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**Foreign Direct Investment in South Africa:
Determinants and Effects**

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Abstract

Endogenous growth theory advocates that the main obstacle facing developing countries trying to keep up with or advance on more advanced countries is the gap in knowledge or human capital, rather than the gap in physical capital. The transfer of knowledge, resulting from the presence of multinationals originating in more technologically advanced countries, justifies the role FDI plays in promoting efficiency and growth.

In our work we analyse 3 questions regarding FDI in South Africa. Firstly, we investigate the FDI – growth relationship for South Africa using time series econometrics. We then attempt to replicate, for South Africa, the formal barriers to FDI used in OECD analysis. Lastly, we look at the role of other policy and non-policy factors in driving FDI in South Africa. Non-policy factors include: market size, distance, factor proportions (relative endowments of different inputs) and political and economic stability. Policy factors include: Openness, product-market regulation, labour market arrangements, corporate tax rates and infrastructure.

We end with policy implications and incentive schemes aimed at promoting FDI