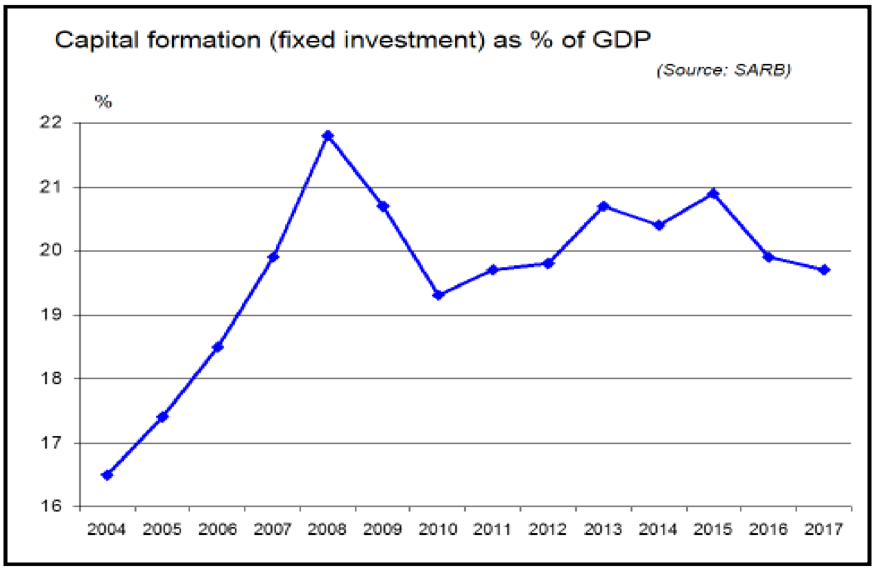
Progress with foreign direct investment target

Dr Roelof Botha, Joint Managing Director, GOPA Group SA *30 July 2018*

In April, South Africa's new president set an ambitious target for attracting foreign investors to South Africa, namely $100 billion in new investments over a period of five years.

Announcing the formation of a so-called "SA Investment Team", Mr Ramaphosa acknowledged that a tough task lay ahead to reverse the downward trend in foreign direct investment (FDI) into the country.

During the latter part of Mr Zuma's presidency, inward FDI as a percentage of GDP declined to an all-time low of less than one per cent, whilst domestic capital formation declined from 21.8% of GDP in 2008 to 19.7% in 2017.



Tough task ahead

An arduous task lies ahead for South Africa's special envoys on investment, which include Mr Trevor Manuel, former Minister of Finance; Mr Mcebisi Jonas, former Deputy Minister of Finance; and Mr Jacko Maree, Chairman of Liberty Group and former CEO of Standard Bank.

During the disastrous tenure of Mr Zuma, potential investors were scared off by a shift towards an over-regulated economic environment and the prevalence of corruption and state capture. Scrutiny of the latest Global Competitiveness Report (GCR), published by the World Economic Forum (WEF) reveals a number of the multitude of tragic legacies of the Zuma administration.

South Africa's global competitiveness rankings for several key indicators that are regularly scrutinised by multi-national corporations were eroded as a direct result of policy uncertainty and mismanagement of the economy, including the following declines (between 2008 – out of 134 countries, and 2017 – out of 137 countries):

- Property rights: from 20 to 56
- Favouritism in decisions of government officials: from 50 to 127
- Efficiency of government spending: from 29 to 103

- Transparency of government policymaking: from 29 to 74
- Cooperation in labour-employer relations: from 119 to 137

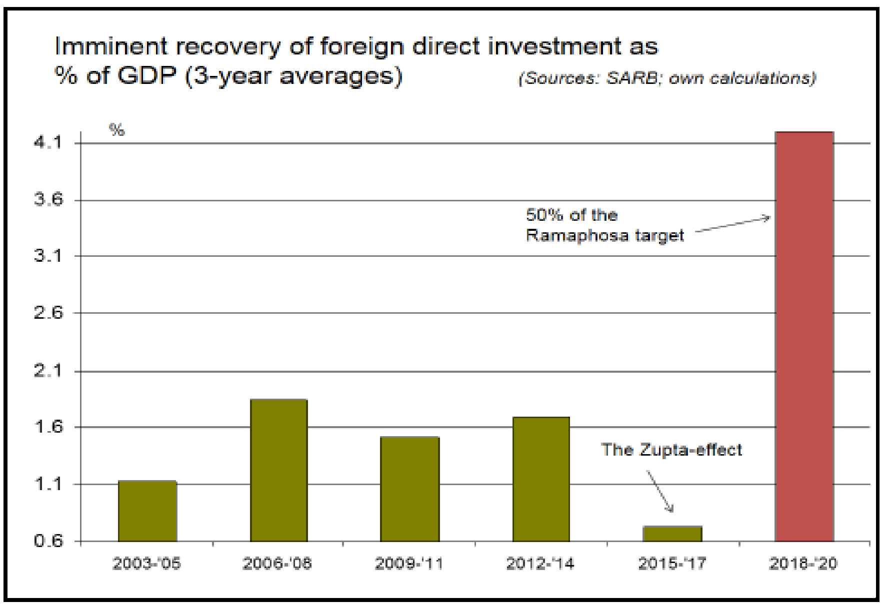
It will take a lot of convincing to entice investors back to South Africa's shores, especially against the backdrop of an increasing competitiveness amongst emerging markets. With the exception of a handful of so-called "failed states" (Zimbabwe and Venezuela are recent examples), every single developing economy is attempting to attract larger inward flows of FDI.

Advantages of FDI

The reasons are not difficult to find, as FDI represents the trigger for a sequence of activities that benefits a recipient country's economy. Firstly, the inflows strengthen the balance of payments and assists in stabilising any exchange rate turbulence.

Secondly, FDI is generally associated with the expansion of GDP and employment creation. In most instances, a measure of skills transfer also takes place and the increased volume of production allows economies of scale to place downward pressure on cost-push inflation.

Ultimately, however, the major advantage of FDI lies in the broadening of a country's taxation base – a fiscal bonus that provides government with additional resources to engage in service delivery programmes, infrastructure creation and poverty alleviation.



To the utter dismay of cynics, significant progress has already been made by Mr Ramaphosa in attracting meaningful investments into the country. Within merely four months of announcing the target of $100 billion, he has already secured more than a third of this figure from countries such as Germany, the UK, Saudi Arabia and the United Arab Emirates.

With a bit of luck, the 50%-mark can be surpassed during the forthcoming National Investment Conference, planned for later this year.