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AN EXPLORATION OF THE EFFECTS OF FOREIGN DIRECT INVESTMENTS ON SOUTH AFRICA'S ECONOMIC GROWTH

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ABSTRACT

This study examines how foreign direct investment (FDI) impacts South Africa's economic growth. Interviews were conducted with experts in economics and business to gain insight into their perspectives on South Africa's FDI attraction strategy and impact on economic growth . The findings reveal both advantages and disadvantages associated with FDI. While experts acknowledge that FDI has the potential to stimulate economic growth, they also raise concerns regarding unequal distribution of benefits and potential harm to the economy. To maximize the positive effects of FDI while minimizing risks, the participants recommend several actions. These include making regulations clearer and more predictable, improving infrastructure to make South Africa more competitive, and attracting investment to growing industries. Collaboration between different groups is also seen as important for sharing knowledge, developing skills, and creating new ideas. Additionally, addressing skill shortages, making it easier for businesses to get funding, and promoting South Africa more effectively are seen as crucial. In conclusion, this study emphasizes the need for a well-rounded approach to attracting FDI, considering economic, social, and government-related factors. By implementing targeted policies and encouraging collaboration, South Africa can become more attractive to investors and achieve its full economic potential. However, it's important to constantly monitor how well these strategies work to ensure FDI truly benefits South Africa's long-term economic growth and development.

Keywords: Foreign Direct Investments; Economic Growth; South Africa, Qualitative Study

1. INTRODUCTION

Foreign Direct Investment (FDI) plays a critical role in developing countries. Recognized as a vital source of capital, technology transfer, and expertise, FDIs provide numerous benefits. They represent the largest form of capital flow, enabling developing countries to pursue strategic plans for economic growth and industrialization (Baiashvili & Gattini, 2020). One crucial aspect of FDI is its role in providing external financing. Developing countries require resources to achieve targeted growth rates, and FDIs offer a crucial source of external funds (Makhoba & Zungu, 2021; Makhoba & Kaseeram, 2019). This external financing supports various initiatives aimed at achieving economic development goals. Beyond capital, FDIs contribute significantly to technological advancement in host countries. This occurs through technology transfer, where foreign companies bring their know-how and expertise to the local market. Additionally, FDIs can foster positive relationships with local businesses, further promoting growth and innovation (Asiamah et al., 2019).

While the precise economic impact of FDIs is challenging to measure definitively, there is evidence of their positive influence. Studies by (Baiashvili and Gattini 2020; Makhoba and Zungu 2021; Güngör and Bekun 2022), show that increased FDI can boost export volumes and overall trade performance. Additionally, Osei and Kim (2020) highlight how FDI promotes economic growth through technology transfer, improved human resources, and capital formation. Recognizing these benefits, many developing countries actively attract FDI by offering incentives (Hyungsun & Miguel, 2017; Ridzuan et al., 2017; Asiamah et al., 2019). This strategy aims to leverage the expertise and resources of foreign investors for domestic development. Ultimately, developing countries hope to replicate the success of developed economies through FDI, as suggested by Akpan and Eweke (2017).

For developing countries like South Africa, FDIs are seen as a crucial channel for transferring capital and technology from developed economies (Asamoah et al., 2019; Joshua et al., 2022). South Africa has embarked upon a process of reform and liberalization to open the economy to foreign investments. The government has acknowledged that foreign investment is necessary to support the country's growth and development objectives Govender and Ngwila, 2023). Several initiatives have been undertaken over the past two decades to boost FDI flows, most notably President Cyril Ramaphosa has pledged to bring in $100 billion in FDIs for the country's long term economic and social growth (South African Government, 2018).

While Foreign Direct Investment (FDI) is widely viewed as a crucial driver of economic growth in developing countries (Asamoah et al., 2019; Joshua et al., 2022), South Africa's experience presents a puzzle. Despite government efforts to attract FDI through reforms and liberalization (Govender & Ngwila, 2023), the country's GDP growth has not met expectations. Furthermore, research findings on the FDI-growth link in South Africa are mixed (Sunde 2017; Khobai et al. 2018; Joshua et al., 2022). The discrepancy between theory and South Africa's reality highlights the need for a deeper understanding on how FDI be best leveraged to achieve sustainable and inclusive economic growth. This study, therefore, seeks to explore the impact of foreign direct investments on the South African economy through a qualitative analysis of interviews with experts in economics and business. The study will explore the following research questions:

While Foreign Direct Investment (FDI) is widely viewed as a crucial driver of economic growth in developing countries (Asamoah et al., 2019; Joshua et al., 2022), South Africa's experience presents a puzzle. The South African government actively seeks foreign direct investment (FDI) under the assumption that it stimulates economic growth. However, the actual impact of FDI on South Africa's GDP remains unclear, with some studies finding a positive correlation and others not (Bekun & Sarkodie, 2020; Sunde, 2017; Khobai et al., 2018; Joshua et al., 2022). This discrepancy creates a challenge: how can South Africa leverage FDI to achieve its economic growth goals?

To address this gap in knowledge, this study explores the effects of FDI on South Africa's economy through qualitative analysis of expert interviews. The research aims to answer the following questions:

1. How do economic and business experts perceive the impact of foreign direct investment on South Africa economic growth?
2. From the perspectives of economic and business experts, what factors contribute to the attraction of foreign direct investments in the South Africa?
3. What significant challenges does South Africa encounter in its efforts to attract foreign direct investments?

While quantitative data analysis can provide numerical trends and statistics, a qualitative approach allows for a deeper, more contextualized analysis of the complex dynamics and impacts of FDIs. Interviews with experts in economics and business are a qualitative research method that can uncover insights that quantitative data alone may miss. Open-ended interviews allow participants to explain their perspectives and experiences in their own words, without being limited to preset survey questions or numerical metrics. The experts interviewed for this study are likely to have in-depth, firsthand knowledge of South Africa's economy and business landscape. Drawing out their expertise through qualitative interviewing techniques can shed light on real-world implications of FDIs that quantitative data cannot easily capture. Also, qualitative methods not only enable a more comprehensive exploration of expert opinions but also enrich our understanding of the subject matter. Thus, the research findings will assist in providing a good understanding of the current existing policies, laws, and decrees as to whether they are viable in attracting more foreign investors in South Africa.

2. TRENDS IN SOUTH AFRICA FDI INFLOWS

Traditionally, most of South Africa's FDI inflows are from European and American countries (UNCTAD, 2023). European countries that are the main source of FDI inflows include the United Kingdom, Netherlands, Germany, and Switzerland. Other countries include Japan, China, Australia, and the United States of America. These investors are primarily driven by two key motivations: market-seeking and efficiency-seeking strategies. Market-seeking FDI targets South Africa's growing domestic market, boasting a population exceeding 60 million with a rising middle class and increasing purchasing power (World Bank, 2023). This strategy allows foreign investors to capitalize on the expanding domestic consumer base. On the other hand, efficiency-seeking FDI aims to leverage South Africa's unique advantages to gain a competitive edge in the global market. This could involve factors like skilled labour, access to resources, or a strategic location. Figure 1 illustrates the trends in South Africa's foreign direct investment (FDI) over a period from 1970 to 2022.

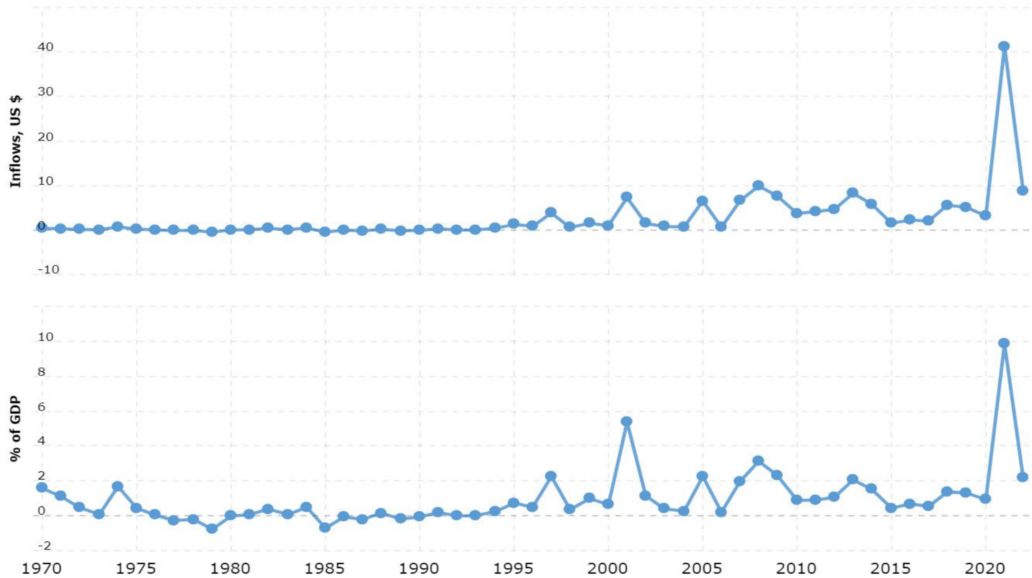

Fig.1 FDI inflows in South Africa from 1970 to 2022
Source: World Bank (2023)

Foreign direct investment (FDI) flows have fluctuated over time, as shown in Figure 1. FDI in South Africa was minimal during the apartheid era. This can largely be attributed to the political circumstances at the time. In the mid-1980s, trade and financial sanctions were imposed, followed by a financial crisis. Capital controls were tightened, and a moratorium on payments to external creditors was declared, effectively isolating South Africa from the international capital markets (Athanasiosa, 2005). Following 1993, there was a notable rise in FDI, marked by two significant occurrences that shaped this era. These included the partial divestment of government shares in Telkom in 1997 and the acquisition of De Beers by Anglo American in 2001. Overall, however, FDI has stayed at relatively low levels averaging about 1.5% of GDP during 1994–2002 (Athanasiosa, 2005). The first major remarkable increase occurred in 2001 when about US$7.2 billion FDI inflows were recorded in South Africa. Among the causes of this sudden increase can be traced back to a number of factors, including the R1.2 billion sale of Telkom's strategic stake to the Thintana consortium and the $2.4 billion purchase of De Beers' minority shareholders by Anglo American (UNCTAD, 2006). The following year, FDIs inflows declined sharply by 20% from US$7.3 billion to US$1.5 billion in 2002. This was because the value of the South African rand had dropped relative to the US dollar. Inflows of FDI rose after 2006, peaking in 2008. According to (Wöcke & Sing, 2013), these dynamics are associated with the commodity price booms that occurred around the world between 2005 and 2009. While the commodity price boom between 2005 and 2009 did draw FDI to South Africa, it mostly attracted resource-seeking investments in mining and related sectors. South Africa's mining sector received 300% more FDI from $490 million in 2004 to $2 billion in 2008 (SAMMRI, 2018). Anglo American, BHP Billiton, and Xstrata are just a few of the major international mining companies that have invested heavily in expanding their production capacities. South Africa became home to more than 150 foreign junior mining businesses as a result of the boom (Leon, 2015).

After a sustained period of decreases in FDIs from 2015 to 2017, foreign direct investments into the country averaged around $2 billion per year. There was a 170,55% increase in FDI flows in 2018 to $5.57B, compared to 2017 (UNCTAD, 2020). South Africa's telecommunications sector experienced significant growth and innovation, driven by an increasing demand for connectivity and mobile services (UNCTAD, 2020). The government's commitment to improving digital infrastructure, coupled with a growing middle class and an expanding consumer base, made the telecommunications sector an attractive investment opportunity (World Bank, 2018).

In 2019, FDI flows into the country were $5.116B, a 16,97% decline from 2018. This decline followed a robust recovery in 2018 that saw inflows double from $2 billion to $5.3 billion (UNCTAD, 2020). Furthermore, the COVID-19 pandemic had a significant impact on FDIs in 2020 as flows fell by 39% to $3.2B. According to UNCTAD (2022), FDI flows were significantly dampened by the economic and health difficulties caused by the pandemic and the low prices of energy commodities. An analysis of FDI flows in South Africa is shown in Table 1.

Table 1. Foreign Direct Investments flows in South Africa

Foreign Direct Investments	2017	2018	2019	2020	2021	2022
Inward FDI *($ billion)*	2.01	5.45	5.13	3.11	40.89	9.051
FDI Stock *($ billion)*	156.35	138.56	145.25	136.74	173.06	173.5
Greenfield Investments	106	109	130	103	115	160
Greenfield Investments *($ billion)*	3.56	4.81	4.12	5.6	6.5	26.777

Source: UNCTAD (2023)

Foreign direct investment into South Africa has shown some volatility in recent years. Inward FDI flows, which represent the amount of new investment entering the country, fluctuated between $2 billion and $40.89 billion from 2017 to 2022. According to UNCTAD (2020), there was a decline in FDI inflows in 2020 ($3.11 billion) compared to 2019 ($5.13 billion). FDI inflows also decreased in 2022 (US$9 billion) compared to a significant rise in 2021 (US$38 billion) reported by OECD (2022). This decline is likely due to a combination of factors, including global disruptions such as the Russia-Ukraine conflict and the inability of state-owned utilities to provide essential services (Govender & Ngwila, 2023). However, the overall FDI stock, reflecting the total value of foreign-owned assets, has shown a steady increase, reaching $173.5 billion in 2022. This indicates that despite annual variations, foreign investment remains present in the South African economy. Interestingly, the number of greenfield investments, which are entirely new ventures established by foreign companies, has also grown steadily, reaching 160 in 2022. This suggests that foreign investors are increasingly interested in starting new businesses in South Africa, potentially signalling confidence in the country's long-term growth prospects.

3. LITERATURE REVIEW

The impact of FDI on economic growth is a well-established topic of research in economics. There is a growing focus on research examining this relationship specifically in developing countries. Studies have explored this link (Ahmed & Ibrahim, 2019; Al-Shawaf & Almsafir, 2016; Bermejo Carbonell & Werner, 2018; Haider et al., 2021; Joshua, Bekun, & Sarkodie, 2020; Joshua et al., 2022; Rafat, 2018). These studies highlight that FDI can bring new technologies, management skills, and production techniques to developing countries, potentially leading to economic growth. Additionally, some research suggests that a developing country's ability to adopt and implement these new technologies from developed nations is crucial for its growth rate (Ahmed & Ibrahim, 2019). This technology transfer could help developing countries close the gap with developed economies.

Makhoba and Zungu (2021) used time series analysis from 1960 to 2019 to establish the interrelationship between South Africa's economic growth and FDI. The empirical findings revealed a mutual relationship between FDI and GDP. Positive shocks in FDIs results in increases in economic growth, similarly positive shocks on GDP stimulates FDI inflows. This finding aligns with Joshua, Bekun and Adedoyin (2020) who used the ARDL approach, and similarly observed a positive impact of FDI on South Africa's economic growth. Interestingly, Joshua et al. (2020) also highlights the role of political risk, suggesting it has a stronger influence on FDI inflows compared to GDP itself. Their findings suggest that a stable political environment is crucial for attracting foreign investment. It is important to acknowledge that while time series analysis is a valuable tool for uncovering relationships between FDI and economic growth, it has limitations. This method primarily focuses on past data and may overlook other factors that could influence the relationship. For example, a country's infrastructure, skills development programs, and regulatory environment can all play a role in attracting FDI, and these factors might not be captured solely through time series analysis.

In contrast, Joshua, Bekun and Sarkodie (2020) established a non-causal effect between FDI and South Africa's economic growth, implying that FDI is not a driver of economic development contradicting their priori expectation. Along with Yeboua (2021) identified a nonlinear relationship between FDI and economic growth. That is, FDIs does not result in the growth of the economy. The study suggested synchronisation between policies that attract FDIs and policies that improve African organisations. The contrasting findings could potentially arise from differences in the methodological approaches employed in these studies.

More importantly, FDI depends on the openness of the host country which can increase or decrease inflows of FDI (Omoke & Opuala, 2021). For example, the country's openness to export does attracts FDIs that are export oriented FDI and increase in tariffs and other trade barriers imposed on exports reduces the FDI inflows. Therefore, trade openness of the host country does have a positive impact on FDI inflows and economic growth. Studies by Ridzuan, Ciobanu (2020); Duodu, Baidoo and Lau (2020); Nwadike, Johnmary and Alamba (2020) found that trade openness of a host country does have a positive impact on economic growth. The reviewed studies underscore the significance of trade openness as a key determinant of FDI inflows and economic growth. They highlighted the need for host countries to adopt open trade policies and create an attractive environment for foreign investors, particularly those seeking export opportunities.

In addition, literature has identified the most common determinants of FDI as labour cost, labour productivity, the infrastructure, trade openness, tax, market size, and exchange rate. Mixed evidence has been obtained on the determinants of FDI across the world (Ahmad et al., 2021; Dahir, 2017; Hlongwana, 2015; Rehman et al., 2021). Some of the determinants found to be important to a country may not be applicable to other countries. Similarly, determinants also differ across regions of the globe. Studies by (Jaiblai & Shenai, 2019; Joshua et al., 2022; Shahbaz et al., 2021) found that market size does impact FDIs positively. Whereas Dahir (2017) found that market size impacts FDIs negatively. The relationship between market size and FDI can be negative when cost incurred in transporting goods and services to foreign markets is greater than the costs incurred when production is within the domestic market (Shahbaz et al., 2021

In conclusion, literature has shown that benefits of FDIs do not occur automatically and equally across countries. The benefits tend to vary from one country to the other and it is difficult to separate and measure them. Therefore, the government of the host country must play a leading role in attracting FDIs and managing for them to achieve their development goals. Furthermore, literature on the determinants of FDIs is very rich and several studies have been conducted assessing the key determinants of a given location. However, there is no agreement as some researchers did not find any statistically significant determinants. The benefits of FDI are not uniform across countries, requiring careful attention from host governments in creating conducive environments. Policymakers must navigate the complexities outlined in the literature to effectively attract and manage FDI, recognizing that a one-size-fits-all approach may not be suitable in the global landscape.

4. METHODOLOGY

This section discusses the research methodology used in exploring effects of foreign direct investments on South Africa’s Economic Growth. The research design, participants and data collection and analysis techniques employed by the researcher are discussed. In addition, ethical issues that are associated with this study are discussed in this section.

Research Design. The research design is a crucial component of any academic study as it outlines the plan and structure of the research project. The present study employed a qualitative methodology to gain a comprehensive understanding of effects of FDIs on South Africa’s economic growth. This approach prioritizes rich, descriptive data to uncover complex relationships and nuanced experiences that might be missed by quantitative methods. Furthermore, qualitative methods allow researchers to gain a comprehensive understanding of the "why" behind the "what." Through interviews the study can explore the lived experiences of stakeholders involved in FDI, such as policymakers, business leaders, and academics. This can reveal the mechanisms through which FDI influences economic growth, including aspects like knowledge transfer, skills development, and infrastructure improvements.

Participants: A purposive sampling was used to identify and recruit participants for the interviews. Creswel (2014) notes purposive sampling involves the identification and selection of participants (either individuals or groups) that are well informed about the phenomenon of interest. The aim was to gather a sample with participants that would provide an accurate and deep understanding of the phenomenon at hand. For this reason, the sample comprised of government officials, business executives. economists and academics. The participants were selected based on their knowledge, expertise, and their ability to provide valuable insights into the effect of FDI on economic growth in South Africa. The study focused on experts on foreign direct investments and economic growth hence a smaller sample size was appropriate to achieve meaningful results. The specific sample of investment managers were from multinational companies, which are doing business in South Africa. The level of investment by the firm was used as a formula for inclusion in the target population since most of this information are available in the public domain. This criterion enabled the selection of the relevant foreign companies. The selection criteria for the other participants includes economic analysts who specialise in the analyses of the exchange rate, government expenditure, trade openness, economic growth and FDIs, political analyst and academics who had prior experience and knowledge. This was essential to provide significant information about FDIs and South Africa's economic growth.

Data collection procedure. Data was collected using semi-structured interviews and open-ended questions were used. According to (Creswell, 2007), open-ended questions promote in-depth discussion, and they gather detailed information. The interviews were conducted at various locations including zoom meetings. The interviews lasted for about an hour and were recorded with the participants' consent to improve the reliability and consistency of the transcription process (Minichiello et al., 2008). The participants' anonymity and confidentiality were protected by the use of pseudonyms and de-identifying the companies of the participants.

Data analysis: All interviews were recorded, and the author transcribed them verbatim to enhance familiarity with the data (Minichiello et al., 2008). To ensure participant anonymity, pseudonyms were employed to refer to the narratives. The participants were assigned codes in numerical order based on the order in which they were interviewed. The first participant was coded as 'Participant 1' and the last participant was coded as 'Participant 10'. Using the six stages of theme analysis outlined by (Braun & Clarke, 2006), we examined the data manually. The steps involved were (1) becoming familiar with the data, (2) creating initial codes, (3) identifying themes, (4) evaluating the themes, (5) defining and assigning appropriate names to the themes, and (6) writing the report. To enhance the validity of our qualitative research, we followed (Creswell & Miller, 2000) suggestion by implementing participant validation. This involved seeking feedback from participants during the interview process to ensure that their intended meanings were accurately captured.

5. RESULTS AND DISCUSSIONS

This section presented an analysis of the data collected through the interviews and analysed using the NVIVO 12 system. The responses are based on research questions-first, impact of FDI on the South Africa economic growth; second, factors contributing to the attraction of FDI, lastly, significant challenges encountered in attracting FDIs.

5.1 Impact of foreign direct investments on South Africa economic growth

The aim of the study was to examine the impact of foreign direct investments on South Africa economic growth. The participants (100%) did concede that FDI does influence economic growth and they are considered as an engine for economic growth. Participant 1 highlighted that FDIs bring in new knowledge, human capital development and technological developments. The attributes gained by training and sharing experiences would increase the overall level of education and human capital development in South Africa. The results suggest that a country with FDIs benefits greatly by developing its human resources whilst maintaining ownership. According to one participant, "*South Africa has an open investment climate, and foreign investments has played an important role in developing the economy*." The country has undertaken substantial economic reforms to attract foreign investors.

Besides the positive effects that FDIs bring in the economy, there are cases where investment aimed for South Africa might harm the economy and decrease the economic growth rate, one participant mentioned that "*Well, there are instances where investments intended for South Africa might actually have a detrimental effect on the economy and could even decrease the overall growth rate…it's crucial that we thoroughly evaluate the potential consequences of these investments to safeguard against any negative impacts on our economic trajectory*."

Expanding on the theme of economic impacts, another participant echoed concerns regarding potential negative effects of FDIs in South Africa: "*FDI has the potential to stimulate economic growth by fostering innovation and knowledge transfer. However, in South Africa, we often see limited linkages between foreign investors and domestic industries. This hampers the spillover effects of FDI on the broader economy and impedes its potential to catalyze sustainable development*."

The participants' responses collectively underscore the complexity of FDI's impact on South Africa's economic growth. While FDI holds promise as a driver of innovation and economic development, it is evident that the actual outcomes can vary depending on factors such as the nature of investments, the level of integration with domestic industries, and the effectiveness of policy frameworks.

5.2 Determinants of foreign direct investments in South Africa

This section presents the factors contributing to the attraction of FDIs. Table 3 presents the determinants of FDIs highlighted by the participants, which can be grouped into six main themes.

Table 3 factors contributing to the attraction of FDI

Themes	**P1**	**P2**	**P3**	**P4**	**P5**	**P6**	**P7**	**P8**	**P9**	**P10**
Market size	√	√	√	√	√	√	√	√	√	√
Trade openness		√	√	√	√	√		√	√	
Inflation	√	√	√	√	√	√	√	√	√	√
Exchange rate	√	√			√	√	√		√	√
Political stability	√		√	√		√	√		√	√
Infrastructure development		√	√	√	√	√			√	

Factor one: market size

The participants (100%) agreed that market size have proved to be one of the most important determinants of FDI is South Africa. One participant mentioned that *" The market size indeed plays a crucial role in determining foreign direct investment decisions. A larger market typically offers greater opportunities for companies to expand their customer base, increase sales, and ultimately generate higher profits*". Whilst another participant observed that, *"…a larger market provides greater opportunities for expansion and profit generation, thus attracting more FDI inflows.*" Furthermore, building on this observation a participant highlighted that *"market size plays a pivotal role in shaping foreign direct investment patterns. A sizable market provides firms with the opportunity to expand their operations, access new customers, and drive innovation, making it a crucial consideration for investors seeking sustainable growth opportunities."*

Given this feedback it is clearly visible that when the size of the market of host country has grown large enough, the host country can become the target for the inflow of FDI. These results therefore highlight that growth of the market size measured in GDP terms should be accelerated. In addition, since most of the participants highlighted that the level of economic development in a country may affect growth and sustenance of FDI. This further emphasizes that growth of the economy should be given pre-eminence. These results are consistent with studies by (Akpan and Eweke, 2017; Asongu *et al*., 2018; Jaiblai and Shenai, 2019; Joshua *et al*., 2022; Klaew *et al*., 2016; Shahbaz *et al*., 2021; Şıklar and Kocaman, 2018) found that market size does impact FDIs positively.

Factor two: trade openness

Most participants (70%) identified the challenges associated with starting up a new business influence speed of seizing new opportunities in investment in a country. They further mentioned that FDI can be attracted in South Africa through liberalizing trade to attract foreign investment. A response from one participant highlights that "*Trade openness significantly influences FDIs by affecting the ease of starting a business. Countries with more open trade policies often offer smoother processes for establishing enterprises, which accelerates the pace at which new investment opportunities can be seized* ." Whilst another participant reported that "*Liberalizing trade in South Africa would undoubtedly attract more FDIs. By opening up markets and reducing barriers to trade, the country can showcase its potential as an attractive investment destination, thereby drawing in foreign capital*." Another crucial point offered by a participant was that "*Trade openness plays a crucial role in shaping the investment landscape. The easier it is to conduct business across borders, the more likely it is for investors to enter a market. South Africa stands to benefit significantly from trade liberalization in terms of attracting FDIs and stimulating economic growth*."

The above findings clearly show that despite the South African economy been open and having some of the best trade policies, ease of doing business and the speed of facilitating new investments needed to be improved. In addition, participants noted that Kenya has good trade policies that allow free movement of goods and services. Findings clearly support that, the pace of liberalization should be sustained.

Factor three: Inflation

Inflation rate was considered as an intervening variable in this study where the participants (100%) highlighted that high and unstable inflation increases the cost of businesses and negatively affects long term planning by investors. A participant highlighted that, "*a high inflation rate indicates high economic tension in a country and reflects the inability or unwillingness of the government to conduct a stable economic policy…*" Thus, if foreign investors are risk-averse, a higher inflation rate may lead to a reduction in FDI in South Africa, because investors will not risk profits expected from investment. Another crucial point mentioned by a participant was that "*Inflation volatility is a major concern for potential investors. It not only increases costs but also undermines confidence in the stability of the investment environment, discouraging long-term commitments*." Furthermore, another participant highlighted that inflation poses a significant challenge for attracting foreign investment "*The impact of inflation on FDI cannot be overstated. It erodes the purchasing power of capital, disrupts pricing strategies, and introduces unpredictability into investment decisions, ultimately deterring foreign investors from entering or expanding within the market*."

Given this feedback inflation presents a multi-faceted challenge for attracting foreign investment. It leads to higher operational expenses, erodes investor trust, and makes long-term planning more difficult. These factors collectively act as a major obstacle for international investors considering market entry. Furthermore, as long as inflation remains uncertain, foreign investors will likely demand a higher premium to compensate for inflation risks. This, in turn, can decrease the overall volume of investment. This negative relationship between inflation and FDI in South Africa is consistent with previous studies by Kunofiwa (2018); Şıklar and Kocaman (2018) and (Asiamah, Ofori and Afful 2019) and it supports the theoretical conclusion that inflation impacts the country's economy negatively and a poor economy results in a decrease in FDI.

Factor four: Exchange rate

Exchange rate is an essential component affecting FDI. The participants (70%) posit that exchange rate volatility may negatively affect and reduce direct investment because exchange rate volatility directly contributes to uncertainty on the returning transaction plan from the investing countries. An increase in the value of an importing country's currency implies depreciation of the South African currency and is expected to have a positive impact on exporting products that are produced in South Africa. One participant noted "*A higher value investing partner currency will enable investors to invest in South African economy more inexpensively, thus the amount of FDI will rise*." Building on the previous point, another participant observed "*A higher value currency from an investing partner will make exporting products more expensive to South African purchasers, so again FDI in South Africa would be stimulated to overcome this cost disadvantage…*"

The above findings revealed a complex interplay between exchange rates and FDI in South Africa. While volatility discourages investment, currency valuations can offer both challenges and opportunities. Finding ways to manage volatility and leverage favorable exchange rates will be crucial for attracting FDI and promoting economic growth in South Africa. This is consistent with the findings of Rama (2021), who argued that a lower currency would be more attractive to foreign direct investment (FDI) and that the high cost of profit conversion would compel multinational corporations to reinvest their earnings in the home country.

Factor five: political stability

Given the fact that political stability affects all aspects of a country, especially its economy, and providing for conditions that allow for growth and development of local markets, this factor was initially viewed as very important when defining the propositions. A participant highlighted that without a stable political environment, it is difficult to predict or rely on a sustainable long-term growth prospect which FDIs critically depend on *"Foreign investors seek environments with stable political climates to mitigate risks. If South Africa wants to increase FDI inflows, it must prioritize measures to enhance political stability and minimize uncertainties for investors."*

Investors are concerned about the political environment of the host country as political instability is most likely to affect the profitability and return on their investment. Investors are more concerned about the safety of their investments rather than how the South African economy grows. Hence, political instability reduces a country's attractiveness as a location of FDI and is inversely related to FDI inflows. The findings clearly support that political stability is necessary for attracting foreign investors for it will ensure that there are less expropriation risks. To attract more foreign investment, the South African government would have to reduce the political risk.

Factor six: infrastructure development

South Africa has modern and highly advanced telecommunications, technology, transport (roads, rail, and ports) and energy provision infrastructure. Expanding new economic infrastructure and maintaining existing facilities are important components of an investment climate reform strategy. One participant highlighted that the government has committed significant resources to infrastructure to improve the quality and sustainability of capital projects and to attract more FDI's "*Infrastructure development is crucial for attracting foreign direct investment. The government's significant investment in infrastructure shows its commitment to enhancing the quality and sustainability of capital projects…. This commitment not only improves the overall business environment but also makes our country more appealing to foreign investors….with better infrastructure in place, we are better positioned to attract and retain FDI, driving economic growth and development*."

The above findings reveal that there are different determinants that affect the flow of foreign direct investments within the economy. When foreign investors are considering foreign direct investments, the participants concurred that they consider several macro factors, this was consistent with the empirical literature reviewed (Ahmad et al., 2021; Dahir, 2017; Hlongwana, 2015; Rehman et al., 2021).

5.3 Factors impeding foreign direct investments

FDI inflows does require long term commitments, thus the negative economic perspective about South Africa could deter potential investors. The key factors impeding foreign direct investments indicated by the participants are poor infrastructure, crime, social unrest, inflation, slow growth, lack of high-skilled labour force, corruption, and lack of political stability. Most participants (70%) concurred that political stability, infrastructure, crime, and social unrest are the main factors impeding foreign direct investments in South Africa.

South Africa suffers from increasing social unrest (strikes and demonstrations) and structural issues in electricity supply. Also, the lack of clarity in structural and policy reforms has been a concern to foreign investors. Despite the declaration of the Protection of Investment Act, which supports foreign investors' legal guarantees, certain legal uncertainties tend to impede investment potential by discouraging foreign investors. One participant mentioned that "*South Africa is losing its competitive edge in infrastructural development despite the country having developed sophisticated infrastructure years back, its competitive advantage is decreasing as other countries are continuously improving*."

Foreign investor's ability to make strategic long-term investments in South Africa has been hampered, as acknowledged by the other participants. Furthermore, South Africa has tried to differentiate itself as an investment destination from other African countries but has had only moderate success. According to 60% of participants, potential investors are unaware of the South African economy's diversification and the growing importance of the service sector to GDP. As a result, South Africa needs to promote its commercial sector, highlight its targeted opportunities, and make it easier for businesses to invest in the country. One participant acknowledged that violence and criminality are deterrents to foreign investment, "*South Africa is struggling to combat the negative effects of criminal activities like social unrest, fraud, extortion, and theft, which have a direct impact on business operations by raising the associated costs*."

One participant raised the concern that looting, and vandalism deter investment in South Africa. The participant highlighted that Massmart was impacted by the riots and other forms of social unrest that occurred in Gauteng and KwaZulu-Natal in July 2021, "*Forty-one of Massmart's stores and two of its distribution centres in South Africa were broken into and ransacked. A warehouse on Queen Nandi Drive, close to Durban North, was destroyed by fire. This hindered the company's capacity to meet the stock requirements of its stores*".

The above findings have shed light on the key factors impeding FDI in South Africa. There seems to be a strong consensus among participants that political stability, infrastructure development, crime control, and social stability are the most pressing issues. Addressing these challenges and capitalizing on existing strengths will be crucial for South Africa to regain its competitive edge and unlock its full FDI potential.

The last element with regards to factors impeding FDI that was asked was recommendations they have for South Africa to improve its strategy for attracting FDI that fosters long-term economic growth, below are some of the changes that were suggested by the participants:

Enhancing Regulatory Environment: South Africa should focus on creating a more favorable regulatory environment to attract foreign investment. This includes streamlining bureaucratic processes, reducing red tape, and ensuring transparency and predictability in regulatory frameworks. Clear and consistent policies will instill confidence among investors and encourage long-term commitments.

Investing in Infrastructure Development: is critical for attracting and sustaining FDI in South Africa. The government should prioritize investments in transportation, energy, telecommunications, and other key infrastructure sectors to create an enabling environment for business operations. Well-developed infrastructure not only reduces operational costs for investors but also enhances the country's competitiveness.

Promoting Sector-Specific Strategies: South Africa should adopt sector-specific strategies to target FDI in industries with high growth potential and strategic importance. This requires identifying key sectors such as renewable energy, manufacturing, technology, and agribusiness, and implementing targeted incentives and policies to attract investment and stimulate innovation.

Addressing Skills Shortages and Education: To attract high-value investments, South Africa must address skills shortages and invest in education and workforce development. Building a skilled and adaptable workforce will not only meet the demands of foreign investors but also foster innovation and entrepreneurship, creating a virtuous cycle of economic growth and human capital development.

Improving Access to Finance and Investment Incentives: Access to finance remains a key constraint for businesses, both domestic and foreign, in South Africa. The government should implement measures to enhance access to finance for SMEs and startups, as well as provide targeted investment incentives such as tax breaks, grants, and subsidies to attract FDI in priority sectors.

These responses reflect a range of recommendations from economic and business experts aimed at improving South Africa's strategy for attracting FDI and fostering long-term economic growth. By addressing regulatory barriers, investing in infrastructure and human capital, South Africa can create a more conducive environment for foreign investment and unlock its full economic potential.

6. CONCLUSION

This study examined how foreign direct investment impacts South Africa's economic growth. The experts acknowledge that FDI has the potential to stimulate economic growth, they also raise concerns regarding unequal distribution of benefits and potential harm to the economy. FDIs serve as a catalyst for economic growth by introducing new knowledge, promoting human capital development, and driving technological advancements. To maximize the positive effects of FDI while minimizing risks, the participants recommend several actions. South Africa should focus on three key areas: infrastructure development and political stability to create a more attractive investment environment, building a conducive ecosystem that fosters markets, employment, knowledge transfer, and a skilled workforce, and finally, prioritizing sustainable economic growth strategies to ensure FDI contributes to long-term prosperity. By implementing targeted policies and encouraging collaboration, South Africa can become more attractive to investors and achieve its full economic potential. However, it is important to constantly monitor how well these strategies work to ensure FDI truly benefits South Africa's long-term economic growth and development.

By focusing on these areas, South Africa can overcome the obstacles impeding FDIs and foster greater economic development and prosperity.

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