

# Analyzing FDI and Exports as a new 'Growth Path' for South Africa

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# Issues to be Discussed

## 1. Immediate Challenges facing SA

- ✓ Stemming job-shedding
- ✓ Youth unemployment
- ✓ Sustainable growth, job creation and poverty reduction

## 2. Does FDI inflows and Exports Translate to Growth?

- ✓ FDI-led growth hypothesis
- ✓ Exports-led growth Hypothesis

## 3. Research Methodology and Findings

## 4. Conclusion and Recommendations

# Challenges Facing South Africa

- Over 20 years since the advent of democracy, South Africa is still grappling with the triple facets of unemployment, poverty and high inequality.
- Despite the progress made to address these challenges, the struggle against ‘jobless’ growth and poverty still continues.
- The rate of economic growth is growing at a slower pace than the much desired 5% annual growth.
- Instead of decreasing, the rate of unemployment has increased from 17% in 1994 to 26.4% in the first quarter of 2015 (Stats SA, 2015).

# Challenges Facing South Africa

- At a time when the country is faced with such challenges, a plan or a policy for sustainable growth, poverty reduction and job creation would be warmly welcomed.
- In this regard, FDIs and exports are considered amongst the most important sources for sustainable growth, development and job creation.
- A number of scholars also subscribe to this notion, as they maintain that the panacea for growth and job creation can be achieved through the attraction of FDIs and increasing exports.

# Challenges Facing South Africa

- Most importantly, from 1996's GEAR to the NDP: vision 2030 the need to attract more foreign investors and promote exports in pursuit of growth and job creation is also recognized and emphasized on.
- It is therefore against this background that the paper aims to analyse the impact of FDI and exports on SA's economic growth
- To this end, the paper attempts to answer the following question,
  - ✓ Does FDI and exports translate to economic growth in South Africa?
  - ✓ Can South Africa be expected to alleviate its high levels of poverty and unemployment if its economic growth continues to be “jobless”?

# Does FDI inflows and Exports translate to Growth?

- The question of whether FDIs and exports are the panacea for growth and job creation has been a debate for decades.
- A number of scholars advocates the need for emerging economies to attract more foreign investors and increase exports.
- These include amongst others scholars such as Asiedu (2006); Rusike (2007); Xolani (2011); Mpanju (2012) and Furhman (2013).
- These proponents of FDIs emphasised that attracting foreign investors is beneficial via the transfer of technology and skills, supplementing domestic investment, job creation, improving domestic infrastructures.

# Does FDI inflows and Exports translate to Growth?

- Xolani (2011) suggests that developing countries like South Africa should try as much as possible to create an environment that is conducive to attract foreign investors.
- Similarly, Furhman (2013) also acknowledges the significance of attracting FDIs into South Africa.
- As he argues that FDIs can assist the country to overcome scarcities of resources such as capital, entrepreneurship, access to foreign markets, technology transfer and innovation.

# Does FDI inflows and Exports translate to Growth?

- In support of FDI-led growth hypothesis, Denisia (2010) argues that FDIs can increase productivity and competitiveness in the host country.
- Nucu (2011) believes that FDI inflows can create new jobs and is capable of accessing modern technologies, resulting in positive effects on the balance of payments.
- Lall (2001) argues that the most prominent role played by export-oriented FDI in the exports of developing countries is in the manufacturing sector.
- The DTI reported that the South African export sectors are underperforming.



# Does FDI inflows and Exports translate to Growth?

- The report suggests that South Africa have to improve on its export performance to achieve the targeted 6% per year of export growth
- The NDP also propose that to increase employment and growth, South Africa should increase exports focusing on comparative advantage areas.
- This include areas such mining, construction, agriculture, tourism and business services, (DTI, 2013).
- However, unreliable power supply has become a key constraint to growth and competitiveness in South Africa.
- The Impediments of electricity in SA is also noted by the President J Zuma in his SONA.

# Research Methodology

- Granger-causality test
- It is a statistical hypothesis test for determining whether one series is useful in forecasting another.
- For instance, a time series  $X_t$  is said to Granger-cause  $Y_t$
- In this paper, FDI inflows is said to granger-cause economic growth
  - ✓ *Null Hypothesis 1: FDI does not granger-cause GDP growth in South Africa*
  - ✓ *Null Hypothesis 2: Exports does not granger-cause GDP growth in South Africa.*

# Research Methodology

- The above hypotheses are formulated on the basis of the following equation;

$$Y = \beta_0 + \beta_1 (\log FDI) + \beta_2 (\log EXP) + et \dots \dots \dots 1$$

*Where; Y= Economic growth, measured in real GDP*

*FDI= Foreign Direct Investment*

*EXP= Exports*

*et = Error term*

# Research methodology

- From the equation, GDP ( $Y$ ) is measured and explained by changes in  $\log\text{FDI}$  and  $\log\text{EXP}$ .
- Hence it is assumed that any change FDI and exports will cause a change in GDP.
- The error term ( $et$ ) is incorporated in the equation to account for omitted variables which affects GDP but were not included in the model.
- In addition, , the goodness of fit test is carried out to ensure that the results of the paper are not spurious.

# Findings

- If the F-Statistic value is greater than probability value, we then conclude by rejecting the null hypothesis and accept the alternative hypothesis.

<i>Null Hypothesis:</i>	<i>Obs</i>	<i>F-Statistic</i>	<i>Prob.</i>
<i>H0<sub>1</sub>: Log FDI does not Granger Cause Log GDP</i>	23	0.8489	0.0452**
<i>H0<sub>2</sub>: Log EXP does not Granger Cause Log GDP</i>	23	7.5116	0.0746*

Note: [\*\*] (\*) indicates the rejection of the null hypothesis at [5%] (10%)

Source: Author's own estimates

- The results shows the existence of bi-directional relationship among the variables.

# Findings

- For  $H_{0_1}$ , the F statistic of 0.8489 is greater than the probability value of 0.0452 which implies the causal relationship that runs from log FDI to log GDP at 5% LOS.
- For  $H_{0_2}$ , the F statistic of 7.5116 is greater than the probability value of 0.0746 which also indicates that the causality runs from log EXP to log GDP at 10% LOS.
- From the results, it can be deduced that FDIs and exports have a significant impact on GDP for the period reviewed, thus from 1990 to 2014.

# Findings

- **Goodness of fit test results**
- The results of goodness of fit test reveals that the model and tests employed in the paper are of good fit.
- Hence, the F-statistic of 15.54490 is greater than probability value of 0.000854 at 5% level of significance.
- The results are therefore not spurious and that the  $R^2$  of 74% represents the percentage of the variance in GDP growth is explained jointly by one percent change in FDI inflows and increase in exports

# Conclusion & Recommendations

- Form the findings, it can be concluded that the current paper provide a stronger support to the hypotheses that both FDI inflows and exports have a significant impact on economic growth in South Africa.
- The Granger-causality test ascertained that the causality runs from both FDI and exports to GDP.
- The result implies that both FDI inflows and exports granger-caused economic growth, measured by GDP growth for the period review.



# Conclusion & Recommendations

- It can therefore be suggested that South Africa's capacity to grow, develop and create jobs for its citizens also depends on the country's performance in terms of attracting foreign investors and increasing its exports performance.
- The government and private sectors should take measures to provide skills to the labour market, so that they can be absorbed in foreign modern technologically advanced environment.
- Trade unions on the other hand should emphasize more on stabilizing labour disputes, strikes especially in mining sector.

# Conclusion & Recommendations

- More importantly, the government should also emphasise more on fighting corruption.
- Lastly, the attraction foreign investors and promotion of exports in South Africa should however not be seen as an end in itself,
- but also as a means of supporting other development initiatives such as reducing inequalities and poverty.

# Finally

THANK YOU



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