%20Our%20future%20-%20make%20it%20work.pdf

Ni, B. (2013). *What determines inward FDI in China?* (PhD thesis), Osaka University, Osaka.

Odenthal, L. (2001). FDI in Sub-Saharan Africa. *OECD Development Centre,* (173). http://dx.doi.org/10.1787/438286177367

Onyeiwu, S., & Shrestha, H. (2004). Determinants of foreign direct investment in Africa. *Journal of Developing Societies, 20*(1-2), 89-106.

Qu, S. Q., & Dumay, J. (2011). The qualitative research interview. *Qualitative Research in Accounting & Management, 8*(3), 238-264.

Resnick, D. (2015). The political economy of Africa's emergent middle class: Retrospect and prospects. *Journal of International Development, 27*(5), 573-587.

Seyoum, M., Wu, R., & Yang, L. (2015). Technology spillovers from Chinese outward direct investment: The case of Ethiopia. *China Economic Review, 33*, 35-49.

Sichei, M. M., & Kinyondo, G. (2012). Determinants of foreign direct investment in Africa: A panel data analysis. *Global Journal of Management and Business Research, 12*(18), 85-96.

Silverman, D. (2001). *Interpreting qualitative data: Methods for analyzing talk, text and interaction* (Third ed.). London: Sage.

Sompondo, Y. (2013). *Perceptions of the impact of labour market flexibility on foreign direct investment in South Africa* (Masters thesis), University of the Witwatersrand, Johannesburg.

UNCTAD. (2014a). Economic development in Africa report 2014 : Catalysing investment for transformative growth in Africa. Retrieved 15 May 2015, from http://unctad.org/en/PublicationsLibrary/aldcafrica2014_en.pdf

UNCTAD. (2014b). Inward and outward foreign direct investment stock, annual, 1980-2013 Retrieved 15 June, 2015, from http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=89

UNCTAD. (2015). Foreign direct investment. Retrieved 22 February, 2015, from http://unctad.org/en/Pages/DIAE/Foreign-Direct-Investment-%28FDI%29.aspx

Wei, Y. (2003). Foreign direct investment in China. Retrieved 22 September 2015 from Lancaster University Management School http://eprints.lancs.ac.uk/48553/1/Document.pdf

Word Economic Forum. (2015). Competitiveness rankings. Retrieved 21 October 2015, from http://reports.weforum.org/global-competitiveness-report-2015-2016/competitiveness-rankings/

World Bank. (2015a). Foreign direct investment, net inflows (% of GDP). Retrieved 14 January 2016, from http://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS

World Bank. (2015b). South Africa: Data Retrieved 14 January 2016, from http://data.worldbank.org/country/south-africa

APPENDIX A: RESEARCH INSTRUMENT

The research instrument is an open-ended questionnaire

1. In your opinion, what are the strategic motivations that drive multinational corporations to invest in foreign markets?
2. In your opinion, what are the macroeconomic factors in the home country that drive FDI outflows to South Africa?
3. Which industries are investors mostly interested in investing in South Africa?
4. In your opinion, what are home country macroeconomic factors that deter investments to South Africa?
5. What makes South Africa attractive to foreign investors?
6. What deters foreign direct investment to South Africa?
    i. What is the impact of electricity shortages on investment inflows to South Africa?
    ii. In your opinion, what impact do regional free trade agreements have on foreign investment into South Africa?
    iii. How do constraints in the rail network and port infrastructure affect investment into the country?
    iv. Why is South Africa successful at attracting portfolio inflows and other volatile forms of investments rather than FDI?
    v. What is the impact of the ongoing strikes on investment into South Africa?
7. In your view, what is South Africa's competitive advantage in attracting global FDI inflows?

8. In your opinion, how effective are government intervention policies in improving South Africa's attractiveness to foreign investors?
    i. If not, what measures can policy makers take to make policies more effective?
9. In your opinion, what measures can South Africa take to improve its attractiveness to FDI inflows?
10. Why is Africa, as a whole failing to attract large volumes of foreign direct investment as compared to other developing regions?

APPENDIX B: CONSISTENCY MATRIX

Research problem stated here: The purpose of this study is to identify strategic motivations that drive foreign investors to invest in South Africa. It will also identify factors that determine South Africa's attractiveness to foreign investors and factors that deter investment inflows.

Research Design: Qualitative analysis – Semi-structured interviews

Sub-problem	Literature Review	Research questions	Source of data	Type of data	Analysis
The study seeks to identify strategic motivations that drive foreign direct investors to invest in South Africa and to identify the type of FDI that flows into South Africa	Dunning (1998), Faeth (2009) Anyanwu (2012) Sichei and Kinyondo (2012) Akpansung (2013) K. Adams et al. (2014)	What are the strategic motivations and the type of inward FDI in South Africa?	Interviews	Primary, Textual	Thematic analysis
The study seeks to identify push and pull factors that determine South Africa's attractiveness to foreign direct investors and factors that deter investment inflows	Asiedu (2006) Fedderke and Romm (2006) Darley (2012) Gwenhamo and Fedderke (2013), K. Adams et al. (2014) Gossel and Biekpe (2015)	What are the push and pull factors that attract or deter FDI inflows into South Africa?	Interviews	Primary, Textual	Thematic analysis