

Channelling FDI in the right direction

By [Deepa Vallabh](#)

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President Cyril Ramaphosa has returned triumphant from his international investment roadshow, having secured billions of dollars in foreign direct investment (FDI). And while no one can argue against this economic stimulus, it needs to be the right kind of FDI to overcome South Africa's spiralling unemployment, abject poverty and widening inequalities,



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The country is investing substantially into its infrastructure built programme, which averages about R300bn a year, according to Economic Development Minister, Ebrahim Patel. This investment has resulted in South Africa moving away from chronic energy shortage, which threatened to eclipse large parts of the economy, to a surplus.

However, more investment is needed in other areas as well, that will lower the costs of doing business, give impetus to enterprise growth and further enhance the country's attractiveness as an investment destination.

The stubbornly high unemployment rate, coupled with the workforce that is generally unskilled and semi-skilled, calls upon considerable investment in sectors that have the potential to generate large scale employment such as mining, rail and water infrastructure.

Correspondingly, we also need to upskill the youth by developing tailored programmes that will equip them with core skills required in an economy that is increasing digitising. Some of this investment could be channelled towards training and education, particularly in new skills sets that define the industrial internet of things (IoT) ecosystem in the fourth industrial revolution.

Low-hanging fruit

Mining remains of one of the low hanging fruits that we can harness to stimulate growth and create much-needed employment. The commodities market is bucking the trend of a global lowdown and is growing steadily. South Africa is a mineral-rich country that has an abundance of ore and minerals that needs to be extracted from the ground.

It is critical that we should nurture this sector as it has the potential to create more sustainable jobs throughout the value chain. Equally important, government needs to offer decisive leadership and a clear and unambiguous policy framework that outlines its plans about the sector in the medium to long term.

Due to its very nature and the vast amounts of capital required, mining investors take a long-term view and demand policy certainty about the future of their investment.

Policy ambiguity and opacity is the last thing mining investors need - policy certainty and clarity in this industry is the name of the game. I believe that there is a huge appetite by the investor community, both local and international, to plough money into South Africa. The election of the new president has imbued the business and investor community with a new sense of optimism about the future direction of the country.

Economists argue that investment flows would go a long way towards creating much-needed job opportunities, which in turn, will have a ripple effect of generating additional tax revenue and create a class of new consumers with disposable income that will stimulate further growth and expenditure.

Infrastructure

Infrastructure is also a critical factor in the health and wealth of a country. It enables private businesses and individuals to produce goods and services more efficiently. With respect to overall economic output, increased infrastructure spending by the government is generally expected to result in higher economic output in the short term by stimulating demand and in the long term by increasing overall productivity.

The type of infrastructure is also expected to affect the impact on economic output. Investments in core infrastructure, defined as roads, railways, airports, utilities, are expected to produce larger gains in economic output than investments in some broader types of infrastructure, such as hospitals, schools, and other public buildings.

However, the investor community is cautiously optimistic, and is waiting with bated breath to ascertain whether the positive sentiments emanating from Pretoria match by the policies that are promulgated by the legislature in Cape Town.

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