Essay synopsis: Sifiso Mkhwanazi

Foreign direct investment (FDI) is the purchase of real assets by non-residents in a foreign country, explains Sifiso Mkhwanazi. FDI can make up for low levels of domestic investment, such as there are in South Africa, and thus ensure faster economic growth.

Sifiso cites determinants of FDI including government policy such as investment incentives (e.g., tax rebates) that reduce the cost of doing business for foreign investors; the availability of quality infrastructure; political stability/instability; government expenditure in relation to its revenue collections, with a budget deficit raising uncertainty among investors about the sustainability of the host country's fiscal position; exchange rate stability/instability; inflation rate; market size and growth; and labour costs.

Sifiso points out that South Africa lacks quality infrastructure; suffers from government instability, crime and theft, and corruption; has an increasing budget deficit that makes the country look financially unstable; has exchange-rate instability; and has increasing labour costs. These socioeconomic and political factors suggest that South Africa is not an investment destination for efficiency-seeking and market-seeking efficiency FDI, Sifiso says. However, South Africa can be considered an investment destination for natural-resource-seeking FDI due to the abundant availability of natural resources in the country.

Sifiso's recommendations include that the government improve the quality of infrastructure, correct corruption, reduce government debt and ensure exchange rate stability in order to lure significant FDI inflows.

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