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A STRATEGY FOR FOREIGN DIRECT INVESTMENT

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The paper develops a strategy for encouraging foreign direct investment to South Africa, based on an examination of the decision-making process as it relates to foreign direct investment. The paper analyses the range of “macro” and “micro” factors that motivate foreigners to invest their capital directly in South Africa, as well as the constraints to such investment. Based on this analysis, the paper argues for a strategic approach to foreign direct investment, that acknowledges South Africa’s position within the SADC region.

The paper begins with a brief exploration of why foreign direct investment is important to South Africa, and the discernible quantitative and qualitative trends that have emerged in respect of both the flows of foreign capital and the stock of foreign direct investment. There is no single source for FDI data, and where possible, more than one source is provided. The study looks at the investment decision by new investors and the ongoing capital expenditure by foreign owned firms. The theory of investment behaviour and interviews with firms are combined with different data sources to provide an overview of the attitudes and motivations towards investment in South Africa by foreigners. The paper concludes with a strategy based on a number of policy recommendations, which can, over time, give rise to increased levels of foreign direct investment.