

Foreign Direct Investments in the South African Construction Industry: Promulgating the Inherent Benefits

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ABSTRACT

One of the key indicators of the viability of the economy of any nation is the aggregate output of its construction industry. To this end, it is highly encouraged that significant investment portions of any country should be devoted to capital investment to spur development and ultimately boost the Gross Domestic Product (GDP). However, capital projects are usually attributed with the demands of enormous financial input, hence, due to low gross domestic savings, alternative source of financing such as foreign direct investment (FDI) as against the conventional government-sourced financing experienced in most developing countries is highly encouraged. In the light of the aforementioned, this study assesses the benefits of FDI in the South African construction industry. Construction professionals formed the population of the study, while the data elicited from the respondents was analysed with appropriate analytical tools. Findings from the study shows that the most significant benefits of the flow of FDI into the South African construction industry are technology transfer, enhanced productivity and human resource development. Conclusively, the study makes recommendations that would help in stimulating the flow of FDI into the construction industry in South Africa considering the inherent benefits as revealed in its findings.

Keywords: Benefits, Construction industry, Developing economy, FDI, South Africa

INTRODUCTION

The construction industry is a major contributor to economic growth in developing countries as a result of its role in development process (Oladirin et al. 2012; Rangelova, 2015). The industry is attributed with the production of physical assets used by all other sectors of the economy. These physical assets span from urban infrastructure, schools, houses, offices, townships, retail outlets, factories, drainage, sewerage, water supply, transportation systems, power systems, agriculture systems etc. In South Africa, the construction industry is of utmost importance due to its immense contribution to the socio-economic development of the country resulting from its role in the performance of the nation's Gross Domestic Product (Anugwo et al., 2018; Olanrewaju and Ibrahim, 2020). In 2020, the construction industry

contributed 83 billion rands to the country's GDP (Statistica, 2021), despite the setback caused by the corona virus (COVID-19) experienced worldwide. Also, the industry serves as a huge employer of labour in the formal and informal sector (Stats SA, 2010). Hence, its importance to the growth of the economy cannot be overemphasised.

The construction industry in South Africa has been portrayed as one whose current funding model is not adequate enough to level up with the infrastructural deficit in the country (Balogun et al. 2016; Windapo and Cattell, 2010). This has led to a drawback in the attainment of massive infrastructural drive as seen most developed countries. In 2017, the construction industry shrank by 0.8% quarter to quarter (Stats SA, 2018). Considering the industry's role as a strategic sector to government's National Development Plan (NDP) 2030 with the core mandate of eliminating poverty and inequality among its citizens by 2030, it is best to say that alternative sources of funding construction projects is a viable option. Moreover, due to the continuous decline in gross domestic savings and country's credit being downgraded to BB- status as a consequence of the lack of a clear direction to government debt control (Fitch Ratings, 2021), there is a gloom over the future of the country's economy. Hence, long term interest rates would likely continue to climb as the South African economy continues to experience a decline.

One of the viable options to the rescue of the construction industry is foreign direct investment (FDI). This is a cross-border investment undertaken by a resident entity of a nation whose objective is to obtain a lasting interest in a business concern of another nation (Ikuabe et al. 2021; OECD, 2013). This form of investment may be in the form of a merger and acquisition (M&A), which involves acquiring an existing interest or green field investment. According to Ebekoziem et al. (2015), FDI is attributed with flows of capital, managerial practices, technology, and entrepreneurial skills to the host economy. Therefore, this provides a window for shoring up the inadequacies experienced by the host economy. Against this backdrop, this study is geared towards assessing the benefits of the flow of FDI into the construction industry in South Africa with a view of showcasing the need for an increase and a more stable flow of FDI.

LITERATURE REVIEW

Foreign Direct Investment has played a crucial role in developing countries' economy in the last five decades (Antwi and Zhao, 2013; Kim and Seo, 2003). Results from various economies show that FDI can boost productivity and stimulate economic development in host countries. Hence, to promote economic growth, governments around the world have vigorously encouraged FDI inflows into their respective countries (UNCTAD, 2014). The crucial roles being played by governments in attracting FDI seek to encourage transfer in modern technological innovations which ultimately would bring about enhancement in production. For example, technology transfer necessitates ongoing and comprehensive collaboration between the recipient and the supplier (McDermott and Corredoira, 2009). Due to the inability of developing countries to adequately build domestic savings to finance development in

the country, the relevance of FDI is more prominent in emerging economies than in developed ones, therefore, FDI has been demonstrated to be one of the most successful strategies for emerging economies (Pradhan, 2006). Over the last two decades, international joint ventures have been one of the most successful forms of collaboration between local and international firms to expand internationally (Reus and Rottig, 2009). This approach has become common in construction companies as they work toward common goals. The objectives of this method includes gaining knowledge as well as gaining ownership (Lyles and Salk, 1996).

Foreign Direct Investment brings about improved capital flows which is an important source of external finance for a developing economy. Azam and Ather (2015) buttressed that capital flows through FDI helps in accelerating economic growth and development of host economy by making up for the shortfalls of low gross domestic savings. Also, Insah (2003) noted that the improvement of capital inflows through FDI to a host nation, enhances the country's economic projection. Moreover, one of the significant effects of FDI on the host nation is the creation of new job opportunities, particularly in countries with low domestic savings (Kurtishi-Kastrati, 2013). In cases of green field investments where new investments are initiated, there is an establishment of new facilities, which consequently leads to a massive drive for the creation of new jobs for the local populace. Also, the volume of FDI and internationalization operations have increased around the world in recent decades (Paul and Singh, 2017), therefore, emerging markets have become key investment destination resulting from the need for global expansion and market dominance. As a result, in emerging markets of developing economies where domestic investment is insufficient to stimulate the required productive capacity, FDI inflows serves as a critical component for economic development. Furthermore, the endogenous theory posits that host nations of FDI are poised to be recipients of knowledge transfer, and consequently aid in improving production processes and services for better economic output (Kumar and Pradham, 2002).

RESEARCH METHODOLOGY

The study assessed the benefits of FDI in the South African construction industry. A quantitative approach was adopted for the research deploying questionnaire as the instrument for data collection. The choice of questionnaire emanates from the fact that it has the ability to capture a vast number of respondents and also allowing for quantifiability and objectiveness (Tan, 2011). The area of study was Gauteng province in South Africa, while the target population of the research was made up of construction professionals which are Quantity Surveyors, Architects, Construction Managers, Construction Project Managers and Engineers. The questionnaire was made up of two sections, the former gathered information from the respondents based on their demographic characteristics, while the latter enquired on the level of the respondents' agreement of the benefits of FDI on the construction industry in South Africa. The questionnaire used a 5-point Likert scale which connotes 5 as strongly agree, 4 as agree, 3 as neutral, 2 as disagree, and 1 as

strongly disagree. A total number of ninety (90) questionnaires were distributed through electronic means, while seventy-one (71) was returned and deemed appropriate for analysis. The methods of data analysis deployed for the study are percentage, mean item score, standard deviation and one sample *t-test*. Also, Cronbach alpha was used in ascertaining the reliability and validity of the research instrument, and an alpha value of 0.903 was gotten which implies a good validity and reliability of the research instrument (Tavakol and Dennick, 2011).

RESULTS AND DISCUSSION

Demographic Information of Respondents

The results gotten from the questionnaire survey based on the demographic information of the respondents shows that 46% of the total respondents have a bachelor's degree as their highest educational qualification, while 14% have a master's degree and 1% have a doctorate degree. Based on the professional designation of the respondents, 31% of the total respondents were Engineers, 18% were Construction managers, while 13% were Quantity Surveyors. Also, 54% of the total respondents have 4-8 years working experience, 31% have 9-15 years working experience, and 10% have up to 3 years of working experience. Furthermore, 67% of the total respondents are male while 33% are female.

Benefits of FDI in the South African Construction Industry

Resulting from the review of literature, eleven variables were identified as the benefits of the flow of FDI into the construction industry. The study adopted the use of one sample *t-test* in determining the significance of the identified benefits based on the rating of the respondents. In furtherance to the aforementioned, the study set a null hypothesis which indicates that a benefit is not significant if the mean value is less than or equal to the population mean ($H_0: U \leq U_0$). Consequently, the alternate hypothesis implied that a benefit is significant when the mean value is greater than the population mean ($H_a: U > U_0$). The population for the study was fixed at 3.50, while the significance level was set at 95% which is the conventional confidence level (Pallant, 2005). The implication of the set hypothesis is that when a benefit has a mean value above 3.50, it is adjudged to be significant, while when the mean value is less than equal to 3.50, it is passed as not significant. The results of the of the two-tailed p-value of the one sample t-test is shown in Table 1, which indicates the significance of the benefits of FDI in the construction industry of South Africa.

Results from Table 2 indicates that the identified benefits of the flow of FDI into the construction industry in South Africa all have a mean value that is above 3.50 which is the cut-off point adopted for the study. Also, it is revealed that all the identified benefits all have a p-value at 95% confidence level that portrays to be significant by having a value that is below 0.05. The result shows that the most significant benefits are technology transfer ($MIS = 4.06, sig.=0.000$), enhanced productivity ($MIS = 4.01, sig.=0.000$),

Table 1. One-sample *t*-test.

Benefits	Test Value = 3.50				95% Confidence Interval of the Difference	
	T	df	Sig. (2-tailed)	Mean Difference	L	U
Technology transfer	2.663	70	.000	.128	.3481	.7186
Enhanced productivity	5.023	70	.000	.739	.4927	1.3381
Human resource development	3.478	70	.000	.281	.3815	1.2783
Joint venture between local and international firms	2.114	70	.000	.737	.7356	1.1936
Stimulate economic growth	1.398	70	.000	.621	.4927	1.0927
Creation of competitive market	5.873	70	.000	.863	.3856	1.1227
Improved capital flow	2.890	70	.000	.749	.0829	1.578
Enhanced employment creation	5.213	70	.000	.258	.3361	.7826
Exchange rate stability	8.012	70	.000	.715	.4727	1.5602
Increase in exports	4.192	70	.000	.368	.7142	1.1693
Good governance	5.872	70	.000	.418	.3782	1.8947

Table 2. Summary of *t*-test showing the ranking of the benefits of FDI in the construction industry.

Benefits	Mean	Std. Deviation	Sig. (2-tailed)	Rank
Technology transfer	4.06	1.218	.000	1
Enhanced productivity	4.01	1.225	.000	2
Human resource development	4.00	0.956	.000	3
Joint venture between local and international firms	4.00	1.121	.000	3
Stimulate economic growth	3.92	1.156	.000	5
Creation of competitive market	3.90	0.672	.000	6
Improved capital flow	3.90	1.097	.000	6
Enhanced employment creation	3.89	1.214	.000	8
Exchange rate stability	3.75	1.250	.000	9
Increase in exports	3.73	1.242	.000	10
Good governance	3.63	1.256	.000	11

human resource development ($MIS = 4.00$, $sig.=0.000$), joint venture between local and international firms ($MIS = 4.00$, $sig.=000$), and stimulate economic growth ($MIS = 3.92$, $sig.=0.000$). The findings of the study portrays that technology transfer is the most significant benefit resulting from the flow of FDI into the construction industry in South Africa. This is buttressed by McDermott and Corredoira (2009) who noted that technology transfer to the host economy is one of the incentives of the comprehensive collaboration between the recipient and the supplier when FDI is gained. Also, host economies stand to benefit from the importation of technological innovations at the disposal of supplying economy (Ikuabe et al. 2021), thereby aiding the delivery of construction processes and service provision associated with construction projects. Furthermore, the enhancement of productivity to be associated with the execution of construction projects is another significant

benefit as shown by the result of the study. Evidence from various economies show that FDI can boost productivity and stimulate economic development in host countries. Hence, to promote economic growth, governments around the world have vigorously encouraged FDI inflows into their respective countries (UNCTAD, 2014). Also, an improvement in capital flow to the host economy is seen as a boost to the construction industry resulting from the flow of FDI. Azam and Ather (2015) buttressed that capital flows through FDI helps in accelerating economic growth and development of host economy by making up for the shortfalls of low gross domestic savings.

CONCLUSION AND RECOMMENDATIONS

The study aimed at evaluating the benefits attributed to the flow of FDI into the construction industry in South Africa. Resulting from the review of extant literature, eleven benefits were identified and subsequently posed to the target respondents of the study for rating. Following the analysis of the data received, findings showed that the most significant benefits accruing from FDI in the construction industry in South Africa are technology transfer, enhanced productivity, human resource development, joint venture between local and international firms, and stimulate economic growth. It is pertinent to note that the South African economy has been plagued by a plethora of challenges in recent years, with the fallouts of the COVID-19 pandemic still being experienced. Hence, it is best to say that one of the viable approaches of placing the economy on a recovery trajectory is by encouraging the flow of FDI into the economy, with particular emphasis on the construction industry. On this premise, the study advocates that enabling laws and policies that would help in attracting FDI into the construction industry should be enacted by relevant government agencies considering the enormous benefits the economy stands to gain as shown in the findings of the study.

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