Does Foreign Direct Investment and Exports translate to Economic Growth and Job Creation in South Africa?

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Abstract

Since the advent of democracy in 1994, the pursuit for sustainable growth and job creation has been amongst the key priorities of the South African government. From the 1996's Growth Employment and Redistribution Strategy (GEAR) to the vision 2030 National Development Plan (NDP), the need to attract more foreign investors and encouragement of exports has been recognized as the vehicles for growth, development and job creation. Though it is well established in the empirical literature that these two factors can be used to enhance growth and create employment in the emerging economies, South Africa has not enjoyed well renowned benefits that comes with the attraction of foreign investors. From the analysis of this paper, it is evident that South Africa has been experiencing job-less growth for the last two decades. Amongst other factors, the scourges of corruption and labour disputes (strikes) are found to deter the attraction of FDIs in South Africa. The paper, therefore recommends that for the country to attract more foreign investors it must intensify its policies against corruption and reduce labour disputes. The attraction of foreign investors and promotion of exports should however in South Africa not be seen as an end in itself, but also as a means of supporting other initiatives such as reducing high inequality which is among the highest in the world and reduction poverty.

Keywords: Foreign direct investments; exports; Job creation; South Africa.

INTRODUCTION

Sustainable growth, job creation and poverty reduction are amongst the most critical macroeconomic objectives of the South African government since the advent of democracy in 1994. Whereas the targeting of these goals might have been an important aspect of macroeconomic policy by previous successive governments, they have now taken a more central position on an urgency basis. From the various pronouncements and policy positions, it would seem the government has taken resolute stand to engage the challenges that hamper its achievement on these fronts.

Although progress has been made, South Africa is still grappling with high levels of unemployment, poverty and inequality. High and sustainable economic growth is generally accepted as a necessary condition for job creation, poverty alleviation and reduction of inequality. However, the experience of economic growth in South Africa has been that it is usually not accompanied by concomitant growth in jobs. It is argued that South Africa is experiencing structural unemployment in many sectors of the economy (Calvin and Coetzee, 2010). This type of unemployment occurs when the quantity of labour supplied exceeds the quantity of specific labour demanded and also, due to the long-term nature of it, many people give up looking for work and subsequently lose their skills over time.

The concern to create jobs is that the government takes in cognisant the negative repercussions of high levels of unemployment in the communities and societies. This is also highlighted by Kinda (2010) as he argues that the impact of high levels of unemployment has detrimental effects on the South African economy in terms of economic welfare, poverty, crime and social instability. Similarly, Ramaphosa (2013) emphasizes the importance of dealing with unemployment when he says that the problem is not that unemployment only exists in South Africa, but that it is so severe that it directly causes poverty and social instabilities.

This brings a number of questions into the discourse. Can South Africa be expected to alleviate its high levels of poverty and unemployment if its economic growth continues to be “jobless”? Most importantly, does economic growth translate to job creation in South Africa? Has the inflow of foreign direct investment (FDI) that South Africa has enjoyed in any manner positively contributed to the resolution of these challenges?

It is against this background this paper seeks to examine FDI and exports in South Africa in the context of economic growth and job creation. In the process, the paper attempts to answer the question of whether, FDI inflows and exports translate into economic growth and job creation in South Africa.

Apart from section one which deals with the introduction, the remainder of the paper is structured as follows: Section two reviews the nature of jobless growth in South Africa. The section three proceeds to discuss FDI-led hypothesis and Export-led hypothesis. Section four analyses the trends of FDIs and exports in South Africa. Section five presents conclusion together with recommendations proposed in the paper.

AN OVERVIEW OF 'JOBLESS GROWTH' IN SOUTH AFRICA

Calvin and Coetzee (2010) note that the unemployment experienced in most sectors of the South African economy, is of structural nature. They, however, note that not all the sectors of the economy are experiencing this. In their view, structural unemployment is of more permanent nature, and could only be resolved over the long run. Due to the long-term nature of this type of unemployment, many people become discouraged and give up looking for work (Calvin and Coetzee, 2010). According to the Centre for Development and Enterprise (CDE, 2012), the poor state of the education system also plays a role in unemployment, especially regarding the youth and unskilled; for example in South Africa, the unemployment rate for youths without grade 12 is three times higher than for people who completed grade 12. The study reports that South Africa has moved towards being a welfare state but a welfare system can never fill the gap left by unemployment (CDE, 2012).

Youth unemployment in South Africa can be regarded as being a phenomenon that is growing due to lack of skills, training, experience and lack of support to release their entrepreneurial potential (Ramaphosa, 2013; CDE, 2012). There are a number of other factors that contribute to youth unemployment high minimum wages, and labour laws. Unemployment and low skills levels are related. The International Monetary Fund (IMF, 2013), states South Africa needs structural reforms to boost growth and create employment. South Africa's growth rate is below that of other emerging markets. Major concerns for the local economy are labour unrest and electricity capacity. Reforms need to focus on improved education, reduction in transport costs, enhanced competitiveness and labour regulations (IMF, 2013).

According to Kingdom and Knight (2005), South Africa's strict labour regulations place a huge burden on small firms and inhibit individual entrepreneurship. They argue that factors such as crime, access to infrastructure, lacks of skills and training are stumbling blocks for the youth especially in informal settlements to enter the labour market. These factors also occur in most developing countries in the African continent.

Clark and Borgran (2003) tested the relationship between GDP growth and employment, using the Structural Vector Autoregressive (SVAR) technique in South Africa and found that an increase in output leads to a small increase in employment. In its quest to create more jobs, reduce poverty and high inequality, the government introduced a number of macroeconomic programs. These include the Reconstruction and Development Program (RDP), the Growth

Employment and Redistribution Program (GEAR), the Accelerated and Shared Growth Initiative of South Africa (AsgiSA), New Growth Path (NGP) in 2010 and recently the National Development Plan (NPD).

The NDP (2011) indicates that the Public Employment Schemes (PES) is important towards increased employment rates. In South Africa, the Expanded Public Works Programme (EPWP) and Community Works Programme (CWP) are the two main public employment schemes. The schemes need to employ or create 2 million job opportunities per year. The EPWP plays a major role in the government's job creation plans.

However, McCord (2004), after an analysis of the EPWP projects, he found that employment potential and opportunities were insufficient to provide the mass employment that is urgently needed and the selection and targeting tools are inadequate. On the other hand, Beissinger and Moeller, (2000), write that the stabilization policies are required and can play a major role when unemployment rises. The impact of globalization and technological changes and advancement has a huge negative impact, especially on the lower-skilled labour force. They argue that government must monitor labour supply and demand, and should react immediately to shocks before high levels of unemployment are established.

It is with no doubt that South Africa's unemployment rate is amongst the highest in the world. The rate of unemployment has increased from 17% in 1994 to 26.4% in the first quarter of 2015 (Stats SA, 2015). The economic growth rate is growing at a slower pace than the much desired 5% annual growth. The problem of unemployment has left the citizens of South Africa, especially the youth with no hope of ever finding employment. The table below demonstrates the strategies employed by government to create employment opportunities for the South Africa citizens.

Table 1: **Government efforts to create jobs in South Africa**

Program	**Budget**
General job creation programs job fund	R 6.2 billion
EPWP	R77.8 billion
National Youth Service Corps (NYSC)	R 900 million
Industrial Development Corporation (IDC)	R22 billion.
Arts and culture	R 300 million

Source: Steyn, (2012)

The New Growth Path (NGP) was established in 2010, placing job creation at the centre of the national economic policy. The NGP has identified a number of job drivers such as infrastructure, mining, manufacturing, agriculture, agro-processing, tourism and the green economy. In collaboration with the NGP, the Industrial Development Corporation (IDC) has established the Green Industries Special Business Unit (GISB), with a five-year budget of R22 billion. It is estimated that 462 000 jobs could be created in the green economy (Borel-Saladin and Turok, 2013).

The Community Works Programme (CWP), which was initiated in 2010 by the Department of Cooperative Governance and Traditional Affairs (COGTA). The aim of the programme is the placement of local community members as Community Development Workers (CDW) in all wards across South Africa. By 2011, 89 689 CDWs had been deployed (NDP, 2011). The CWP provides job opportunities to local people in collaboration with the EPWP. Further aims of the programme are to create jobs, improve community participation and improve service delivery (DTI, 2012).

In 2012, the Department of Trade and Industry (DTI) implemented the Industrial Policy Action Plan (IPAP) for South Africa, in collaboration with the Industrial Development Corporation (IDC). The IPAP is informed by the NDP and NGP. The IPAP has the following focus areas, namely diversification of the economy, labour absorbing industrialization, infrastructure development and the movement to a knowledge economy. Specific sectors that are supported include clothing, textiles, automotive products, plastics, metals fabrication, agro-processing, forestry, and creative industries (DTI, 2012).

In addition to these programmes, the government introduced the youth job subsidy bill. The overall goal of the bill is to accelerate job creation for the youth in South Africa. A total of 3.2 million youths between the ages of 15 to 35 are unemployed and this age group accounts for 72% of all unemployed people. The bill will provide tax incentives for employers to employ young people earning a salary of between R2 000 and R6 000 per month, (SARB, 2013).

Beside all the efforts and policies implemented by government to create jobs and enhance growth, South Africa is still grappling with challenges of high unemployment, poverty and high inequality. In trying to reduce unemployment in South Africa, the pursuit of higher economic growth is the single most agreed-upon policy strategy. However, looking at the rates of unemployment, one would argue that though economic growth is important, it may only be half of the solution.

It is therefore important for the government to opt for other policies options or strategies to achieve sustainable growth and job creation. In the context, various scholars subscribe to the notion that FDI and exports are important vehicles for sustained growth, development and job creation in developing countries. This include amongst others scholars such as Rusike (2007); Calvin and Coetzee (2010); Nucu, (2011) Mpanju (2012) and Furhman (2013).

These proponents of FDI and exports have noted and emphasised the importance of attracting foreign investors to enhance growth of emerging economies via the transfer of technology and skills, supplementing domestic investment, job creation and improving domestic infrastructures.

FDI-LED GROWTH AND EXPORT-LED GROWTH HYPOTHESES

The question of whether FDIs and exports are the key factors to promote growth, development and employment in emerging economies has been the subject of debate for a number of scholars and policy makers over the past decades. Adding to the existing body of knowledge, this section discusses the two hypotheses that are believed to enhance growth, employment and development in most developing economies, thus FDI-led growth and Exports-led growth hypotheses.

FDIs and exports seem to be interconnected. Nguyen, (2011) also concedes that FDIs and exports are related, however the relationship may be positive or negative depending on whether FDI is market seeking or efficiency seeking, hence he indicates that FDIs and exports volume are complementary.

According to Helpman and Kruman (1995), there are many ways in which export-oriented FDI can help to enhance the host country’s economy. In order to attract this type of investment and ensuring that it translate into development gains, they mentioned that the host country needs to find the most effective ways of making the choice of locations as well as the target segments conducive to the kind of export activities the host country aims to foster. Helpman and Kruman (1995) reiterates that export-oriented FDI can be an effective means of providing resources such as skills, training, technology, capital goods and intermediate inputs needed to exploit a country’s existing comparative advantages.

Similarly, Khan and Afia (1995) pointed out that expanding export is a means to a country's economic development, thus the promotion of export-oriented FDI should be an integral part of the overall development strategy. Moreover, Khan and Afia (1995) also mentioned that the attraction of FDIs can help the host country in its efforts to raise exports in all kinds of industries by providing the missing elements that they need in order to compete and improve locally based skills.

Nucu (2011) believes that FDI inflows can create new jobs and is capable of accessing modern technologies, resulting in positive effects on the balance of payments. In his study, Nucu further posits that FDI is also a catalyst for economic development in Central and Eastern European countries. Liu, Wang, and Wei (2001) examined the causal relationship between foreign trade and FDI inflows to China from 19 countries during 1984 to 1998 through panel data analysis. Their results indicate that exports volume is affected by FDI inflows to

In addition, Vacaflores (2011) studied the effect of FDIs on employment creation for a group of Latin American countries for the period 1980 to 2006. Annual data was collected from 12 Latin American economies and the findings reveal that FDI has a positive and a significant effect on job creation in those 12 countries. Lall (2001) argues that the most prominent role played by export-oriented FDI in the exports of developing countries is in the manufacturing sector. In this sector, Lall maintains that foreign affiliates tend to be leaders in marketing. The direct effects occur when exporting firms establish backward linkages with local firms which then become indirect exporters.

With regard to exports, Mpanju (2012), the basic idea of increasing exports is that it increases total factors of production because of its impact on economies of scale and other positive externalities such as transfer of technology, improving local skills of workers, managerial skills and productive capacity of the economy. Ramaphosa, (2013) believes that a stronger export sector also drives job creation. Increasing exports, particularly in manufacturing, may be crucial for the low-skilled job creation needed to substantially reduce high overall and youth unemployment.

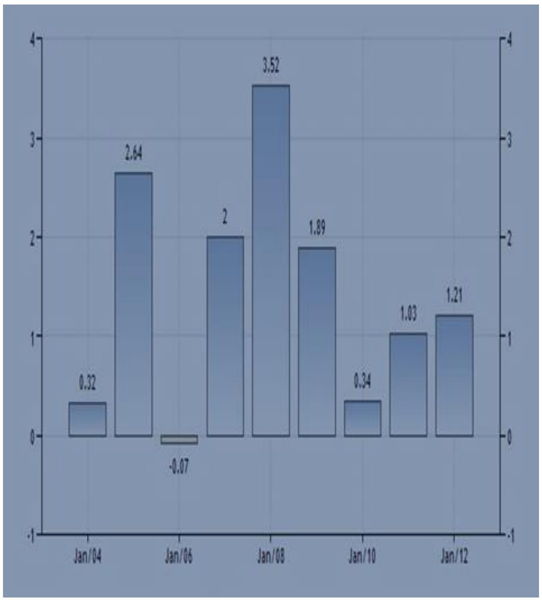
However, Rangasamy, (2009) argues that in many African countries, lack of sufficient manufactured exports is often seen as a major reason for the continent's lack of industrialisation resulting in low growth. Most of the studies with regard to export-led growth found a positive relationship between exports and economic growth. Rangasamy (2009) used an error correction model (ECM) and found a uni-directional Granger-causality from exports to GDP in South Africa. In addition, the government is also aware of the need to reignite the exports performance.

The SARB (2014) noted that the success of exports in South Africa is not determined solely by trade-specific issues, such as tariffs and nontariff barriers, trade facilitation costs, and export promotion nor is it determined solely by the real exchange rate. Many causes shape firm and sector competitiveness, including deep, economy wide structural factors that impact how exports respond to real exchange rate movements. Though there are contradictory views in the literature regarding the question as to how and to what extent, FDIs and exports affect economic growth and employment, there is however an overwhelming support that FDIs and exports have a positive impact on the economy of the host country.

TRENDS OF FDI INFLOWS AND EXPORTS FROM SOUTH AFRICA

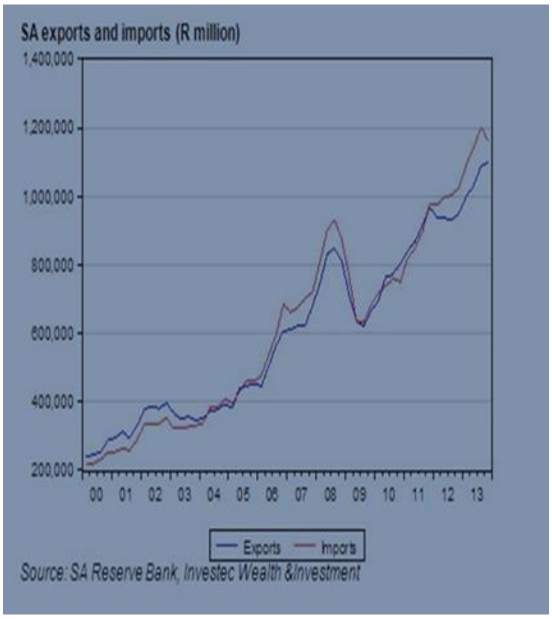
This section reviews trends of FDI, GDP, exports and trade balances in South Africa

Figure 1: FDI inflows (% of GDP)



Source: World Bank Indicators (2015)

Figure 2: Exports in South Africa



Source: SA Reserve Bank (2015)

As denoted on figure 1, the response of South African economy to FDI inflows has been changing over time. In 2004, the annual inflow of FDI was reported at 0.34%. In 2005, South Africa experienced a huge inflow of foreign investors. Besides the global economic meltdown in 2007, South Africa experienced an increase in the flow of foreign investors of

3.52%. The FDI inflows in South Africa tend to be focused on natural recourse sector, meaning that South Africa attracts more of resource-seeking FDIs. The World Bank report indicated that an increase in investment in African economies has not only contributed to growth, but also helped to boost the productive capacity of the region's economy (World Bank, 2013).

The pattern of FDI inflows to South Africa between 2005 and 2010 compared to the group of upper middle-income economies. The average annual net inflow of FDI as a percentage of GDP was 2.0% in South Africa for upper middle-income economies between 2000 and 2004. The preliminary estimates for 2010 compiled by UNCTAD suggest that the net inflows to South Africa were much lower than in 2009 (UNCTAD, 2011).

The UNCTAD (2011) indicates that the reason for the slow growth in FDI has to do with South African corporate history. Large corporations in South Africa were allowed to dominate their respective sector and expand into other sectors during the apartheid era. As the economy opens, each of these corporations was the major players within their respective fields. It was difficult for foreign investors to invest into the country and compete with these big players, (UNCTAD, 2011).

The top five sources of inward FDI from individual countries were mainly from UK, which accounted for R 3 487 478 million (61.7%), followed by Netherlands R422 507 million (7.5%), US R385 115 million (6.8%), Germany R364 371 million (6.6%) and Switzerland R173 684 million which accounts 3.1% of total FDI inflows to South Africa (UNCTAD, 2013). The dominance of the EU as a major source of investment was due to South Africa's Multinational companies domiciled in the UK, and preferential access to the UK market through free trade agreements (WIR, 2011).

The growth share in the US has been attributed to the African Growth and Opportunity Act (AGOA), which came into force in November 2000. The latter has attracted some FDI into textile manufacturing, particularly in the Eastern Cape. In the case of Netherlands and Germany, mergers and acquisitions where the main factors responsible for the respective R422 507 million and R364 371 million of total inward FDI recorded between 2001 and 2012 (SARB, 2013).

Figure 2, represents trends of exports and imports in South Africa measured in millions of rand. Looking at the graph it is clear, South African economy is not doing so well with regard to exports. From, 2000 to 2004, South Africa maintained a high export as compared to imports. However, the global economic crisis in 2008, imports above 9 millions of money spent on imports. In 2013, high imports continued to drag down GDP growth, the decline was estimated at R22.3 billion in constant prices. The improved trade balance by 7.8% to growth, while the decline in inventories reduced growth by 5.2%, (SARB, 2013).

In addition, Stats SA (2013) noted that the shift in export patterns is shown by statistics for the post 1994 period. Statistics showed that gold exports as a percentage of the total exports declined from 22% in 1996 to 14% in 2004. Moreover, annual export growth of manufactured goods increased from 20% in 1996 to 24% in 2009. Thus, high export growth was experienced in relatively skill-intensive sectors such as coke, refined petroleum products, chemicals, motor vehicles, parts and accessories and transport equipment.

CONCLUSION AND RECOMMENDATIONS

The vision of reviving South African economy from an importing nation into a producing and exporting one remains a prioritised embraced by the government. From the Growth Employment and Redistribution Strategy (GEAR) to the National Development Plan (NDP), the need to attract more FDIs and promote exports in pursuit of growth and job creation has been recognized. As also discussed in this paper, the proponents of FDIs and exports-led growth believe that country in quest for sustainable growth and job creation should attract more FDI inflows and encourage exports. However, the nature of jobless growth in South Africa has left many of its citizens, particularly the youth with no hopes of ever finding employment.

The government should therefore emphasize more on attracting more foreign investors and encourage exports. The Government also need to undertake initiatives to retain the existing investors in the country. Sound FDI policies should also compliment and assist in mobilizing domestic resources for productive investment. Though, it is acknowledged that every policy has a number of setbacks as a result of perhaps overlooked factors. Policy makers should strive for greatest possible macroeconomic stability and a policy framework that is feasible and easy to predict its outcomes. However, the scourges of corruption and implementation challenges has led a number of macroeconomic policies in South Africa not achieve the projected or desired outcomes. It is therefore imperative for the government to intensive its war against corruption to realise some of its objectives.

More importantly, the attraction FDIs and promotion of exports in South Africa should however not be seen as an end in itself, but also as a means of supporting other development initiatives such as reducing inequalities and poverty.

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