

The Determinants of Foreign Direct Investment Inflows in South Africa: An Application of the Johansen Co-integration Test and VECM

A. Majavu¹ and F. M. Kapingura²

University of Fort Hare, 50 Church Street, East London, South Africa
E-mail: ¹<amajavu@gmail.com>, ²<fkapingura@ufh.ac.za>

KEYWORDS Foreign Capital. Development Finance. Vector Error Correction Model. Domestic Savings. South Africa

ABSTRACT This study attempts to identify the determinants of FDI inflows into South Africa using quarterly data for the period from 1980 to 2012. Based on the literature review, the Johansen cointegration test which is a VAR based model was adopted and applied to analyse the relationship between FDI and its determinants in the study. The empirical results revealed that GDP, openness, inflation, exchange rate, corporate tax and the financial crises are important determinants of FDI inflows in South Africa. The results from the study imply that policies aimed at promoting growth should be pursued to attract more FDI into the country given the low levels of savings being experienced by the country. However it was pointed out that there is need to mobilise domestic savings in the country given that events outside the country such as the global financial crisis have an effect on the flow of FDI to the country.