

THE ROLE OF FOREIGN DIRECT INVESTMENT IN SOUTH AFRICAN AGRICULTURE

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OUTLINE

- Introduction
- FDI in South Africa (SA)
- FDI, a development strategy?
- Methodology
- Results and conclusions
- Recommendations



INTRODUCTION

- International capital flows
- Foreign Direct Investment (FDI)
- Expansion strategy
- Benefits
- Economic growth?
- SA: Re-attract investment



Introduction (2)

- Invest in SA: economic powerhouse, open economy, transport, telecommunication, natural resources, manufacturing industry
- Investment incentives: 84 % market size, 40 % availability of raw materials
- Low FDI inflows in SA: Nigeria(2), Brazil(6), India(4), Australia(4), 2% of GDP, 11 % of African FDI



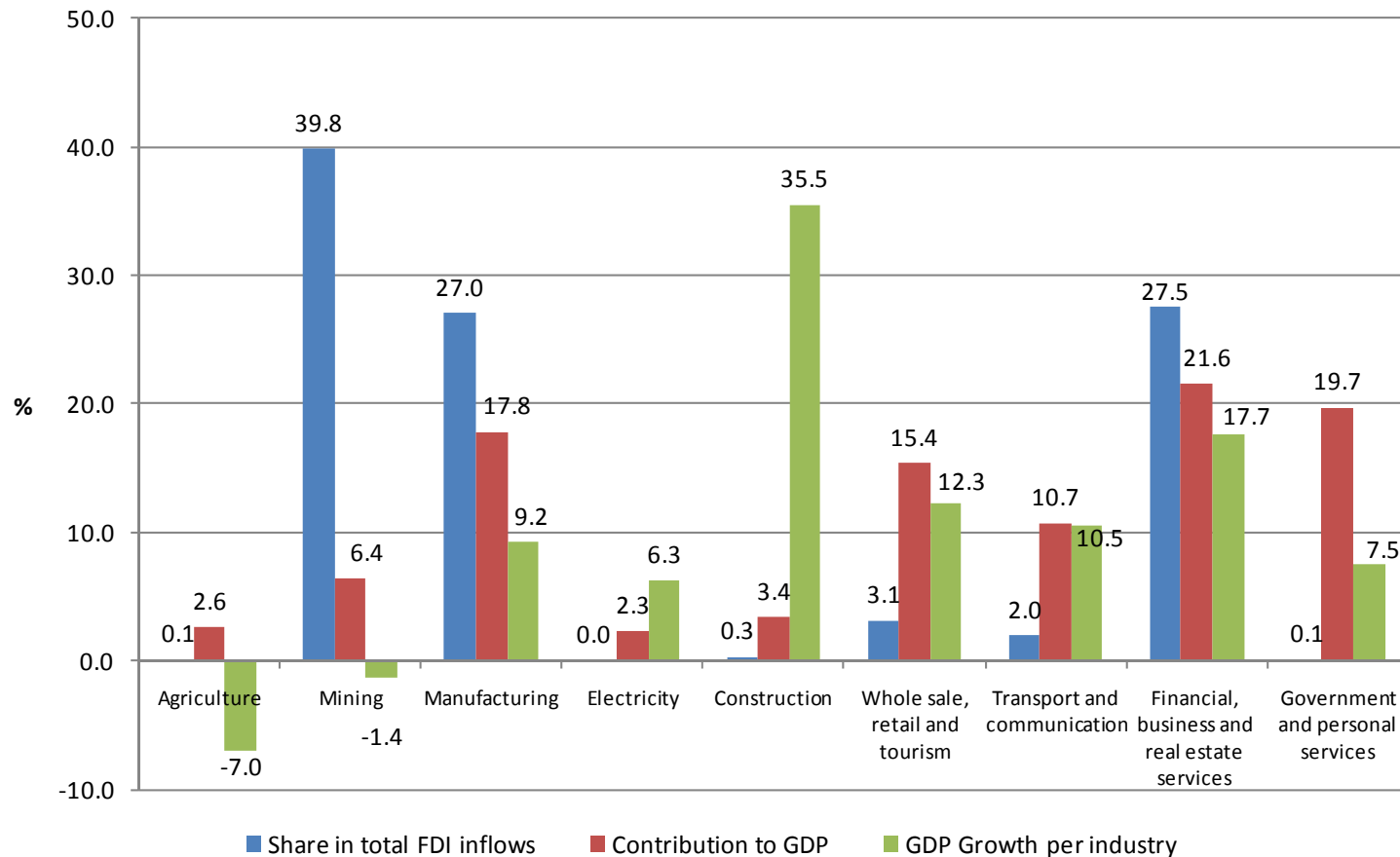
Introduction (3)

- SA's FDI performance low (122th)
- SA's FDI potential (74th)
- Low per GDP capita, low share of exports in GDP, low amount of telephone connections, low share in imports of electronics and cars, low share in export of services



FDI IN SOUTH AFRICA

FDI per sector



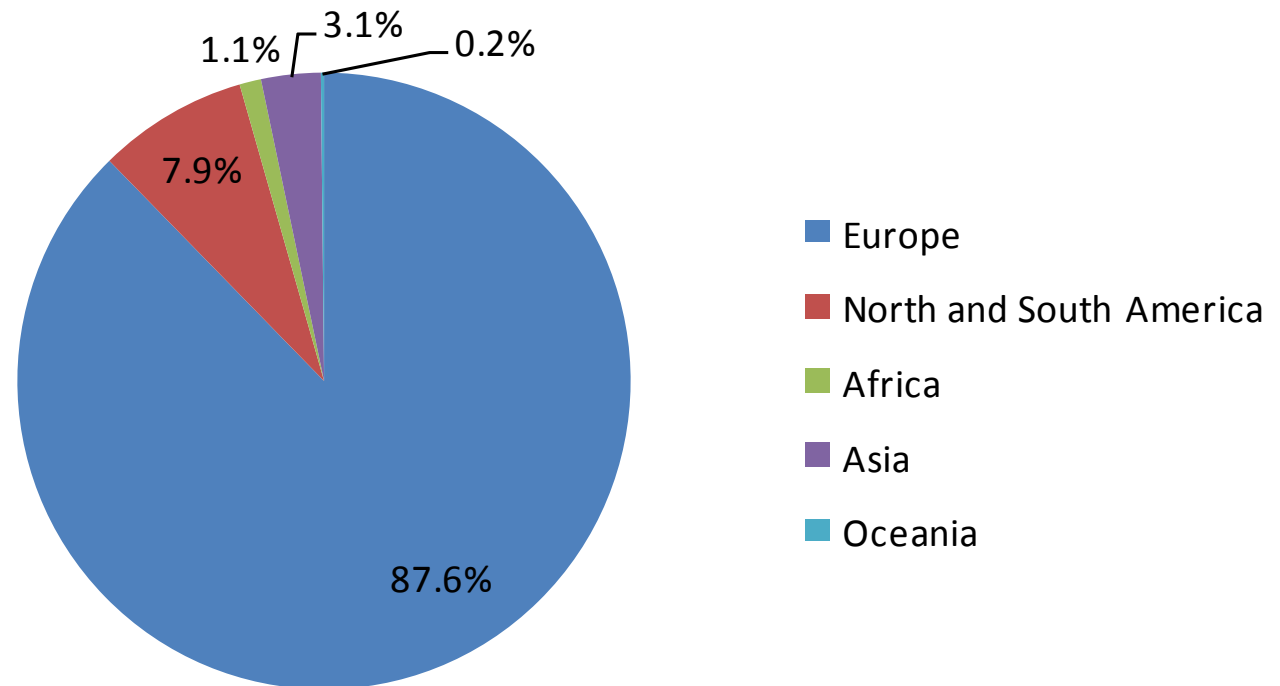
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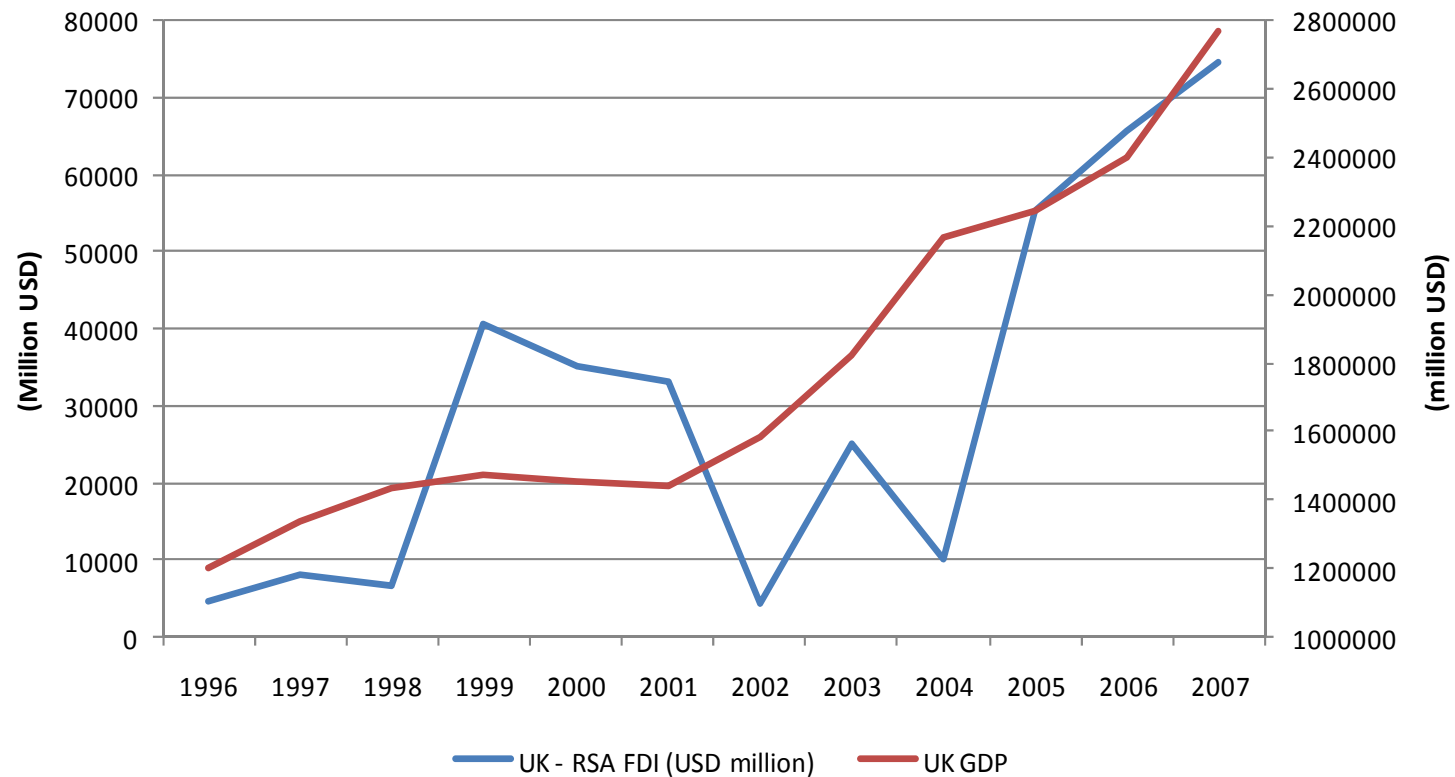
FDI in South Africa (2)

Sources of FDI



FDI in South Africa (4)

Trends in UK's GDP and FDI in SA



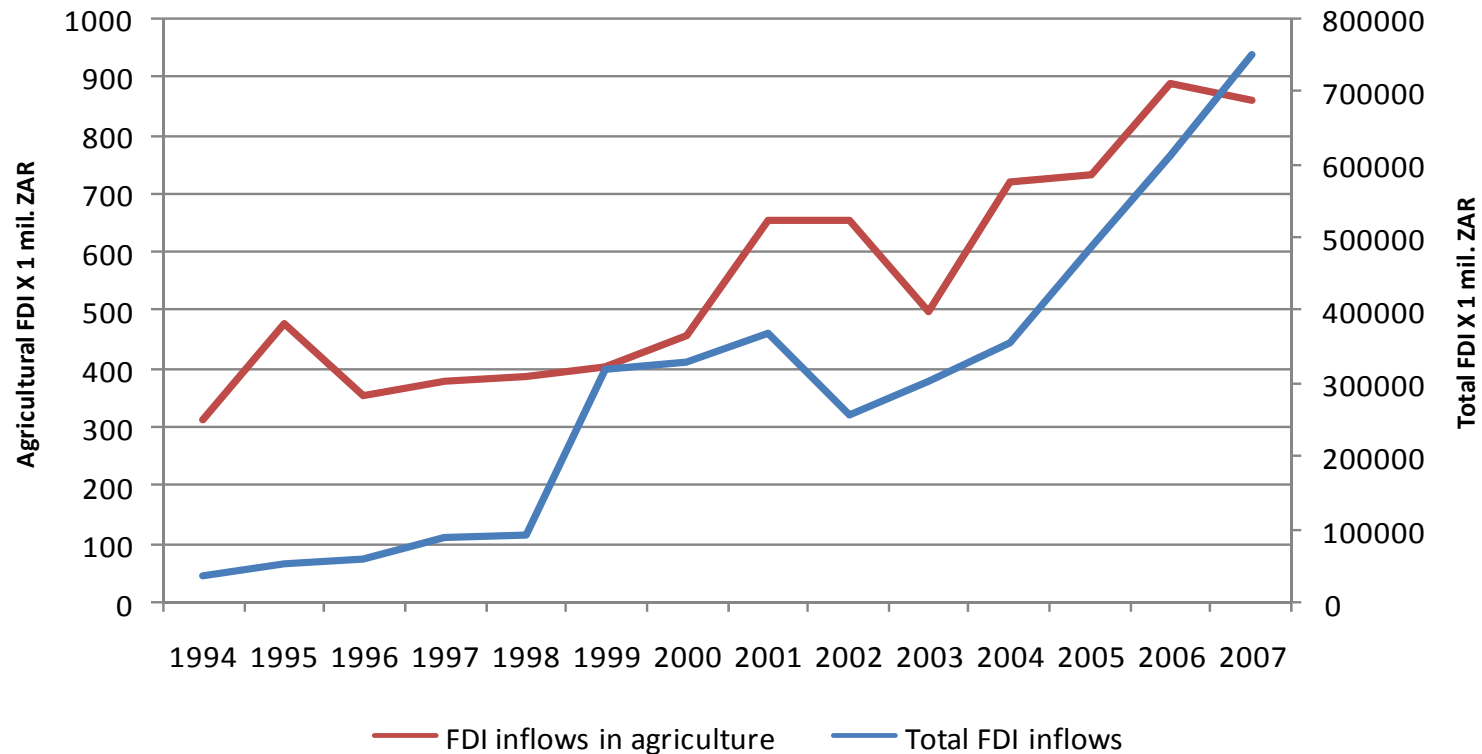
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FDI in South Africa (5)

Trends in SA's total and agricultural FDI inflows



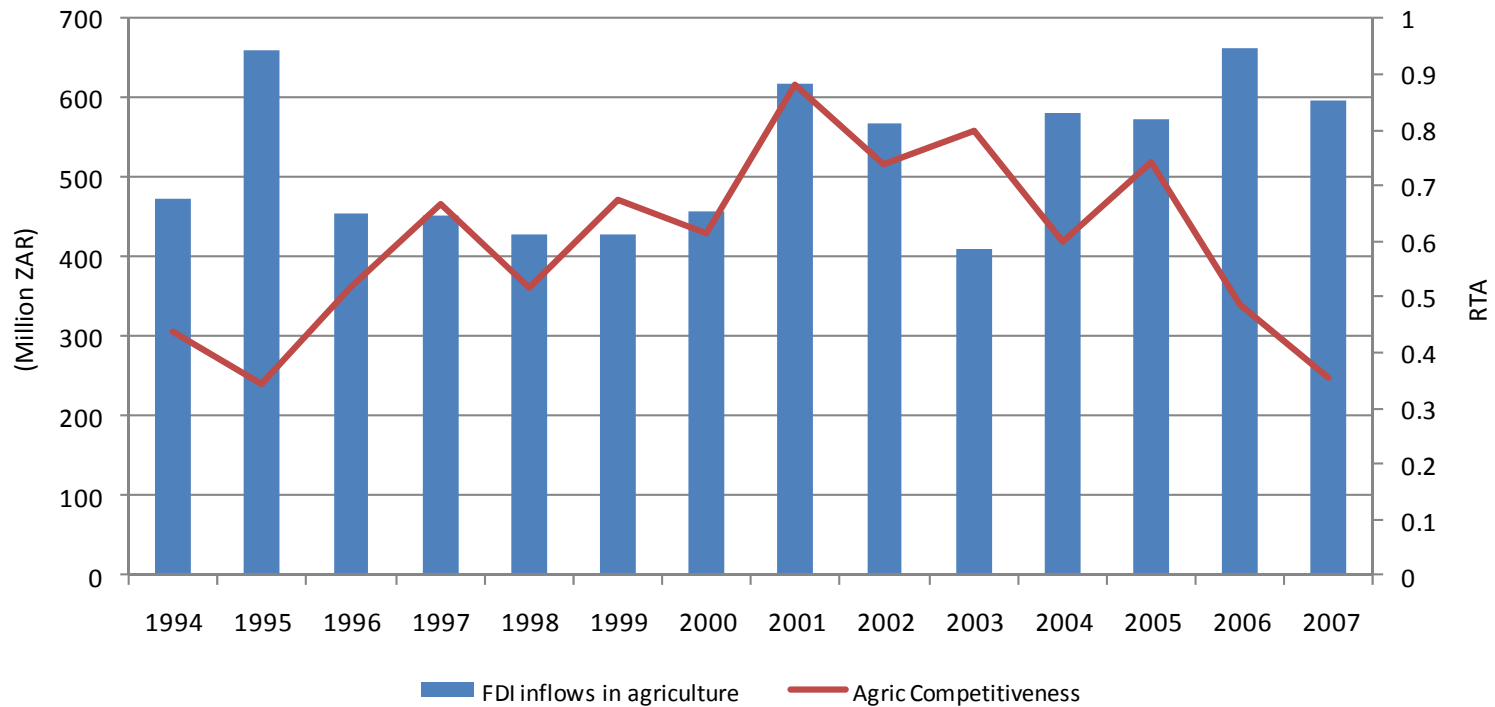
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FDI in South Africa (6)

Agricultural FDI inflows and competitiveness



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FDI, A DEVELOPMENT STRATEGY?

- Previous studies on food sector
- Promoting exports, creating an export base, increased land use, technology transfer, job creation
- Determinants of (agricultural) FDI?
- Data!
- *Characterisation of FDI inflows*
- *FDI environment*



METHODOLOGY

- Data limitations: correlation analysis, interpretation
- FDI, foreign liabilities of SA: equity capital, reinvested earnings, long- short term capital
- Agricultural FDI inflows / agricultural FDI
- Determinants : literature
- FDI environment: SWOT analysis



Methodology (2)

Determinants

Variable	Measure / proxy	Expected sign
Gross Domestic Product (GDP)	market size	+
GDP growth	market attractiveness	+
Agricultural GDP	size of the agricultural sector	+
Growth of agricultural GDP	sectoral performance	+
Real Effective Exchange Rate (REER)	favourable incentive for foreign investment	-
Agricultural trade openness	ratio of total agricultural trade to agricultural GDP	+
Inflation rate	economic stability	-
Government expenditure on agriculture as share of agricultural GDP	importance of agriculture in the national policy framework	+
Agricultural trade linkages with the EU	relationship of trade flows and FDI with SA's most important agricultural trade partner	+
Agricultural Competiveness Status (RTA)	measurement of global competitiveness of the agricultural sector	+



RESULTS & CONCLUSIONS

Correlation analysis

Factor	Direction of correlation
Total real GDP	+
GDP growth	+
Real agricultural GDP	-
Agricultural GDP growth	+ / -
REER	+
Agricultural trade openness	+
Inflation rate	-
Agricultural trade linkages with EU	+ / -
Government spending on agriculture as share of agricultural GDP	+
Agricultural Competiveness Status	+ / -



Results & conclusions (2)

FDI environment

- Strengths: well- established agricultural sector , sound macro-economic policies, good infrastructure, most FDI is market-seeking, factor market above average for developing country, most critical resources locally sourced, tax treaties in place with most partners, an open economy, monetary policies to attract FDI



Results & conclusions (3)

FDI environment

- Weaknesses: little Greenfield investments, poor administrative environment, low worker productivity, agro- food sector is marginally competitive, high cost of doing business, high transport cost, government capacity is very limited, low agricultural R&D output



Results & conclusions (4)

FDI environment

- Opportunities: large labour base, proposed creation of a one-stop FDI facilitation centre, privatization of state enterprises, more focus on capital intensive FDI, international promotion of South African agriculture as an attractive investment opportunity, creating a South African identity in the international business environment, social and environmental responsible production, induced and market driven innovation



Results & conclusions (5)

FDI environment

- Threats: uncertainty around land-reform, too much focus on labour intensive FDI, uncertainties about the new presidency, strength of labour unions and its alliance with the ANC, high crime rate, limited availability of qualified black managers (BEE), historical legacy of the country, FDI targeted at resource extraction and cheap labour will not enhance development, large carbon footprint of exports, financial and economic crisis



RECOMMENDATIONS

- Further research on impact of FDI, types of foreign investment and foreign investment incentives(survey)
- Influence of sector on FDI attractiveness?
- Sector broad strategic plan:
 - Inclusive
 - Ownership: stakeholder involvement
 - Development enhancing



THANK YOU!

BAIE DANKIE!

KE YA LOBOGA!



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