

Understanding the Role of Foreign Direct Investment in the Economic Development of South Africa

A Dissertation

Presented to

The Development Finance Centre (DEFIC)
Graduate School of Business
University of Cape Town

In partial fulfilment
of the requirements for the Degree of
Master of Commerce in Development Finance

By

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March 2019

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ACKNOWLEDGEMENT

All praise to God, the Almighty for the gift of life and protection

Secondly, to my mother, Grace Dimakatso Mathlako for affording me the best education, I thank you and may God continue to bless you.

To my late brother Lazarus Itumeleng Mathlako, the wind beneath my wings. You have supported me from as far as I can remember. The word impossible did not exist in your vocabulary. Thank you for laying the foundation to all that I am today and will become in the future.

To my son, Neo, for being my sunshine, thank you for the smiles and happiness you bring into my life. I am in awe of how you want to follow in my footsteps; this is for you and your future siblings. The world is your oyster, you can be anything you want to be ngwanaka.

To my unborn son Itumeleng, I am honoured you choose me as your mom. We can't wait for your arrival.

To my nephew Moagi Lekaka, a constant reminder that Lazy was here. I love you to the moon and back. I am here for you always.

My dearest partner Thabo Kupa: your constant encouragement and support has kept me on this path. You wanted this for me more than I wanted it for myself because that is the kind of person you are, always putting our family first. Ngwatshipa, words cannot express the love I have for you.

I am grateful to Dr Abdul Latif Alhassan for his support and constant motivation, and for ensuring I stayed the course when I was ready to give up. Many thanks also go to my supervisors Prof. Nicholas Biekpe and co-supervisor Dr. Nyankomo Marwa for their guidance and patience throughout my learning process.

ABSTRACT

The focus of the study is to explore on the role of Foreign Direct Investment (FDI) in the Economic Development of South Africa. South Africa is a developing country and, just like other developing countries around the world, it requires FDI for its socio-economic and political development. Using the quantitative research methods, and following the descriptive analysis of data gathered from a questionnaire, the study is presented based on the relevant information gathered on the role of FDI on Economic Development of South Africa. This study found that FDI plays an important part within South Africa. Firstly, the study gathered information about factors that impact on the flow of FDI within South Africa. Amongst these factors there is the political nature of the country in which more stable political environment and the investment policies. FDI's within South Africa are a source of external capital which can lead to economic development. Furthermore, within the country, the study concludes that FDI leads to increased revenue and to the development of new industries. Technological advancements have also been brought about by FDI leading to the socio-economic development of South Africa. The study however concludes that within South Africa, FDI can be a hindrance to domestic investment since it challenges the survival of domestic industries. The thrust with FDI is the focus on resources and capital elsewhere other than the investor's home country. In this regard, FDI has a negative impact on the country's investment. Ideally, the rules that govern foreign exchange rates and investments negatively impact on the investing country. The study therefore recommends the adjustment of investment policies that attract investments, such as policies promoting fair business practices.

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LIST OF ACRONYMS

AGOA	American Growth Opportunity Act
GDP	Gross Domestic Product
FCI	Foreign Capital Investment
FDI	Foreign Direct Investment
FDIs	Foreign Direct Investments
FPI	Foreign Portfolio Investment
MNEs	Multi-National Enterprises
MNCs	Multi-National Corporations
TIDCA	Trade, Investment and Development Cooperative Agreement
TNE	Trans-National Enterprise
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organisation

CHAPTER ONE: BACKGROUND AND CONTEXT OF THE STUDY

1.1 Background and Context of the Study

There has been widespread debate within the development finance discourse on the role of Foreign Direct Investment (FDI) and its impact on the economies of developing countries. Does FDI have a direct impact to development or does it actually worsen the situation? These are among the questions asked by economists and interested stakeholders within the development discourse and macro-economic studies. However, various researches have highlighted that FDI plays an important role in the economies of developing countries. According to Blackwell (2018), during the past three decades, FDI has been used to complement the levels of domestic investments, access technology, and access to foreign markets and to increasing employment. This research, therefore, is a macro-economic study seeking to analyse the role of FDI on the economies of developing countries, with a specific focus on South Africa.

According to the World Bank (2015) direct investment “reflects the aim of obtaining a lasting interest by a resident entity of one economy (direct investor) in an enterprise that is resident in another economy (the direct investment enterprise).” FDI therefore can be understood as being an investment in a business by an investor from another country for which the foreign investor has control over the company purchased (OECD, 2017). FDI has become critical in the development of economies, both in the developing and the developed world.

FDI plays a vital role in the private investment which is arguably driving the economic growth around the world. As stipulated by Dabour (2015), policy-makers around the world are considering various policy blueprints and incentives to attract FDI and to ensure that it is consistent and compatible with the domestic economic development objectives. Understood, FDI is some investment made by a firm, company or organisation in one nation into business interests located in another country (Bureau of Economic Analysis, 2016). FDI is often made in open economies for these economies offer skilled workers and the above average growth prospects on the part of the investor (Azam, 2010). This is in contrast to regulated economies which throughout history have seen less FDI. Through its different methods, including opening up a subsidiary company or

through a joint operation with an international firm, FDI has proven to play an important role in economies of countries (Dabour, 2015)

Generally, FDI's are regarded as a catalyst for investment and economic development. In recent years, from 2010 arguably, South Africa has come up with increasing development policies in a bid to restructure the economy and achieve an improved economic standing. This has led to the investigation of such policies and the evidence suggest that some policies are targeted towards attracting FDI flows which have an influence on the economic growth and development.

Azam (2010) suggests that when a country attracts high FDI inflows, this could lead to potential acceleration of the economic growth over time. Adhikary (2011) argues that the volume of international capital and the magnitude of capital formation are essential factors for increasing a country's economic growth. From the period 2010 until 2017, the fastest growing economies of the world were located within the Southern Africa Customs Union (SACU) members, South Africa is a leading member within this customs union (The Economist, 2017). SACU is a customs union between South Africa, Namibia, Lesotho and Swaziland that are guided by the same laws in trade and exports. Furthermore, an increase of FDI inflows has been recorded into Sub-Saharan Africa from USD 29 billion in 2010 to USD 37 billion in 2012 (Unctad, 2012).

Suleiman *et al* (2013) are of the view that by, liberalising her economy for the influx of capital from developed countries, South Africa has thus witnessed an increase in the FDI inflows. South Africa experienced tremendous economic growth in the turn of the new millennium. According to Dabour (2015), the reduction of macroeconomic imbalances in the last several years has helped South Africa attract a wide base of FDI flows. Furthermore, the political system in which South Africa is seen to be a progressive democracy, has seen investments boost. All these factors have had an impact on the economic development of South Africa.

The economic development of a country is important to the creation of better living standards of its citizens. According to the Marxist theory of economic determinism as postulated by Blackwell (2018), understanding the economic layout of a society helps to determine the shape of the polity. This study thus focuses on the role of FDI in the economic development of South Africa.

1.2 Statement of the Problem

FDI has become an integral part of the development of developing economies. Sub-Saharan Africa has been described by the World Bank (2015) as being the least-developed continent in the world. One of the potential ways in which the continent can develop, therefore, is through the increased attraction of FDI inflows. As postulated by the UNCTAD Investment Report from the period between 1996 and 2016 however, there has been a decrease in the inflow of FDI by 10%. South Africa has ranked significantly high in receiving FDI flows within the African continent. According to the World Bank (2015), FDI in South Africa have been identified in areas such as the manufacturing and textile industry, tobacco, food and beverages, footwear and leather. Of importance to note, however, is that there have been inconsistencies in trying to maintain FDI levels, thus hindering the progressive development within the country.

The inconsistency between the FDI flows and the growth rate experienced by South Africa has prompted the need for empirical research into the role of FDI on the economies of developing countries. From a theoretical perspective it is generally accepted that FDI plays a significant role in the development of economies of developing countries. The empirical findings on this research therefore remain inconclusive. The study is an attempt to understand on the empirical relationship between FDI inflows into South Africa and their impact on economic growth and development.

1.3 Research Questions

This research seeks to answer the following questions:

- What is the role of FDI in stimulating economic development of South Africa?
- What are the effects of FDI on the economic development of South Africa?
- What mechanisms can be utilised for FDI to induce a positive impact on the economy of South Africa?

1.4 Research Objectives

The research seeks amongst other things the following objectives to:

- explore the role of FDI in stimulating the economic development of South Africa;
- determine the effects of FDI on the economic development of South Africa;
- understand the mechanisms that can be utilised for FDI to ensure positive impact on the economy of South Africa.

1.6 Purpose and Significance of the Study

The development of the economies of African countries, and of South Africa to be precise in light of FDI inflows has been a theoretically understood in the past. However, a more empirical research on the research problem has for many years been under-studied. This research seeks to understand the role of FDI on the economic development of South Africa. This research thus will add to the literature on the role of FDI on the economic development of South Africa.

Furthermore, this research will help policy-makers and politicians in South Africa to draft policies that protect their domestic markets and still attain considerable FDI inflows. This is so because, for a country to develop, it should have an open door policy that is attractive for investors. By offering recommendations on the research problem, this study will be helping on positive and progressive policies that policy makers should adopt.

1.7 Organisation of the Research

The study is divided into five sections. Chapter One of the study is the introduction focusing on the introduction on the research, the problem statement and the related objectives and questions that determine the way in which the study has been conducted.

The second chapter is the literature review, presenting information on scholarly texts and reference in relation to the study. The literature review is carefully structured to detail what the concept of FDI entails as well as the role of FDI in South Africa. The chapter also discusses the role of FDIs in the economic development of South Africa.

The third chapter presents the research methodology utilised in the collection and analysis of findings gathered within the research. The quantitative research technique and descriptive analysis, as part of the research design and methodology, are presented in this chapter.

The fourth chapter presents the data analysis and the findings of the study and the last chapter sets out the conclusion and recommendations of the study.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The previous chapter of the study focused on the introduction. Chapter Two builds from the previous chapter and in its capabilities, and focuses on the literature relevant within the study. This section is essential within any study for it describes the scholarly gap in literature that the current study seeks to fill. This chapter focuses on the role of FDI in the economic development of South Africa as well as formulating an understanding and development of the concept of FDI. This chapter will also consider the role of FDI in the economies of developing countries. This chapter also focuses on available and relevant literature on FDI inflows into South Africa. Furthermore, the chapter will discuss the effects of FDI on the economic development of South Africa and will also discuss the literature gap filled by the current study.

2.2 The Concept of Foreign Direct Investment (FDI)

There is no universal definition or understanding of what FDI entails. In most cases, the concept is understood from its determinants. However, according to the World Bank (2015), direct investment “reflects the aim of obtaining a lasting interest by a resident entity of one economy (direct investor) in an enterprise that is resident in another economy (the direct investment enterprise).” What is this lasting interest? This interest shows that the relationship between the direct investor and the direct investment is essential for economic growth (World Bank, 2015).

According to the Organisation of Economic Cooperation and Development (OECD) (2017), FDI “is an investment in a business by an investor from another country for which the foreign investor has control over the company purchased.” In this case, control is defined as owning at least 10% or more of the business. Malcom (2013) postulates that business institution’s that make FDI are often termed as MNCs and MNEs.

2.2.1 Who are involved in FDI?

Of paramount importance is to understand the type of companies or organisations that are involved in FDI. Also of importance is to note the underlying assumptions motivating FDI. Bodies responsible for the regulation of FDIs, both local and international, are also vital to comprehend. This is important for it will help understand why there is no pattern to FDI flows within countries. In other words, this gives insights into why other countries report high inflows of FDIs more than others (Azam, 2010).

According to Jones (2016) MNEs are firms that are operating in more than one country and generating interests and profit margins. In this perspective, FDIs are used to measure the extent of the activity within the operations of MNEs.

Sethi et al. (2013) identify the major objective of MNEs in that, just like any other business entity, its profit maximisation through reduced costs. MNEs thus in drawing up their investment plans always consider the region or a country that has the likelihood of bringing the highest profit on investment and an environment suitable for the business to succeed.

In 1945, the United Nations (UN) Charter was ratified meaning that sovereign nations established an international organisation to promote their socio-economic and political interests. The UNCTAD is the principle organ of the UN dealing with FDIs. The UNCTAD was developed in 1964 with the goal of creating policies and procedures in place to attract FDI inflows in developing countries (UNCTAD, 2000). Among its specific functions include “providing technical assistance to developing countries with special attentions, to the needs of least developed countries and creating a forum for intergovernmental deliberations so as to have enabling an environment for FDI” (UNCTAD, 2000)

Arguably, most FDI flows are from industrialised countries such as Western Europe and America, China and Japan to the developing countries, mostly in South America and Africa. However, there are challenges with the policies and frameworks in developing countries as these countries have strict policies affecting their FDI inflows (OECD, 2017). There have been arguments over time for

the need for these countries to come up with development policies so as to ensure a controlled flow of FDIs.

2.2.2 Advantages of Foreign Direct Investment

It is worth noting that the advantages of FDIs are a matter of perspective. As stipulated by the OECD (2017), FDI in one instance provides great returns for the MNEs, but not for the host country. In contrast, the FDI can work to the benefit of the host country, depending on how the investment performs (OECD, 2017).

- ***Source of external capital***

FDI offers access to external capital. Since developing countries are characterized by lack of capital markets to access development projects, FDI can be an important source of external capital for developing countries, which can lead to economic development (OECD, 2017). In South Africa for example, FDIs have been an avenue towards improved external sources as MNEs invest in the country, thus paying taxes and other forms of revenue important to the South African economy.

- ***Increased revenue***

According to the World Bank (2015), tax revenue is generated from the activities and products of established corporations, taxes generated from corporation's employee income as well as tax on the purchase of a produced product. Governments of developing countries can thus use this capital infusion and revenues for economic growth. As of 2018, there was an increase in tax revenue from the inflow of FDIs by 1.3% and this reveals the importance of FDIs to the development of economies (Stats SA, 2019).

- ***Development of new industries***

Throughout history, the development of new industries is an advantage of FDIs. This is because MNEs do not fully own the foreign entity thus a local company can develop itself from doing business with the MNE (Malcom, 2013). Therefore, the host country gets to establish new industries and market. For instance, the South African economy has seen an increase in the

development of MNEs in healthcare facilities, technology, finance and in the food industry. This has increased the employment opportunities as industries are developing and goods and services within the country have become readily available.

- ***Valuable source of technology***

Another important advantage of FDI is that they lead to increased sources of valuable technology. According to Alfaro (2013), with the coming in of the Fourth Industrial Revolution and all technological advancements, there is a need for the developing world to associate with these technologies through interaction with developed countries. This can be achieved through increased FDI flows, as the MNEs and MNCs can invest in technology in developing countries.

- ***Development of human capital resources***

FDI increases human capital resources. Human capital is that competence and knowledge of workers to perform up-to their required expectations (Malcom, 2013). Ideally, the attributes gained by training and development add to worker experience which has an influence on organisational performance. Alfaro (2013) stipulates that policy makers have come to understand that this however is a gradual process which only produces results over time.

2.2.3 Disadvantages of Foreign Direct Investment

There some disadvantages which have been highlighted in the literature in relation to FDI. Some of them are listed below.

- ***Hindrance to domestic investment***

The thrust with FDI is the focus on resources and capital elsewhere other than the investor's home country. From this perspective, FDI at times hinders domestic investment (Lall, 2012). For instance, the reliance on FDI hinders the progress of domestic industries as these industries will be facing competition from international companies that produce goods in excess and on a cheaper price.

- **Risk from political changes**

There is an asymmetrical relationship in FDI flows where flows are from the developed into the developing world. This relationship, however, is characterised by political turmoil, FDI has been found to be risky (Lall, 2012). This in turn has led to less FDI in countries that have a history of political instability. This is in relation to countries such as Venezuela and the DRC where there have been revolutions

- ***Undesirable impact on the Investment policies***

Another disadvantage of FDI inflows is that they lead to an undesirable impact on the investment policies of the developing world. There are instances in the developing world where investment has been banned in a bid to protect domestic markets. In this case, it is impossible to pursue an inviting opportunity because of country policies (Alfaro, 2013).

2.3 The Role of FDI in the economic development and growth of developing countries

Potentially, FDI play a critical role in the in the development of emerging economies and from this perspective, Danning (2010) has stated that FDI are part of the theories used to explain on economic growth and development of countries. There are three broad issues that explain this assertion. They are:

- the reasons that push cooperation's to internationalize;
- the fundamental attributes of FDI; and
- the role of FDI in the growth and development of economies.

It is the third perspective of FDI which focuses on the country's welfare, including its general economic, social and technological development on which this paper focuses.

Empirical evidence suggests that FDI can have both a negative and positive impact on the economic development and growth of developing countries. Firstly, it is imperative to understand what the term 'developing country' entails? The international community often classifies countries based on their economic level of development, leading to classification of countries as developed,

developing and least-developed countries. According to Balasabramanyam (2006), even though there is no specific definition of a developing country and the World Trade Organization (WTO) allows for the country to define its own development status, developing countries are “those countries with a less developed industrial base and a low Human Development Index (HDI) relative to other countries”. The Gross Domestic Product (GDP) per capita of a country compared with other countries can also be a classification criteria.

Yuang (2012) is of the view that one measure of development is through the association of economic growth to human factors. Developing countries rely on FDI for economic growth and these countries can be understood being countries that are still yet to reach a developmental state (Sovacool, 2012). In other words, developing countries have in most cases, a low to medium standard of living. To the United Nations, the development status of a country is measured by the use of statistical indexes including income per capita, life expectancy, freedom index and the gross domestic product per capita.

According to Suleiman *et al.* (2013), FDI has a positive effect on the developing countries that have adopted the export-orientated strategy. This is in contrast to the negative impact of FDI on developing countries that have a strict import-orientated strategy. Pfaffermayr (2006) states that the main attribute underlying this assumption is the export orientation of MNCs. FDI play a significant role in technological diffusion on developing countries. According to Borensztein *et al.* (2008), FDI is a vital driving factor for the technological transfer which plays a more crucial role in the economic growth than domestic investment. Osano (2016) is of the view that FDI transmit technological knowledge. MNEs are essential in offering new technologies to the developing countries and building the capacity necessary for the development of these countries. However, this depends on the market and the ability to access complementary supporting activities in that these MNEs invest. According to Managi and Bwalya (2010), FDI is also an effective conduit for technology transfer through technology spillovers to domestically owned firms in the host country.

The benefits of FDI in the developing world are more pronounced or observed in the human capital perspective. Mitchie (2011) found that the impact of FDI on human capital enhancement is not directly linked to the efforts of MNEs, but rather by governments within the developing world

seeking to attract FDI through enhanced human capital. As stipulated by Maher (2010), once people are employed by MNEs and their subsidiaries, their human capital is further enhanced through mechanisms including training and development. Human capital thus is essential for it leads to higher productivity and profitability as a result of the increased capacity of the employees to perform their task (Mitchie, 2011). As once highlighted by UNCTAD:

“In an increasingly competitive environment for foreign investment capital, least developed countries should pay greater attention to the development of infrastructure, human resources and entrepreneurship which have a significant bearing on the locational choice of transnational corporations” (UNCTAD, 2000: 91).

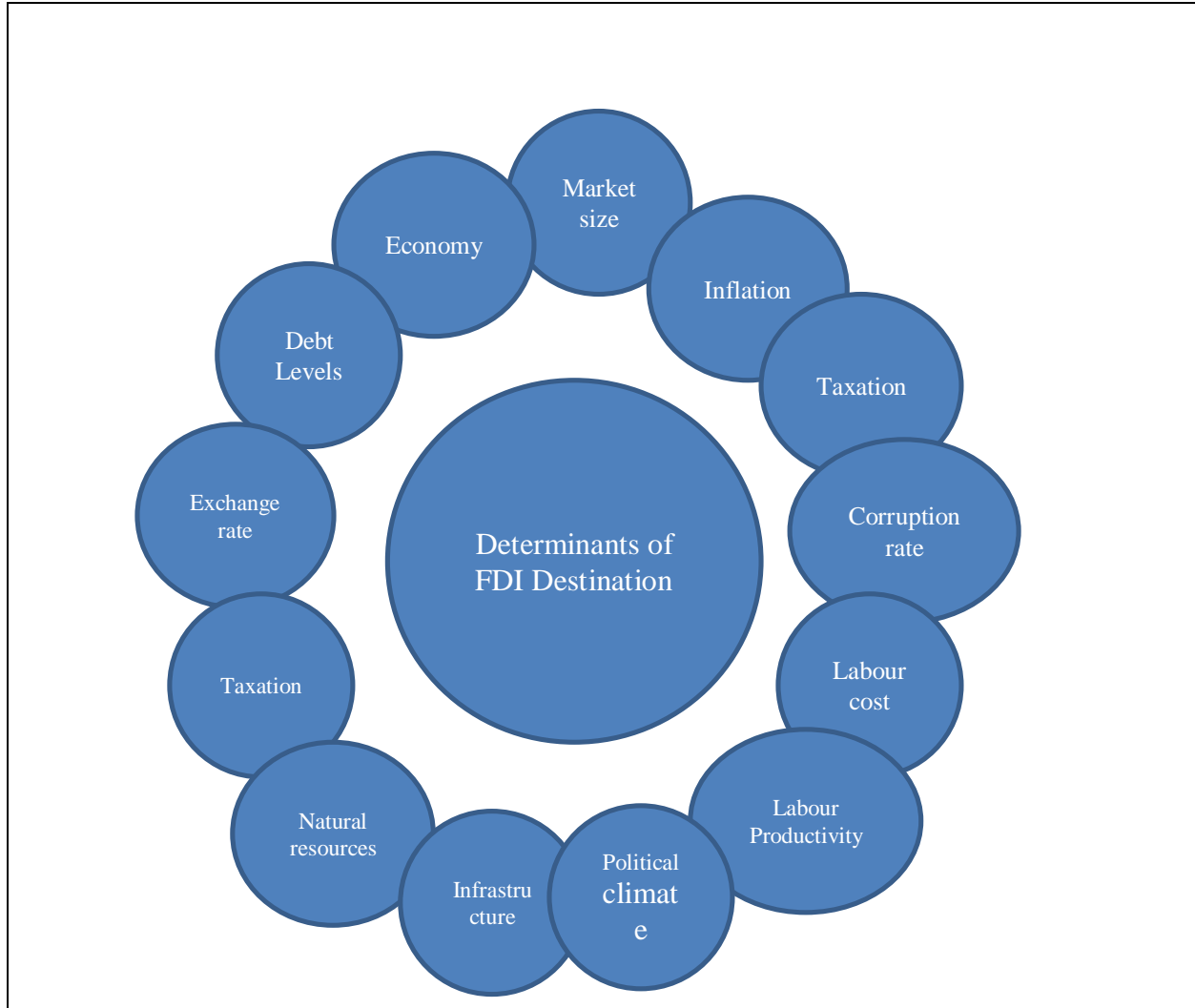
FDI thus has an effect in the economic development of developing countries by leading to enhanced human capital.

2.3.1 Determinants of FDI in Developing Countries

According to Alam and Shah (2013), there are determinants that play a critical role in enabling a country to attract high inflows of FDI. These are shown in Figure 2.1 below.

It is, however, worth noting that some determinants have a higher impact on the attraction of FDI. For example, the state of the economy plays a more pivotal role than inflation (Alam & Shah, 2013). Vermick (2015) adds to this and argues that in developing countries for example, the economy and market share influence investors to set out business on either a long-term or short-term basis. Developing countries require investors to establish businesses on a long-term basis. In terms of taxation, Alam & Shah (2013) argue that countries set up taxes to compete in the international markets. However, for FDI attraction, taxes should be reasonable. There are other macro-economic factors that play a part in FDI attraction including inflation, national debt levels, and real effective exchange rate, to mention but a few.

Figure 2:1 Determinants of FDI in developing Countries



Source: Vermick (2015)

2.4 Foreign Direct Investment and South Africa

It has been almost two decades since South Africa gained its independence, but socio-economic factors such as unemployment, poverty, diseases and inequality are still prevalent. According to Masipa (2017), the unemployment rate has increased from 17% in 1994 to 30% in 2017. The GDP is growing at a slow rate of between 0-1% and this is less than the much desired 5% growth rate per annum. There have been measures implemented to address these challenges, amongst them Employment and Redistribution (GEAR), the Accelerated and Shared Growth Initiative for South

Africa (AsgiSA), the New Growth Path (NGP) to the currently implemented National Development Plan (NDP) (The Presidency, 2011). Imbedded in these policies is the need to attract more FDI with the view to enhancing economic growth, creating jobs and supplementing domestic expenditure which accounts for a larger portion of the total government expenditure and investments. Xolani (2011) argues that FDI is important within South Africa as it helps address the technology gap, improve employment, attract skilled labour and improve domestic infrastructure, amongst other benefits.

Denisia (2010) is of the view that there is need to attract FDI flows into South Africa due to a number of reasons. Firstly, FDI plays a key part in increasing productivity and competitiveness (Denisia, 2010). According to Stiglitz (2013), by attracting FDI, the GDP growth rate can be maintained due to the output emanating from the manufacturing sector, which will help increase exports. Since South Africa is increasingly becoming a manufacturing economy, FDI has a role to play and thus the need to attract a vast network of FDIs. According to Ncunu (2015), FDI is beneficial since it creates employment. Since the host country will partner with international firms and MNCs, there is a chance that employment opportunities will be created for the local population. The study Chaudhuri and Banerjee (2010), found that FDI creates employment for both skilled and unskilled labour.

2.4.1 Foreign Direct Investment–related programmes in South Africa

Governments are often challenged to develop programmes and policies that help attract FDI flows. This is because stable macroeconomic and political environments are believed to be the key ingredients for attracting more foreign investors. The following strategic programmes have been initiated to offer incentives for FDI flows to South Africa.

- ***Strategic Investment Programme***

In November 2001, the Strategic Investment Programme (SIP) was introduced in South Africa. Barbour (2015) argues that this initiative was developed to help achieve the growth, development and competitiveness of specific industrial sectors including manufacturing and agriculture. The plan recommended that the government provide a tax relief to qualifying and suitable industrial

projects. According to Coega (2005), a minimum investment of R50 million, a 50% investment allowance, was provided for projects capped at R300 million, while 100% was granted to projects capped at R600 million. Ideally, the SIP was designed to attract industrial investments to South Africa.

- ***Foreign Investment Grant***

The Foreign Investment Grant was introduced in September 2000 and was a cash incentive scheme to foreign investors who might invest in new manufacturing in South Africa (DTI 2007). This scheme was aimed at giving grants to meet the cost of importing capital equipment. The FIG provides a cost recovery of 15% (up to a maximum of R3 million per entity) for foreign entrepreneurs to transfer new machinery and equipment to South Africa as part of their invested capital (DTI 2007).

- ***Bilateral agreements***

South Africa has entered into some bilateral agreements specifically related to trade. These treaties include the Bilateral Investment and Protection Agreements (BIPAs) where investors are granted the most favoured nation status (DTI 2007). However, concerns have been raised about such treaties as their impact within the discourse of FDI or economic development is yet to bear fruit (Barbour (2015).

2.4.2 The effect of Foreign Direct Investment in the Economic Development of South Africa

To the South African Reserve Bank, both FDI and FPI are regarded as FCI and are both an important form of private external funding for developing countries and FDI is currently regarded as the major source of foreign capital for developing countries, unlike portfolio investment and foreign aid (Xolani, 2011). Garibaldi (2015) concluded that in 2011 and 2012, South Africa was ranked amongst the top five countries in Africa receiving high amounts of FDI. By 2013, South Africa became the largest recipient and all this was attributed to the increase of foreign loans from parent companies to subsidiary companies investing in South Africa (Garibaldi, 2015).

StatsSA (2017) points out that the GDP growth of South Africa in 2013 was at 3.1% thus not meeting the required growth of 5%. The role of FDIs is to help in the economic development of the country based on the numbers of inflows over the years and their potential benefits. Just like any other developing country, South Africa is trying to develop increased favourable policies that can sustain the economy and promote on FDI inflows (Xolani, 2011). The benefits of FDI are that it lead to increased technological transfer, creation of employment and increased domestic competition. All these are part of the challenges being faced in South Africa and they can be addressed through the increase of FDI inflows.

There is a long-running relationship between South Africa's development and FDIs. Agrawal (2015) posits that South Africa has benefited immensely from FDI flows in economic development, employment and social stability. Furthermore, Agrawal (2015) argues that both the GDP and employment growth within the country depends on the country's performance in attracting FDI. In other words, FDI has an impact on the economic growth and development of South Africa and thus there is need for policies and incentives to ensure that FDI is attracted (Agrawal, 2015).

2.5 Theoretical Framework

Creswell (2014) is of the view that a theoretical framework helps to present the concepts and theories utilised by other scholars in understanding the research concept, and, through understanding these theories, the goals and objectives of the study will be met.

2.5.1 Hymer FDI Theory

Hymer's 1960 seminal work is still relevant in the present day understanding of the effects and impact of FDI on economic development. In his analysis, Hymer (1960) concerning what causes foreign investment, made a comparison between direct investment and portfolio investment and how portfolio investment can explain direct investment through the interest rate theory. Hymer's view was that the interest rate theory of portfolio investment was not adequate to explain direct investment as it did not explain the control of assets. According to Hymer (1976), direct investment, which is the movement of capital, involves both ownership and control.

Hymer's theory offers two main reasons for direct investment. Firstly, FDI has to do with the cautious use of assets for the safety of investments. In this regard, firms embark on FDI to exert their monopoly on markets, even though this presents a challenge on the local markets. Secondly, FDI is centred on expanding the international operations of MNCs. Hymer (1976) argues that this is premised on the desire to control production by removing competition and have access to particular skills, capital or technology. The present day analysis of FDI from the Hymer's perspective validates his assertion.

2.5.2 The Ownership Advantage Theory

The ownership advantage theory is also a pertinent theory in understanding FDI from a macro-level. This is because the theory is premised on the perception that the assets that an organisations has are essential towards enhancing their domestic market to achieve a competitive advantage and then transform their operations into international markets (Leedy, 2018). This theory is consistent with the observed patterns of international and intra-industry FDI. In essence, this theory explains the reasons why FDI occurs and describes the benefits of such to the developing world.

According to Leedy (2018), this theory postulates that the rate of profit has a tendency to drop within developed countries due to increased competition, therefore, organisations tend to search for markets in developing countries through FDI. Organisations transfer their labour, manufacturing and industries to developing countries and the advantage of that is this has a low impact on the productivity of companies. This is actually the challenge with FDI for the developing country as it can be exploited for its labour and resources. Scholars such as Stiglitz (2013) are of the view that even though there is an uneven relationship between the developed and developing country in terms of FDI, the developing country has an advantage in employment creation and infrastructural development, which is lacking within the continent. Developmental theories postulate that for development, a nation needs to employ its citizens and build infrastructure and the better way of achieving that is through FDI. This is the whole notion of the ownership advantage theory.

This theory argues that the specific assets, or location or advantages such as labour costs, societal infrastructure, and governmental control of a country are pertinent towards translating these FDI

flows into tangible developments. This theory is relevant within the South African perspective for, since 2010, South Africa has managed to receive wide inflow of FDIs which has gone a long way towards transforming the economy.

2.6 Conclusion

This chapter discussed the literature and theories relevant to this study. As a concept, FDIs can be understood as an investment in a business by an investor from another country for which the foreign investor has control over the company purchased. In most cases, MNEs are involved in FDIs and the major aims of these MNEs are to maximise profits whilst developing the host country, socially and economically. In theoretical terms, FDIs are essential for they act as an external source of capital, are important in increased revenue, they ensure the development of new industries, valuable source of technology and ensure the development of human capital resources

FDIs are part of the theories used to explain on economic growth and development of countries. Developing countries rely on FDI for economic growth especially developing countries that have adopted the export-orientated strategy. In South Africa, for instance, the role of FDI is that they play a key part in increasing productivity and competitiveness. In doing so, the government of South Africa has adopted a number of strategies such as the strategic investment programme, foreign investment grant and bilateral agreements

In the view of the South African Reserve Bank, both FDI and FPI are regarded as FCI and are both an important form of private external funding for developing countries and FDI is currently regarded as the major source of foreign capital for developing countries. In addition, South Africa has benefited immensely from FDI flows in economic development, employment and social stability.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The previous chapter discussed the literature review and the theoretical framework relevant to the understanding of the role of Foreign Direct Investment in economic development of South Africa. This chapter builds on that literature and discusses the research methodology used in this study. The methodology serves as an important part of any research for it presents the methods and procedures used to collect, analyse and interpret data. The methodology also presents the best ways of collecting data that helps understand the research problem. In this regard, this chapter will discuss the research method adopted in the study, the sampling procedure utilised, data collection methods used, the data analysis method adopted and the reliability and validity of the research.

3.2 Research Method

There are basically three types of research methods, namely the qualitative, quantitative and mixed methods research approaches. Babbie (2010) is of the view that a qualitative study is utilised when the researcher seeks to explore a research problem. On the one hand, a quantitative study is utilised when the researcher seeks to describe the effects of an independent variable on a dependent variable (Creswell, 2014). On the one hand, the mixed method approach seeks to understand a research phenomenon by utilising both the characteristics of a qualitative and a quantitative research. Quantitative research also uses statistics to quantify the use of a certain theory, or to confirm the hypothesis within the study. In this regard, this research presents a quantitative research for it seeks to understand the role of FDI on the economic development of South Africa.

According to Creswell (2014), the rationale of a quantitative research study is “to determine the relationship between an independent variable and a dependent variable within a research problem.” Neuman (2014) posits that a quantitative research “is the systematic empirical investigation of observable phenomena via statistical, mathematical or computational techniques.” Quantitative research thus entails the method of gathering data through numeric variables in statistics, percentages and the like. Flick (2011) highlights that quantitative methods are useful to quantify

the research problem through generating numerical data that can be transformed into usable statistics. It is used to quantify attitudes, opinions, behaviours, and other defined variables, in this case, the impact of FDI on economic development of South Africa, and in this case, generalising results from a larger sample population.

Since this research is premised on a quantitative study, the causal research design will be utilised. Creswell (2014) is of the view that this relationship is a cause and effect relationship seeking to explain the relationship between variables. Furthermore, a causal relationship is essential for it seeks to explain the impact of the relationship amongst variables from the perceptions and attitudes from among the participants. It is useful within this research as it understands the role of FDI in the economic development of South Africa.

3.3 Sampling Methods

There are basically two types of sampling methods in research. Qualitative research studies mostly deal with non-probability sampling where respondents are chosen at the discretion of the researcher. However, random sampling is generally vested in quantitative research where every unit of the study has a chance of being selected in the sample. Ideally, sampling is the selection of a subset of individuals from within a statistical population to estimate the characteristics of the whole population (Flick, 2011). Levy and Lemeshow (2013) state that, “in a quantitative methodology, sampling is concerned with the selection of a subset of individuals from within a statistical population to estimate characteristics of the whole population.” The three main advantages of sampling are that the cost is lower, data collection is faster, and the accuracy and quality of the data can be easily improved. Within a quantitative study, a probability sampling method is utilised.

This study utilises probability sampling. This is because probability sampling allows the researcher to use statistical characteristics from the sampled population to achieve study objectives (Saunders, 2011). This study uses statistical statistics in trying to determine the role of FDI in the economic development of South Africa. Consequently, probability sampling is often associated with survey, causal and experimental research strategies (Saunders, 2011). This study is also based on this

sampling procedure for the researcher needs to make inferences in order to meet the sample population to answer the given research questions and objectives (Saunders, 2011).

3.3.1 Sample Size

The stratified sampling technique was employed within the study. This sampling technique is utilised when the researcher seeks to study a target population that has different characteristics which are all needed to be part of the study (Saunders, 2011). The strata should not be overlapping for the sample to be as close reflection of the target population as possible.

Table 3.1: Sample Framework Table

Operational Unit Method	Total Population	Sample Size	Population %	Sample Method
Stratum- A	500	75	15%	stratified sampling technique
Stratum- B	450	90	20%	stratified sampling technique
Stratum- C	250	45	18%	stratified sampling technique
Stratum –D	150	30	20%	stratified sampling technique
TOTAL	1350	240		

Table 3:1 above explains in detail the population and sample used in this research. Population is the where the central phenomenon is investigated from during the course of the research and where accurate information is drawn from. In other words, a population is a group of individual units with some commonality. The sample size therefore is derived from the population for an understanding on the role of FDI on the economic development of South Africa.

3.4 Data Collection Methods

Data collection methods are integral in research methods. This procedure gives room to the researcher to collect primary and secondary data that is relevant to the research.

To Creswell (2014) “quantitative researches identify one or few variables that they tend to study and then collect data specifically related to those variables.” Information is gathered from the

samples that represent the population in a form that is easily converted to numbers. Quantitative researchers are often described as being the research instrument because the bulk of their data collection is dependent on their personal involvement during interviews and observations in the setting. Quantitative research methods tend to select participants who can best shed light on the phenomenon under investigation.

3.4.1 Questionnaire

Babbie (2010) views questionnaires as a pre-defined set of questions in a predetermined order. Questionnaires are essential in research methods for they provide data that can be analysed to identify patterns and relationships within the responses given. Neuman (2014) defines questionnaires as comprising a list of questions that are put to respondents and they can reflect their attitudes and perception towards the question asked. Questionnaires are objective for they minimise bias in formulating and asking question, and make questions engaging and varied. Questionnaires can be self-administered and administrated by the researcher.

For this research data was collected using a Web Link to send questionnaires randomly via email from Survey Monkey to participants. As highlighted by Hulley et al., (2009: 48) “survey monkey is a useful online tool for creating and administering surveys as well as managing and analysing data.” The survey monkey account was created online. The link was attached to an email that was sent randomly to participants. The participants then indicated whether they agreed to take part in the survey voluntarily without coercion by clicking on the link attached in the email. All the data collected was sent to the “Collect Responses” tab available on Monkey Survey tool. The questionnaire is set out below:

Participants Demographics

Flick (2011) state that “demographics are characteristics of a population.” Characteristics such as race, ethnicity, gender, age, education, profession, occupation, income level, and marital status, are all typical examples of demographics that are used in surveys. Survey questions for demographics were not designed for personal identity and they were only used for analysis of the participant’s demographics. The Survey will consisted of the following:

Section A: Demographic Details

Section A was to gather data on the demographics of the participants.

Section B: The Role of FDIs

The purpose of section B questionnaires was to determine if the participants understand the concept of FDI in general,

Section C: Effect of FDIs in the economic development of South Africa

The main objective of the study sought to discuss the effect of FDI in the economic development of South Africa.

Section D: Mechanisms to Influence the effectiveness of FDIs

The set of questions within this section sought to determine the mechanisms to be used for FDI to have an impact in the economy of South Africa,

3.5 Data Analysis Method

Data analysis is a process of applying statistical practices to organise, represent, describe, evaluate, and interpret data according to Creswell (2014). This section is of vital importance within the research for it assists the researcher to summarise and analyse collected data from the survey. Flick (2011) argues that quantitative data analysis “is a systematic approach to investigations during which numerical data is collected and/or the researcher transforms what is collected or observed into numerical data. It often describes a situation or event; answering the 'what' and 'how many' questions you may have about something.”

To ensure the reliability and validity of the study, which would be essential in enhancing the trustworthiness of the study, the study calculated the Cronbach’s alpha. According to Henry (2016), Cronbach’s alpha and its calculation ensures that the study findings are consistent with the

entire group. The Cronbach's alpha therefore is calculated to ensure the reliability and validity of the research findings.

3.6 Validity and Reliability

Drost et al. (2011) argue that "it is important to test the validity and reliability of data collected for the survey." Street and Ward (2012) state that "validity and reliability are not always aligned. Reliability is needed, but not sufficient to establish validity. The researcher can get high reliability and low validity. This would happen when the wrong questions are asked repeatedly, consistently yielding bad information. Also, if the results show large variation, they may be valid, but not reliable."

3.6.1 Ensuring Validity

Gravetter and Forzano, (2012:107) are of the view that validity refers to the extent to which a measuring instrument measures what it intends to measure. Validity in quantitative research often concerns objectivity, generalisability, replicability, predictability, controllability and nomothetic statements. There are two types of validity, namely internal and external validity.

- *Piloting*

The pilot study is the first strategy used in this study to ensure the validity of the results. Through the feedback and outcome of the pilot study, the researcher will be able to determine whether the research instrument and the data collecting method satisfy the criteria of objectivity, replicability and controllability.

- *The probability sampling approach*

In addition, the probability sampling utilised enhances validity. Through this sample approach, participants are randomly selected, thus ensuring that the members of the population have equal probabilities of being sampled.

- *Participation Consent*

An informed consent clause was included in the questionnaire and in the on-line survey whereby respondents were required to give their participation consent. The informed consent described the nature of the research study and the nature of one's participation in it. The consent statement also contained alerts informing respondents that the participation was voluntary and he/she would be allowed to opt out even before the completion of the questionnaire. This provided assurance to the researcher of the willing and voluntary participation of the respondents, because responses from willing participants who have willingly consented to the participation are considered valid and reliable.

3.7 Ethical Considerations

Josephson and Hanson (2012) define ethics "as the norms or standards for conduct that distinguish between right and wrong." Ethics help to determine the difference between acceptable and unacceptable behaviours, and to ensure the participants that there's no hidden agenda. Research ethics describe enquiry about how one develops and interprets one's research topic, the research is composed and gains access, and how the researcher collects data, processes and store the data, analyse data and write up the research conclusions in a proper and responsible manner (Flick, 2011).

- This means that all participants give formal consent;
- ensuring protection of research participants from harm;
- ensuring all participants are treated with confidentiality and anonymity; and
- ensuring that the permission is obtained.

3.8 Conclusion

This chapter has discussed the methodology relevant in realising the objectives of the study. The different approaches to research methods were discussed, with more emphasis on quantitative research. The quantitative research approach is useful for it helps to understand the attitudes of respondents towards the research phenomenon as well as ensuring that a large sample size can be

studied. In addition, the quantitative approach ensures that there is description of the relationship between research variables, resulting in objective and unambiguous results. The study utilised probability sampling where each and every respondent had an equal chance of being part of the sample.

A questionnaire was used as a data collection instrument. The advantage of a questionnaire is that it can collect information in large amounts and it achieves a high response rate. Questionnaires are objective for they minimise bias in formulating and asking question, and they make questions engaging and varied. The study utilised inferential statistics as the data analysis method and to ensure the validity and reliability of findings, the Cronbach's Alpha was calculated. The study also ensured ethical issues through informed consent, protecting respondents from any form of harm and ensuring that there was confidentiality and anonymity.

CHAPTER FOUR: RESEARCH FINDINGS, ANALYSIS AND DISCUSSION

4.1 Introduction

The previous chapter presented the methodology and the determinants utilised within this research. This chapter presents the findings, analyses these findings and discusses them in relation to the role of Foreign Direct Investment in the economic development of South Africa. This chapter starts by presenting the demographic details of the respondents of the study which is essential in helping determine the generalisability of the findings on the research target.

The study sought to achieve the following objectives:

- Explore the role of FDI in stimulating economic development of South Africa.
- Determine the effects of FDIs in the economic development of South Africa.
- Understand the mechanisms that can be utilised for FDI to achieve a positive impact on the economy of South Africa.

4.2 Demographic Details of the Respondents

In a bid to understand whether the sample was representative enough for the target population, the study included the biographical details of the respondents within the questionnaire. As stipulated by Maree (2014), understanding each respondent's profile enables the researcher to have credible and relevant understanding of the problem. The questionnaire, therefore, included aspects such as gender, age, qualifications of the respondent, sector of operation and relevant experience within the line of occupation. The demographic profiles of the respondents is presented in Table 4.1 below

Table 4.1: Demographic Details of the Respondents

		Number	Percentage
Gender	Male	128	64%
	Female	72	34%
Age	20-25 years	12	6%
	26-30 years	49	24.50%
	31-35 years	33	16.50%
	36-40 years	55	27.50%
	Above 41 years	51	25.50%
Qualification	Diploma	78	39%
	Higher-Diploma	55	27.50%
	Degree	46	23%
	Post-Graduate	21	10.50%
Occupation	Public Sector	63	31.50%
	Private Sector	79	39.50%
	Academic Sector	37	18.50%
	NGOs	21	10.50%
Experience	Below 5 years	28	14%
	6-10 years	45	22.50%
	11-15 years	19	9.50%
	16-20 years	43	21.50%
	21 years and above	65	32.50%
	Total	200	100%

Source: Own calculations.

From the data gathered by the respondent's gender, there was a greater number of males within the study as they constituted approximately 64% of the sample. This is against the 34% of female respondents. However, the study gathered that gender differences did not impact on the results of the study.

Also included within the demographic study was the age of the respondents. Age is an important factor, coupled with experience; it details a practical understanding of the research problem (Maree, 2014).

Within the study, the majority of the sample was aged between 36 and 40 years of age, consisting of 27.5% of the sample. Following was the group of respondents aged above 41 years of age and above which comprised 25.5% of the sample. Those between 26 and 30 years comprised 24.5% of the sample whilst those between 31 and 35 years comprised 16.5% of the sample. Lastly, those between 20 and 25 years comprised only 6% of the sample. From the age of the respondents, the study gathered that most of the respondents were experienced individuals and therefore their responses to the questionnaire can be deemed reliable.

From the data gathered on the highest qualification of respondents, the study found that there was a bottle-neck result as the higher the academic profession goes, the fewer the number of individuals possess that qualification. However, this does not impact on the reliability of the results as the qualification of individuals was supported by the experience of the respondents. The study gathered that 39% of the respondents were in possession of a Diploma whereas, 27.5% of the respondents had a Higher-Diploma. Furthermore, 23% of the respondents had a bachelor's degree phase and only 10.5% were in possession of the Postgraduate degree.

From the data gathered on the occupation of the respondents, those from the private sector dominated within the sample as they constituted 39.5% of the sample. They were followed from those working within the public sector which accounted for 31.5% of the respondents. Of importance to note, is that the understanding and especially the recommendations on the concepts of FDI and their impact on socio-economic development of on South Africa have been influenced by the occupation of the individual. Those within the academic sector accounted for 18.5% of the respondents and those within the non-governmental organisations (NGOs) sector constituted 10.5% of the respondents.

Since the study included diplomats (public sector), business people (private sector), and academics (both students and lectures) as well as those within the NGO sector, it was relevant also for the study to gather the experience of the respondents in their particular fields. Maree (2010) argues that this leads to a deep understanding of the practical versus the theoretical attributes underpinning a research problem. Since the majority of the respondents approximately 32.5% of the respondents with over 21 years' experience within their related field, the study assured that the results are

reliable. Those with 6 to 10 years of experience constituted of 22.5% of the sample whereas those with 16 to 20 years comprised of 21.5% of the sample. These numbers suggest that the experience of the respondents was generally important in making generalisations. This is despite the fact that 14% of the respondents had less than five years of experience. The importance of these varied years on the experience of the respondents means that the study could achieve improved information on the understanding of the research problem as the respondents had an ideal understanding on the research problem.

4.3 Presentation, Analysis and Discussion of the Results

The study sought to analyse on the role of Foreign Direct Investment in the economic development of South Africa. The data for the study was collected through a questionnaire. The study therefore through descriptive analysis interpreted the findings. For easy comprehension, the study presents these findings in sections as utilised within the questionnaire.

4.3.1 The Concept of FDI

The first set of questions sought to understand the views of the respondents on the concept of FDI. Questions such as the importance of FDI in South Africa’s socio-economic development, factors that impact on the flow of FDI amongst others were asked.

Table 4.2: The Concept of FDI

	Mean	SD	Factor loadings	N
Importance of FDIs	2.430	1.114	0.747	200
The impact of Politics on FDIs flow	1.495	0.501	0.800	200
Investment policies and their Impact on FDI flows	1.580	1.117	0.885	200
Cronbach’ Alpha	0.734			
Average Variance Explained (AVE)	0.548			

Notes: Author’s calculations from research data

As stipulated by Blackwell (2012), in as much as FDI plays an integral part in the development of any country, there are also some implications of such a development. This is in relation to this study as there was a close understanding amongst the respondents on the importance of FDI. The mean was 2.430 indicating that FDIs are essentially important with a standard deviation of 1.114,

which shows on the importance of FDIs in developing countries. Accordingly, various schools of thought have portrayed the importance of FDIs within the developing world. In South Africa for example, there was an increase in FDI inflows by 4% in 2019 and this contributed to the development of the economy (Statistics South Africa, 2019).

Borrowing from the political determinism of Lenin (Blackwell, 2018), the study sought to understand the political nature and its impact on the flow of FDI to South Africa. The mean (standard deviation) response of 1.495 (0.501) signifying that indeed politics determine the impact of FDI. Alam and Shah (2013) argue that the government sets out policies and procedures that have a direct impact on FDI flows. Such determinants may include investment policies, business practices and indigenisation policies. The mean was 1.580, signifying that investment policies within countries, whether they are sector related or cover the whole investment sector, are important in determining the flow of FDIs. Generally, countries with low returns for the investor do not generate more FDI than countries with a high-interest rate turnover (Blackwell, 2012). The standard deviation was 1.117 signifying the importance of investment initiatives within the country to attract FDI flows.

Factor loadings indicate how much a factor explains a variable. Loadings can range from -1 to 1. Loadings close to 0 indicate that the factor has a weak influence on the variable. In Table 4.2 above, all the factors have a factor loading of close to one, signifying that FDI is important and that politics impact on FDI as well as the notion that investment policies impact the inflows of FDI. On the other hand, the Cronbrach's Alpha was 0.734 indicating that the instrument used to assess the importance of FDI was reliable. The average variance explained (AVE) for the concept of FDI was found to be .0548 which implies that 54.8% on average, of the variation can be explained by the variation in the factors under consideration.

4.5.2 The effects of FDIs on the economic development of South Africa

Since the study sought to understand the effect of FDI in the economic development of South Africa, it therefore sought to determine the effect of FDI in the economic development of South Africa.

Table 4.3: The effects of FDIs in the economic development of South Africa

	Mean	SD	Factor loadings	N
The Impact of FDIs on the socio-economic development South Africa	2.43	1.11	0.707	200
The Impact FDIs in creating employment	1.49	0.50	0.754	200
FDIs improve the GDP of South Africa	2.58	1.12	0.806	200
Cronbach's Alpha	0.81			
Average Variance Explained (AVE)	0.572			

Notes: Author's calculations from research data

The study sought to understand the impact of FDIs on the socio-economic development of South Africa. This is because developing countries base their status on their social and economic standards. The mean was 2.43 revealing the impact of FDIs in the socio-economic development of South Africa. Based on the literature, there is a division within the understanding of the real impact of FDIs. According to the supporters of this concept, FDI helps increase market share, helps in technological advancement and in the increase in the basic standards of the people living in South Africa (Alam and Shah, 2013). This was further supported with a standard deviation of 1.11. On the other hand, the Cronbrach's Alpha was 0.81 showing the reliability of the measurement used.

The study also sought to understand the role of FDI in reducing the unemployment rate within South Africa. The mean was 1.495, showing that indeed FDIs have an important role to play. Since 1994, there has been an ever increasing unemployment rate in South Africa and this can only be addressed by FDI inflows. In 2010, for example, the year in which FDI flows reached the highest level, the unemployment rate remained stagnant showing a positive effect of FDIs in addressing unemployment (Blackwell, 2018). The standard deviation was 0.50123. The Cronbrach's Alpha was 0.81 stipulating on the reliability of the measurement used.

For an economy to be seen as progressing, aspects such as GDP rise should be visible. Therefore, this study sought to detail the effect of FDIs in leading to GDP improvement within South Africa. There was neutrality in the results as the mean was 2.580. This comes from the fact that the GDP of South Africa has not been reaching the projected 5% growth a year rate since 2010. According to Blackwell (2012), FDI has a limited role in the GDP growth. The standard deviation was 1.12. Furthermore, the reliability of the test was ensured with the Crobrach's Alpha of 0.81.

The factor loading of the factors was close to 1, signifying that FDIs on the socio-economic development South Africa, FDI's impact on employment creation and that FDIs improve on the GDP of South Africa. The AVE for the effects of FDI in the economic development of South Africa was found to be 0.572 which implies that 57.2% on average, of the variation is explained by the variation in the factors under consideration.

4.5.3 Mechanisms to enhance the effectiveness of FDIs in South Africa

Since the study has established that FDI plays a pivotal part in the economic development of South Africa, there is therefore the need to analyse the mechanisms put in place to support FDI flows and see whether they play a part in the effectiveness of FDI in the economic development of South Africa.

Table 4.4: Mechanisms to enhance the effectiveness of FDIs in South Africa

	Mean	SD	Factor loadings	N
Investment policies and their Impact on FDI flows	2.00	0.832	0.801	200
The Impact of the political nature on the FDI flow on economy of South Africa	1.86	0.815	0.913	200
The Impact of FDI on the development of the Private Sector	1.98	0.835	0.891	200
Cronbach Alpha	0.846			
Average Variance Explained (AVE)	0.756			

Notes: Author's estimate from research data

Since the study seeks to understand the impact of FDIs on the development of economies, the general understanding of investment policies which are fundamental to the economic sector was also included within the study. The mean gathered was 2.00 meaning that investment policies are

essential. According to Asiedu (2013), investment policies within countries, whether they are sector-related or cover the whole investment sector are important in determining the flow of FDI. The standard deviation was 0.83275. The reliability of the test used to measure the variable was reliable as stipulated by a Cronbrach's Alpha of 0.846.

South Africa boasts a political climate that is different from other Sub-Saharan African countries. South Africa is argued to have a relative stable political government where there is transition of government and promotion on democratic ideals. Within this background, the study sought to understand the impact of the political nature within the South Africa on the flow of FDI. The mean was 1.860 showing that indeed the political nature of the country impact on FDI flows. For instance, South Africa has adopted the market liberalisation. The respective government has chosen a market free economy in which investment rates are determined by the market. According to Suleiman *et al* (2013), by liberalising its economy for the influx of capital from developed countries, South Africa has thus witnessed an increase in the FDI inflows. The inflow of FDI into South Africa is relatively higher than in any part of the continent (Suleiman *et al*, 2013). The standard deviation was 0.81469. The reliability of the instrument was measured and a Cronbrach's Alpha of 0.846 was established.

The study also sought to understand the role of FDI in enhancing the development of the private sector. Marcos (2015) is of the view that the private sector constitutes about 80% of the GDP in South Africa. Therefore, there is need to comprehend the role of FDI in the development of the private sector. The mean of 1.975 was gathered. This shows that FDI in all its forms promotes inter-sectorial linkages within the private sector (Azam, 2010). The private sector consists of small companies mainly SMEs and the impact of FDI is that when there is an investment, these small companies are sub-contracted therefore enhancing their development. This was supported by a standard deviation of .835. The reliability of the instrument was measured and the Cronbrach's Alpha of 0.846 was established.

The factor loading of the factors was close to 1 signifying that investment policies impact on the flow of FDI, the political nature of South Africa and its impact on the flow of FDI and that FDI affects the growth of the private sector. The AVE for mechanisms to enhance the effectiveness of

FDI in South Africa was found to be 0.756 which implies that 75.6% of the variation is explained by the variation in the factors under consideration.

4.5.4 Interventions concerning how FDI can improve on the socio-economic development of South Africa

The study also sought to formulate interventions, from the respondents on how FDIs could improve on the economic development of South Africa. The following is a presentation and discussion of these findings.

Table 4.5: Interventions concerning how FDI can improve on the socio-economic development of South Africa

	Mean	SD	Factor loadings	N
Government Stability and its Impact on FDI flows	1.04	1.37	0.72	200
Adequate Policies have been promulgated to increase the flow of FDIs	4.06	1.36	0.83	200
Cronbach's Alpha	0.741			
Average Variance Explained (AVE)	0.60			

Notes: Author's estimate from research data

The study sought to understand how the role of the government could improve on the FDI flow. The study specifically sought to understand this role based on government stability amongst other forms of good governance. The study recorded a mean of 1.0400 showing that the government's policies and sustainability impact positively in attracting FDI flows. Sachikonye (2015) stipulates that, by being stable, a government plays on investors' confidence and generally this also has an impact on the policies that are implemented. The standard deviation of 1.37032 was established. The study therefore recorded a Cronbrach's Alpha of 0.741 showing on the reliability of the test.

The study also sought to make interventions on the promulgation of adequate policies within South Africa that promote on the flow of FDIs. The study recorded a mean of 4.0550 stipulating that there are policies that need to be implemented for FDIs to impact on the economic development of South Africa. The standard deviation was 1.36060. The study therefore recorded a Cronbrach's Alpha of 0.741 showing on the reliability of the test.

The factor loading of the factors was close to 1 signifying that government stability impacts positively on FDI flows, therefore there is need for stability to attract FDI flows. Furthermore, there is a need for the promulgation of adequate policies to attract FDIs in South Africa. The AVE for interventions on how FDI can improve on the socio-economic development of South Africa was 0.60 which implies that 60% of the variation is explained by the variation in the factors under consideration.

4.6 Conclusion

This chapter presented and discussed the results of the study. The chapter first recorded the demographic details of the study which are important in understanding the characteristics and traits of the target population. Aspects such as gender, age, qualifications of the respondent, sector of operation and relevant experience within the line of occupation were shown within the demographic details and these ensured that the findings from the study were from a sample representative of the target population and that the sample was relevant when it came to understanding the research problem.

The first objective of the study was to detail the concept of FDIs. FDIs are essential for the development of a country and in South Africa, 2019, FDIs accounted for 4% in economic growth. Politics play a critical part in FDI as the government sets out policies and procedures that have a direct impact on FDI flows. Such determinants may include investment policies, business practices and indigenisation policies. In addition, it was established that generally, countries with low returns for the investor do not generate more FDI than countries with a high-interest rate turnover.

The second objective of the study detailed the effects of FDIs on the economic development of South Africa. FDI helps increase market share, helps in technological advancement and in the increase in the basic standards of the people living in South Africa. FDIs plays a critical role in employment for in 2010 for example, the year in which FDI flows reached the highest level, the unemployment rate remained stagnant showing a positive effect of FDIs in addressing unemployment. Be that as it may, it was established that FDI has a limited role in the GDP growth in South Africa.

The study also discovered various mechanisms that can enhance the effectiveness of FDI in South Africa. Generally, countries with low returns on the investor do not generate more FDI than countries with a high-interest rate turnover. Therefore investment policies are essential in increasing FDI inflows. The political climate of a country is essential to FDI inflows and South Africa has adopted a liberalised economy. Through liberalising its economy for the influx of capital from developed countries, South Africa has thus witnessed an increase in the FDI inflows. The inflow of FDI into South Africa is relatively higher than in any part of the continent. There is also the need to ensure that the private sector benefits from FDI inflow, since the private sector plays a critical part in the development of the South African economy.

There are several of interventions that can be considered for FDI to improve on the socio-economic development of South Africa. Government's policies and sustainability impact positively in attracting FDI flows, and hence the need for good governance. In addition, there are policies that need to be implemented for FDI to have an impact on the economic development of South Africa.

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The previous chapter presented the descriptive analysis of the findings gathered from both the primary and secondary research. This chapter builds from the previous chapter and presents the conclusions and recommendations of the study. Firstly, the summary of the research will be presented based on both the primary and secondary data gathered within the study. The chapter will then conclude the research and will present the recommendations for the research and then explore the avenues for future research.

5.2 Summary of the Research

This section presents the summary of the research from both the primary and secondary sources. In other words, this summary emanates from the literature review and the findings of the study.

5.2.1 Summary based on the Literature Review

The study found that the concept of FDI is one that reflects the aim of obtaining a lasting interest by a resident entity of one economy (direct investor) in an enterprise that is resident in another economy (the direct investment enterprise). The concept of FDI is an investment in a business by an investor from another country for which the foreign investor has control over the company purchased and it includes businesses such as MNCs or MNEs.

Amongst the advantages of FDI includes being a source of external capital which can lead to economic development (OECD, 2017). The development of new industries is also an advantage of FDIs. Through globalisation, FDI is also important for such investment serves as a source of technology. This is achieved by fostering linkages with local firms. In other words, the technological innovations by MNEs play a central role in the economy and they are some of the most important areas where MNEs serve as catalyst to growth in developing countries (Alfaro, 2013). Furthermore, the development of human capital resources is also another importance feature of FDI.

However, the study also identified the shortfalls of FDI. FDI can be a hindrance to domestic investment. The thrust with FDI is the focus on resources and capital elsewhere other than the investor's home country. Furthermore, FDI inflows are put at risk by political changes. In this regard, FDIs have a negative impact on the country's investment. The rules that govern foreign exchange rates and investments negatively impact on the investing country.

FDI plays an important role in the development and growth of developing countries. The relationship however can have both negative and positive effects on the development and growth of developing countries. FDI has positive effect on the developing countries that have adopted the export-orientated strategy. Furthermore, FDI plays a significant role in technological diffusion among developing countries. Borensztein et al. (2008) indicate that FDI is a vital driving factor for the technological transfer which plays a crucial role toward the economic growth than the domestic investment. FDI also affects human capital within the developing world. Of importance to note as gathered within the study is that the FDI contribution to the economic growth and development of developing countries is positive but depends on some factors in the host country. For instance, Alfaro (2013) concluded that the impact of FDI upon growth depends on the sector of the economy where the FDI operates.

The study noted that there are determinants that play a critical role for a country to attract high inflows of FDI. Some determinants have a greater impact on attraction of FDI. For example, the state of the economy plays a more pivotal role than that of inflation. The determinants of FDI include the economy and market share, inflation, national debt levels, a real effective exchange rate and political factors.

Since the study sought to understand FDI in the South African perspective, the origins, relevance and impact of FDIs in South Africa were also discussed. The importance of FDI in South Africa emanates from the need to address unemployment issues, poverty and inequality. There are various policies and initiatives that have been implemented within the country to help attract FDI flows. These methods act as incentives as aspects such as tax cuts and preferential treatment are amongst these policies. To the South African Reserve Bank, both FDI and FPI are regarded as FCI and are both an important form of private external funding for the country. For example, in 2011 and 2012,

South Africa was ranked amongst the top five countries in Africa, receiving high amounts of FDI. By 2013, however, South Africa had become the largest recipient and all this was attributed to the increase of foreign loans from parent companies to subsidiary companies investing in South Africa. According to Xolani (2011), FDI benefits South Africa, not only by supplementing domestic investment but in terms of technological transfer, increased domestic competition, job creation and other positive external features that come with the attraction of foreign investors.

The study also utilised Hymer's FDI Theory in trying to understand the research problem. The theory is an understanding of the causes of FDI through a comparison between direct investment and portfolio investment and how portfolio investment can explain direct investment through the interest rate theory. Hymer's view is that the interest rate theory of portfolio investment was not adequate to explain direct investment as it did not explain the control of assets. According to Hymer (1976), direct investment, which is the movement of capital, involves both ownership and control. This theory is relevant within the study.

5.2.2 Summary from the Primary Research

The study found that FDIs are integral to the development of any country. The respondents had different views but generally, the study found that FDI is important for the socio-economic development of any country. The study also found that the political environment within any country has an impact on the flow of the FDI. Furthermore, investment policies within countries, whether they are sector-related or cover the whole investment sector, are important in determining the flow of FDIs. Generally, countries with low returns for the investor do not generate more FDI than countries with a high-interest rate turnover.

The study sought to understand the effects of FDI on the economic development of South Africa. The study found that FDI plays a critical role in the socio-economic development of South Africa. The study also found that FDI plays a critical role in employment creation in South Africa. However, there is a need to address the investors who come with their employees from their home country. In essence, the study gathered that employment creation plays a pivotal part in economic development. The study also found that FDI is not impacting on the GDP growth within South Africa. There is a need to effectively restructure the whole concept of FDI to effectively impact in

the economic development of South Africa. The study also found that the mechanisms that can put in place to ensure that FDI flows and their importance continue to be maximized in South Africa. There is room for improvements in the effectiveness of FDI in the socio-economic development of South Africa for South Africa already has a stable political environment.

The study also sought to consider interventions, from the respondents concerning how FDI can improve the economic development of South Africa. The study found that there is need for an increased role of government to create with policies and measures that attract FDI flows whilst protecting the domestic market. Therefore, there is a need for adequate implementation of policies that promote FDI flows. The study also sought to consider the promulgation of adequate policies in South Africa that promote the flow of FDI.

5.3 Conclusions

5.3.1 Conclusions from Objective One

The study concludes that FDI is an important part in the socio-economic development of both developed and developing countries. This is because the aim of FDI is to maintain the relationship between the investor and the host country in which both parties benefit. This stems from an understanding of the concept of FDI as gathered within the study, which defines FDI as an investment in a business by an investor from another country for which the foreign investor has control over the company purchased. It includes businesses such as multinational corporations (MNCs) or multinational enterprises (MNEs). The study also concludes that there are various factors that affect the flow of FDI. Amongst these factors is the political nature of the country in which more stable political atmosphere attracts FDI, whereas unstable governments and political landscape is unattractive to investors. The study also concludes that the investment policies of a host country play a part in enhancing FDI flows.

5.3.2 Conclusions relating to Objective Two

The study concludes that FDI plays a crucial role in the development of South Africa. This is because FDI brings within it, a source of external capital which can lead to economic development.

Furthermore, FDI also leads to increased revenue because tax revenue is generated from the activities and products of established co-operations amongst other avenues. The study also concludes that FDI has led to the development of new industries. Technological advancements have also been brought about by FDI leading to the socio-economic development.

The study however concludes that within South Africa, FDI is a hindrance to domestic investment. The thrust with FDI is the focus on resources and capital elsewhere other than the investor's home country. Therefore, FDI has a negative impact on the country's investment.

5.4 Recommendations of the Study

From an analysis of both the summary of the study and the understanding of the findings from both primary and secondary research, the study makes the following recommendations:

- **Ideal Investment Policies**

The study found that investment policies play a part in determining FDI flows within South Africa and recommends that there is a need to revisit investment policies and ensure that both the investor and the host country are benefiting from FDI flows. The study recommends that the policies governing the investments of MNCs and MNEs should ensure that the profits are shared equally between both parties. Within this regard, proper investment policies will ideally lead to the economic development of South Africa.

- **Protection of local industries**

The study recommends that there is also a need to protect local industries and markets within the discourse of FDI. This is because the private sector is dominant in South Africa. The private sector has the higher number of employees therefore there is need to ensure that these sectors can compete with MNCs or TNCs. The survival of the private sector and local industries will ensure that the governments within these countries have other sources of employment creation, which is a major factor that leads to socio-economic development.

- **Corruption**

The study recommends that there is need to ensure that corruption is fought at any levels within regards to FDIs. As observed by the study, the private sector is suffering in respect of investment deals as there is massive corruption when it comes to sub-contracting. Major firms which would have had a contract with investors are reported to be being corrupt in awarding sub-contracts to companies of their inconvenience instead of following proper bidding procedures. Therefore, fight against corruption will ensure that every stakeholder benefits from FDI flow.

5.5 Areas for Future Study

The study identifies the following as areas for future study

- There is a need for studies to be conducted based on the role of politics in attracting FDI, since politics play a critical role in attracting FDI inflows. An understanding of the role of politics in FDI ensures that there is an understanding of the role of FDI on the socio-economic development of South Africa.
- There is a need for future studies to understand the relationship between FDI and the private sector as the private sector has been increasingly dominant in regards to the socio-economic development of South Africa. An understanding of this role of FDI in ensuring the survival and development of this sector will enhance the understanding of the problems faced by developing countries including South Africa

5.6 Conclusion

The study focused on the role of FDIs in the economic development of South Africa. As a concept, FDIs can be understood as being an investment in a business by an investor from another country for which the foreign investor has control over the company purchased. In theoretical terms, FDIs are essential for they act as an external source of capital, are important in increasing revenue, ensure the development of new industries. They are a valuable source of technology and ensure

the development of human capital resources. On the other hand, FDI's are a risk to the changes in the political environment and lead to an undesirable impact on a country's investment policies.

The quantitative approach to research was utilised. This is because the method ensured that a large pool of the sample could be studied. Probability sampling methods was utilised to select a sample of respondents, and also the study utilised a questionnaire as the data collection instrument.

This study found that FDI plays an important part within South Africa. Firstly, the study considered factors that impact the flow of FDI within South Africa. Amongst these factors is the political nature of the country in which more stable political environment and the investment policies. FDI's within South Africa are a source of external capital which can lead to economic development. Furthermore, within the country, the study concludes that FDI leads to increased revenue and to the development of new industries. Technological advancements have also been brought about by FDI which have led to the socio-economic development of South Africa.

There are a several factors that affect the flow of FDI within South Africa and amongst these factors is the political nature of the country which is a more stable political environment. FDI's within South Africa are a source of external capital which can lead to economic development. Furthermore, within the country, the study concludes that FDI leads to increased revenue and to the development of new industries. Technological advancements have also been brought about by FDI therefore leading to the socio-economic development of South Africa.

In South Africa, FDI is a hindrance to domestic investment since they challenge the survival of domestic industries. The thrust with FDI is the focus on resources and capital elsewhere other than the investor's home country. In this regard, FDI's have a negative impact on the country's investment. The rules that govern foreign exchange rates and investments negatively impact on the investing country. There is a need for the adjustment of investment policies that attract investments such as policies promoting fair business practices.

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APPENDICES

APPENDIX A: INFORMED CONSENT

11 AUGUST 2018

Dear Participant

My name is Dineo Mathlako, a Master of Commerce in Development Finance student at the University of Cape Town and I am conducting a research The Effects of Foreign Direct Investment in the Economic Development of South Africa.

Participation of this project is completely voluntary. All information provided through your participation in this study will be kept confidential. You will not be identified in the thesis or any report of this research. The data collected on this study will be kept for a period of a year in a secure location.

Thank you in advance for your co-operation in my research.

Yours Sincerely,

Dineo Mathlako

APPENDIX B: QUESTIONNAIRE

SECTION A: BACKGROUND INFORMATION (tick the right information or fill the right answer in the spaces provided)

A1. What is your age range? (Please circle one of these).

- a. 20-25
- b. 26-30
- c. 31-35
- d. 36-40
- e. Above 41 years

A2. Gender

- a. Male
- b. Female

A3. Highest education level attained.

- a. Diploma
- b. Higher diploma
- c. Degree
- d. Postgraduate
- e. Other (Please specify)

A4. What is your occupation?

- a. Businessperson
- b. Academic
- c. Diplomat
- d. Government Official
- e. Any other (Please specify)

A5. How long have you been working in your field?

- a. 1 to 5 years
- b. 6 to 10 years
- c. 11 to 15 years
- d. 16 to 20 years
- e. Above twenty years

SECTION B: PARTICIPANT’S VIEW ON THE CONCEPT OF FDI

For each of the following statements, please indicate (by ticking) the extent to which you agree with them, using the following scale: (Strongly Agree, Agree, Undecided, Disagree and strongly disagree)

Items	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
FDIs are integral to the development of any country					
Political nature of a country impacts on FDI flow					
Investment Policies impact on FDI flows					

SECTION C: EFFECTS OF FDI_s IN THE ECONOMIC DEVELOPMENT OF SOUTH AFRICA

For each of the following statements, please indicate (by ticking) the extent to which you agree with them, using the following scale: (Strongly Agree, Agree, Undecided, Disagree and strongly disagree)

Items	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
FDIs impact on the socio-economic development of developing countries					
FDIs impact on employment creation in South Africa					
FDIs impact on GDP growth in South Africa					

SECTION D: MECHANISMS TO ENHANCE FDI FLOWS IN SOUTH AFRICA

For each of the following statements, please indicate (by ticking) the extent to which you agree with them, using the following scale: (Strongly Agree, Agree, Undecided, Disagree and strongly disagree)

Statements	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
Investment incentives attract FDI flows					
FDIs are improved by the political nature of South Africa					
The private sector has a role to play in FDI flow					

SECTION E: RECOMMENDATIONS ON FDI AND ECONOMIC DEVELOPMENT IN SOUTH AFRICA

For each of the following statements, please indicate (by ticking) the extent to which you agree with them, using the following scale: (Strongly Agree, Agree, Undecided, Disagree and strongly disagree)

Statements	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
Government stability impacts on FDI flow					
Adequate policies have been promulgated in South Africa to enhance FDI flows					