

TITLE OF PAPER:

Obstacles in attracting increased portfolio investment into Southern Africa

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ABSTRACT

OBSTACLES IN ATTRACTING INCREASED PORTFOLIO INVESTMENT INTO SOUTHERN AFRICA

Southern Africa has to date been largely isolated from international financial markets and the process of financial globalisation. With the exception of South Africa and to a lesser extent Mauritius, the region receives negligible amounts of foreign portfolio investment. For the majority of countries, the main types of foreign capital inflows consist of development assistance and foreign direct investment. Foreign portfolio investment, which has hitherto remained largely untapped, may become important in future, especially in view of the dwindling international development assistance to the region. The purpose of this paper is to identify and assess possible obstacles to foreign portfolio investment in the region that could be addressed over time in order to improve the region's competitiveness for foreign capital.

In the first part of the paper, Southern Africa's current position in global financial markets is analysed in terms of the volume, composition and direction of foreign investment to the region. In the second part of the paper, factors that have an impact on foreign portfolio investment in general are identified. In the third part of the paper, these determinants of foreign investment are assessed by using regional information in order to identify the main obstacles to foreign portfolio investment in Southern Africa. Regional information is used to assess the magnitude of each of these obstacles in the different countries in the region.

These main obstacles to foreign portfolio investment in Southern Africa that are discussed are the following:

- Underdevelopment of domestic financial markets.

- Unstable macroeconomic conditions,
- Interest-rate structures,
- The risk perceptions of foreign investors,
- Exchange control,
- Tax structures; and
- Inadequate information and telecommunications technology.

In the last part of the paper, some recommendations are made on aspects that Southern African countries should address in order to attract increasing amounts of foreign portfolio investment in a highly competitive and globalised world.