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HUMAN RESOURCE DEVELOPMENT: *A SINE QUA NON* FOR FOREIGN DIRECT INVESTMENT IN SOUTH AFRICA

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10.1 INTRODUCTION[3]

Foreign Direct Investment (FDI) refers to net inflows of investment from abroad to acquire a lasting management interest (10 per cent or more of voting stock) in an enterprise operating in an economy other than that of the investor. FDI has three components: equity investment, reinvested earnings and short-and long-term inter-company loans between parents and foreign affiliates. In 2001 the total volume of FDI flows across the globe amounted to US $ 1.3 trillion. FDI supplies capital and provides for spillovers of foreign technology and know-how to host economies. This may aid growth and development.

As had been shown in chapters 1 and 2, FDI remains vitally important for Sub-Saharan Africa to obtain sufficiently high economic growth so as to reduce unemployment and poverty. The South African challenge in particular is clear from the following. Between 1994 and 2000 the average annual, economic growth was only 2.7% and substantially below the target of 6% identified in the Growth, Employment and Redistribution (GEAR) macro-economic strategy as necessary to start making inroads into unemployment. Despite sharp depreciation in the Rand exchange rate in 1996, 1998 and 2001 strong and sustained export growth did not yet take place. Employment in the private sector declined by 15% between 1994 and 2000 and the unemployment rate (broadly defined) is estimated at 37%.

One of the major reasons for South Africa's slow growth is the poor investment response by the private sector. Indeed South Africa is investment constrained

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with investment by private business that stagnated since 1994 and is now (at 10.7% of GDP) lower than in 1994. Especially disappointing was the poor inflow of FDI after 1994 and in comparison to other developing countries South Africa received very little FDI inflows since 1998. In this South Africa shares the broad African experience: despite the fact that returns on FDI in Africa was almost 60% higher than that in other developing regions during the period 1990-94[4], it attracted less than 2% of all flows to developing countries by 1995 (roughly US $2bn. Per annum, exc. South Africa) (see Jaspersen, et al., 1998; Bhattacharya, et al., 1996).

We argue in this chapter, in the light of Gries and Jungblutt's model in chapter 9, that one of the major reasons for the slow inflow of FDI into South Africa since 1994 is due to the country's inadequate supply of human capital. It is important to note at the outset that physical and human capital work in a complementary fashion - if human capital cannot - due to inappropriate human resource development - complement physical capital, investment will be reduced. Gries (1995a,b) analyses the role of human capital accumulation in the international allocation of goods and capital and finds that if human and real capital are complements, the domestic availability of human capital may determine the rate of domestic physical investments.

The degree to which human capital can act as a complement to physical capital depends in part on the skills of the labour force (Gries, 1995a). A skill relates to the ability to use a certain technology. Technologies are embodied in capital goods: A certain capital good embodies a certain technology by the productive properties of the machinery. Hence the technology defines the link between human capital and real capital. This fixed link implies that a country with a certain human capital stock and structure will efficiently employ the adequate stock and structure of real capital. As such human resource development strategies could play an important role to complement the investment promotion activities of the South African government and its investment promotion agencies (IPAs) by providing human resources with the appropriate skills.

The chapter is structured as follows. In section two the FDI profile for South Africa is given. Section three discusses the determinants of FDI. Section four introduces human resource development as a crucial determinant for FDI. Section five concludes with an assessment of South Africa's human resource constraints (from an FDI view) and makes some recommendations for a human resource development strategy that will assist the government and its IPAs in attracting FDI to South Africa.

[4]Since 1990, the rate of return in Africa has averaged 29 per cent; since 1991, it has been higher that in any other region, including developed countries as a group.