FOREIGN DIRECT INVESTMENT AND SOCIO-ECONOMIC DEVELOPMENT: THE SOUTH AFRICAN EXAMPLE

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FOREIGN DIRECT INVESTMENT AND SOCIO-ECONOMIC DEVELOPMENT: THE SOUTH AFRICAN EXAMPLE

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DECLARATION

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ABSTRACT

It is widely accepted by governments of many developing countries that Foreign Direct Investment (FDI) is crucial to the socio-economic development of their nations and have developed various policies in an effort to attract FDI, as a result. FDI is a crucial source of technology, capital and skills for developing countries for economic growth that may ultimately lead to poverty reduction, employment creation and modernisation. However, results from many studies have been inconclusive and have failed to find a direct link between the increase of FDI and the associated socio-economic development of recipient nations.

South Africa is no exception to this debate as it seeks to turn its back on decades long apartheid, which has entrenched poverty in the majority of its population and exacerbated social tensions. The main socio-economic challenges that South Africa faces include high unemployment, skills shortages, poverty and high inequality, and the 2008/2009 global financial and economic crisis has exacerbated the crisis. Despite these challenges South Africa's macro-economic strategies have had a good reputation since 2000. The monetary policy has turned out to be more transparent and predictable, and a sound fiscal policy has sustained its framework.

The study analyses the role that FDI plays in the socio-economic development of South Africa since 1995 by focusing on selected case studies: ABSA Bank, General Motors South Africa (GMSA) and the Mining Sector of South Africa.

The research concludes that although ABSA Bank has implemented several corporate social responsibility (CSR), and various employee development programmes, there is hardly any evidence to suggest that Barclays Bank's takeover of ABSA Bank has positively impacted on these programmes. General Motors South Africa (GMSA), which came into South Africa many decades ago through a Greenfield Investment, has played a positive role in the economy of the Eastern Cape Province as well as that of South

Africa, having created jobs directly and indirectly. The company has also designed and implemented various educational, housing as well as health and awareness programmes for its employees and for the communities. Mining companies that operate in South Africa formed partnerships in the communities in which they operate in an effort to improve the lives of people. While these various projects have been a source of employment, they have had a limited impact on the core causes of social problems surrounding the mines. Many of these root causes relate to core business practices of the mining companies, especially employee recruitment, wages and housing. These root causes where witnessed in the Lonmin tragedy and in other strikes that spread throughout the sector in 2012.

The study concludes that although FDI does play a role in the socio-economic development of South Africa, especially Greenfield investment, the same argument could not be made on Mergers and acquisitions (M&As). Finally, the South African government needs to play a proactive role in ensuring that foreign companies that invest in the country need to be well aware of the socio-economic needs of South Africa, and be willing to play a positive role in that regard.

Key words: Foreign Direct Investment (FDI), socio-economic development

CHAPTER 1

INTRODUCTION AND BACKGROUND TO THE STUDY

1.1 INTRODUCTION

New patterns of globalisation are reshaping industrial structure. A more diverse globalisation strategy has been prompted by declining communications and transport costs, coupled with regulatory reform, trade and investment liberalisation. The international activities of firms now extend far beyond traditional forms of trade and investment (Jolly 2003:3). Foreign Direct Investment (FDI), also known as Direct Foreign Investment (DFI) is one such non-traditional form of investment.

According to The Economist (2011), FDI is done mostly by companies as opposed to financial institutions, which prefer indirect investment abroad such as buying shares or bonds. FDI grew rapidly during the 1990s before slightly slowing, along with the global economy, in the early years of the 21st century. Most of this investment went to Organisation for Economic Cooperation and Development (OECD) countries, but the share going to developing countries, especially in Asia, increased steadily. (The Economist: 20 January 2011).

Governments support FDI, hoping it will create jobs, and bring expertise and technology that will be passed on to local firms and workers, helping to sharpen their economies. Furthermore, unlike financial investors, companies generally invest directly in plant and equipment, known as Greenfield Investments. These investments, once made, are far more enduring than large capital flows in and out of emerging markets (The Economist: 05 November 2009). FDI consists of two components: Greenfield Investments and Mergers and Acquisitions (M&As).

A Greenfield investment occurs when a firm single handedly or jointly with another firm builds brand new facilities from scratch, in a host country. M&As, on the other hand, occur when a firm buys out a position or the entire ownership of a target firm in the host country. (Shenkar 2008: 60). Between 1990 and 2010, an increased preference for

M&As over Greenfield investments as the dominant mode of FDI particularly in developed countries was witnessed. This preference lies in part on asymmetric information regarding the value of M&As and Greenfield projects (UNCTAD: 2010). Financial markets usually provide efficient mechanisms to set the value of M&A targets, while there is no such mechanism to assess the value of Greenfield Investments. Between 2008 and 2009, the number of global cross-border M&A transactions declined by 34 per cent (65 per cent in terms of value), compared with a 15 per cent decline in Greenfield Investments. This may not necessarily signal a long-term reversal of the preference for M&As as the dominant mode of FDI. As economies recovered from the 2008 financial crises, capital became more abundant and stock markets returned to normal (albeit some volatility), tilting the scale back in favour of M&As. The rise of developing countries as FDI destinations is also likely to weigh on the choice between Greenfield projects and M&As, as developing-country firms become more attractive targets for acquisitions. (UNCTAD 2010: 9).

1.1.1 Global FDI trends between 2000 and 2010

Table 1.1 shows the trends in FDI between 2000 and 2009. The approximate values of FDI inflows to developing and developed economies are illustrated:

Table 1.1: Global FDI trends (2000-2009)

Year	Developing Economies (Billions of US$)	Developed Economies(Billions of US$)	World Total(Billions of US$)
2000	0,350	1,000	1,350
2001	0,200	0,600	0,800
2002	0,250	0,400	0,650
2003	0,350	0,450	0,700

2004	0,350	1,000	0,650
2005	0,350	1,000	0,650
2006	0,450	1,000	1,450
2007	0,650	1,450	2,100
2008	760	1,140	1,900
2009	0,500	0,600	1,100

(Source: Adapted from UNCTAD, 2010:7)

The main highlights are:

- The decrease in FDI inflow values between 2008 and 2009, as the result of the global financial crisis. Developing economies were somewhat not affected as terribly as the developed nations, with a 34 per cent decline from 2008 to 2009, compared with 47 per cent for developed countries.
- As the global financial crisis worsened, global FDI inflows are estimated to have fallen in 2008 to an estimated US$1.9 trillion, and were expected to fall even more in 2009, according to UNCTAD estimates.
- Developing countries on the other hand, had, in 2007 FDI inflows reaching their highest level ever since 2000 (more than $500 billion), which was a 21% increase over the 2006 value. (UNCTAD 2008: 9).

1.1.2 FDI in South Africa

According to the South African institute of Chartered Accountants (SAICA, 2011), South Africa attracted very little foreign investment towards the end of the 20th century. Mostly, it was a result of the imposed trade and financial sanctions in the mid 1980's due to the political environment, the subsequent financial crisis, the tightening of capital controls, and the declaration of a halt on payments of external creditors, which, as a result, cut South Africa off from international capital markets (SAICA: 2011). This trend was

reversed in 1994, after the transition to democracy. As a developing nation, South Africa was not left untouched by the global economic crisis that started in 2007/2008.The impact of the global economic crisis on developing nations centred among two aspects:

- Financial contagion through the stock markets channel;
- The economic downturn affected developing nations in various ways namely; trade came under pressure, remittances to developing countries declined as well as FDI and equity investments. (SAICA: 2011).

As with the global recession, South Africa did not escape the effects of a sharp pullback in global foreign direct investment (FDI) flows during 2009, with reports showing that FDI inflows to South Africa slumped by 24.6 per cent, to US$6.8 billion, in 2009, from US$9-billion in 2008. South Africa saw its first recession in 17years, as a result of the global economic crisis. Results were far worse than initial FDI forecasts for South Africa. (Engineering News: 09 January 2010).

It had become customary for South Africa's FDI inflows to be influenced materially by single large transactions. For instance, the 2008 inflows were underpinned by a US$5.6-billion investment by the Industrial & Commercial Bank of China into Standard Bank. (Engineering News: 09 January 2010).

With this increased FDI into South Africa, there is a need to discuss the socio-economic development of South Africa, to assess whether the former plays a role on the latter.

1.1.3 Socio-economic development trends in SOUTH AFRICA

According to the United Nations Development Programme (UNDP) and the United Nations Populations Fund (UNPF) (2006), South Africa still faces major socio-economic challenges, despite significant transformation since 1994. Although robust economic growth in the post-apartheid period enabled a measurable decline in income poverty, inequality, on the other hand, increased and as measured by the Gini coefficient, rose from 0.64 to 0.67 between1995 and 2008 (World Bank: 2010). As mentioned by the

World Bank (2010), at over 25 per cent, the unemployment rate in 2010 was very high, and the poor South Africans have continued to have limited access to economic opportunities and basic services. In Human Development Index (HDI), a socio-economic measure by the UNDP, many challenges still remain and these include a low life expectancy of 51 years and the largest number of people living with HIV/AIDS in the world (over 5.5 million) (UNDP and United Nations Population Fund: 2006). South Africa continues to battle a dual epidemic of tuberculosis and HIV/AIDS, bearing 24 per cent of the global burden of HIV-related tuberculosis (World Bank: 2010)

The legacy of apartheid, of a dual formal/informal economy, a low skills base and wide urban/rural disparities led South Africa to a two-tier nation- one part developing and one part developed. The Government has a constitutional obligation to ensure that most marginalized citizens have basic socio-economic rights, particularly those living in the poorest provinces of Limpopo, KwaZulu-Natal and the Eastern Cape. In order to tackle the multi-dimensional nature of underdevelopment, the South African Government structured its ministries into five clusters – Economic, Governance, Justice, International Relations and Social – for coordinated, effective and integrated service delivery. (UNDP and UNPF: 2006).

South Africa has various strengths, including rich mineral resources, a stable banking sector and it being the African continent's financial centre. One major weakness of the country is the lack of investment in education during apartheid that has left a legacy of high unemployment and poverty which will require a generation to meaningfully cut down. (Business Monitor International 2011: 13).

Policies working to rectify the many inequities of apartheid have contributed to some notable achievements. Between 1991 and 2008, net secondary school enrolment went up from 45 per cent to 72 per cent. Since the end of apartheid, 1.6 million free housing units have been constructed for low-income families. Access to electricity went up from 34 per cent in 1993 to 81 per cent in 2007 (World Bank: 2010). Similar improvements have also been recorded for water and sanitation. The social grant system, which

primarily supports children, has expanded coverage from 2.5 million beneficiaries in 1999 to over 13 million in 2009. (World Bank: 2010).

In terms of economic performance, the Gross Domestic Product (GDP) growth of South Africa over a 16 year period (1993 - 2010) reached the highest of 5.6% in 2006, a lowest in 2009 at -1.8%.The global financial and economic crisis can be blamed for the decrease in growth from 5.5% in 2007 to 3.7% in 2008 and then to -1.8% in 2009. (RSA 2010: 6)

Unemployment increased from 2 million in 1995 to 4.4 million in 2003, then decreased to 3.9 million in 2007 and increased to 4.1 million in the end of the second quarter of 2009. According to the World Bank (2010), the unemployment rate increased from 16.1% (the lowest) in 1995 to 31.2% (the highest) in 2003 and then fluctuating, with a downward trend till 2009 (23.8%). (RSA 2010: 6).

Life expectancy defined as the number of years a new born would live if prevailing patterns of age-specific mortality rates at a time of birth were to stay the same during the child's life, remained largely unchanged in the period under consideration. In 2010 the life expectancy was 54.3years, according to official sources. (RSA 2010: 36).

Infant mortality rate is the number of children less than a year old who die in a year per 1000 live births in that same year (RSA 2010: 37). The international infant mortality rate has been decreasing in most countries, with the exception of Sub-Sahara Africa. Although the South African infant mortality rate has decreased steadily; from 55.5 deaths per 1000 live births in 2001 to 44.7 deaths per 1000 live births in 2010, the target of 18 deaths per 1000 live births is unlikely to be reached. In South Africa, the three major killers of children under the age of 5 are HIV/AIDS, neonatal causes and childhood infections such as pneumonia and diarrhoea. (RSA 2010: 37).

The poverty index ratio, which computes the proportion of the population living below a poverty line, decreased from 45% in 2000 to 39% in 2008 (Van der Berg et al, 2009).

This decline in poverty headcount index can be attributed to an increase in social grant uptake. (RSA 2010: 37).

In summary, it is widely accepted that although significant progress has been made since the end of apartheid, many challenges still remain and massive investment is still needed to increase the South Africa's economy output and absorb high level of unemployment.

1.2 PROBLEM DEFINITION

UNCTAD (2005) argues that a mapping of FDI inflows indicates the extent to which host countries are integrated into the globalizing world economy. Based on the discussion above, it is evident that FDI plays a key role in the world economy and also in the regional economies. Balasubramanyam and Sapsford (2001: 2) argue in their paper that FDI is a powerful ingredient in the development process of any country, an acknowledged instrument for the transfer of technology, human skills and the purveyor of new ideas as well as being a source of capital.

Generally speaking, countries, especially developing countries, need continuous investment to play a role in aiding their development. Public or private funding may be sources of investment, but the amounts required are generally greater than the capital that is available within the country's boundaries. Thus, FDI becomes an important financial source for capital projects, fundamental to the development of the developing nation. Developing countries have been keen on attracting investment to help with their development in important areas. In their search for this investment, governments have made changes in their policies to make their countries more attractive to the foreign investors. Various empirical studies have shown that some developing countries opened to FDI have a much higher growth rate than those that have not opened to it, with positive consequence in social and economic development. (Arango 2007: 3).

Important to note is the recent conditional takeover of Massmart by Wal-Mart where Shoprite, a direct competitor of Massmart as well as South Africa's largest retailer, argued that this takeover would be damaging to local retailers and manufacturers. This

is because Wal-Mart imports a lot of its products. This is because production costs and raw material costs in South Africa are much higher. (Bleby: 2011). On the other hand, there are also benefits associated with this merger. Fin 24 (2011) outlines these likely benefits as follows:

- Massive capital injection into the economy of South Africa;
- increases healthy competition;
- creation of new jobs in South Africa;
- support for the development of South African exports; and
- providing previously underserved customers and communities with lower prices and increased access to the products they want and need.

FDI has been a major contributor of Corporate Social Responsibility (CSR) in South Africa (Socio-Economic Development South Africa (SEDISA): 2012). SEDISA (2012) also points out that a CSR programme that creates sustainable access to the economy for its beneficiaries contributes to socio-economic development. The debate about the costs/benefits of FDIs is likely to become prominent in the coming years. Seeing that there has been FDI attraction to South Africa over the last 15 years, this dissertation aims to see if FDI has played a role in socio-economic development and growth through an analysis of selected (CSR) programmes; employee uplifting programmes; and any other indirect areas, for example job creation in the value chain. This analysis will focus on three case studies introduced in the following sections. There is a need to see if these CSR projects, employee upliftment initiatives and indirect value chain spillovers have been sustainable and made contribution to South African socio-economic aspects.

Should the South African government continue to attract any foreign investment, in the hope of fuelling the economic development of the biggest economy in Africa? Are there case studies of past FDIs in South Africa and their impact on the socio-economic development? This paper seeks to contribute in the debate by looking at whether FDI has played a part in the socio-economic development of South Africa.

1.3 OBJECTIVE FOR THE STUDY

This research paper intends on achieving the following:

- Conduct a literature overview on developing nations, economic development and FDI;
- Discuss FDI trends and characteristics in South Africa;
- Examine whether FDI has played a part on the economic development in South Africa, as a developing nation through conducting selected case studies of South African companies involved with FDI: General Motors South Africa (Greenfield), ABSA bank (Take over by Barclays bank) and the mining sector as it has a heavy presence of foreign-owned companies.

1.4 SCOPE OF WORK

This research paper will examine the role of FDI on the economic development of South Africa by looking at the available literature and sources of data. Case studies of two selected companies that have been involved with any of the two categories of FDI into South Africa; as well as the mining sector will be conducted.

1.5 LIMITATIONS

Accessing the most recent and relevant information will pose a challenge. Conducting case studies might also pose challenges in the sense that the companies might not be willing to divulge information, information could be biased and staff could be unavailable for interviews.

1.6 PRIOR RESEARCH AND CONTRIBUTION TO THE STUDY

Research has been done with regards to FDI and its impact on the economic growth of South Africa. Most of the focus of the research was from an economic growth perspective. To the knowledge of the researcher, research on FDI, particularly on the role it plays in socio-economic development in South Africa; the Development Studies field has very little of. This study will be a contribution to the Development Studies field.

It is important to assess the contributions, if any made by FDI, considering many governments from developing countries are making efforts to attract as much FDI as possible in the hope that its presence will contribute to the socio-economic development of their respective countries.

Another important factor that heavily impacted on FDI internationally is the recent 2008/09 global financial crisis. This crisis affected global FDI in various ways and this research will show how this crisis affected global FDI trends.

1.7 RESEARCH QUESTIONS

- What is the role of FDI in the socio-economic development of developing nations?
- What role has FDI played on the socio-economic development of South Africa through its CSR activities, employee upliftment programmes as well as any indirect value chain spillovers?
- How should the South African government ensure a greater FDI impact on the public at large?

1.8 METHODOLOGY

A literature study will be conducted on the theory on socio-economic development factors and foreign direct investment. In order to assess foreign direct investment inflow trends and socio-economic development factors in South Africa, data will be obtained from reputable providers and international organisations.

For the purposes of this research, three case studies will be conducted. A case study is defined by Thomas, Nelson and Silverman (2011: 296) as, “a form of descriptive research in which a single case is studied in depth to reach greater understanding about similar cases.” The cases will be on South African companies involved with FDI, namely General Motors South Africa (Greenfield), ABSA bank (Take over by Barclays bank) - and the South African mining sector. The main focus of the case studies are the various

sustainable CSR programmes implemented by the firms, programmes put in place to improve the lives of employees and indirect effects on the value chain. This will enable the researcher to have a closer look at the activities of the selected companies and assess the role of these on the socio economic development of South Africa.

Both primary and secondary data will be collected in this study. Primary data will be collected via semi structured interviews with company representatives. Secondary data will be collected via: the World Wide Web through use of search engines such as Google and Bing, text books, academic journals in various fields, including Development Studies; and the Nelson Mandela Metropolitan University library-which has access to various databases (both South African and international) that consists of past research papers, journals as well as past dissertations and theses.

1.9 RESEARCH PLAN AND LAYOUT

The paper is divided into seven chapters.

Chapter 1: Introduction to the study

Chapter 2: Literature review and Development

Chapter 3: Socio-economic development in South Africa

Chapter 4: Globalisation and Foreign Direct Investment

Chapter 5: Methodology and Case Study findings

Chapter 6: Conclusion and recommendations

1.10 CONCLUSION

Chapter one provided an introduction and background to this dissertation. As discussed, FDI is favoured by many developing nations as it is seen as an important financial source for capital projects, fundamental to the development of the developing nation. These countries have even aligned government policies with making their countries more appealing to foreign investors. South Africa is no exception, as it is a country

facing challenges such as poverty, inequality, poor education system and poor health system. There is a need to identify the role or impact that FDI plays on the socio-economic development of South Africa. This study therefore seeks to analyse three case studies in an effort to find any relationship between FDI and socio-economic development of South Africa by analysing three case studies: ABSA bank, General Motors South Africa and the South African Mining sector.

The chapter that follows, chapter two will be a discussion on the literature and theory review on FDI and development. A review of past related literature on FDI and economic growth and economic development will be examined. The theory of development as well as Sustainable development, development taxonomies and the Millennium development Goals (MDGs) will also be analysed.

CHAPTER 2
LITERATURE AND THEORY REVIEW

2.1 INTRODUCTION

Ever since the late 1980s, worldwide Foreign Direct Investment (FDI) inflows have been growing at a fast rate. Numerous developing countries have viewed FDI as a vital component for their economic development (Adams: 2009). Governments in developing countries accept FDI, hoping that it will provide both physical capital and employment possibilities that are lacking in a host market, and bring about expertise and technology that will be passed on to local firms and workers, and thus help to sharpen up the country's economy (The Economist: 2009; Seetanah and Khadaroo 2007: 2). Support for FDI has mostly been in the form of 'tempting' tax incentives and subsidies in an effort to invite foreign investment (Herzer s.a.: 2).

There are academic arguments about the role FDI plays in the economies of developing countries, mainly in empirical as opposed to theoretical studies. Although many studies have detected positive impacts of FDI on economic growth, others reported a negative relationship, with the main reasons for this controversy being insufficient data and errors in the methodology (Seetanah and Khadaroo 2007: 2-3).

With regard to the impact of FDI on socio-economic development, there has not been much research in the development studies field, to the knowledge of the researcher. Most research has been in the field of economics and it focused on FDI's impact on one sphere of development: economic growth. This chapter examines the relevant literature regarding FDI and socio-economic development in South Africa.

Development is a fundamental process for any society. Lessons learnt from successfully developed countries could be replicated in other countries in need of development. The aim of this study is to find a link between FDI inflows and socio-economic development in South Africa. It is of great importance to first have a look at

global socio-economic development as a whole, and then specifically look at the South African situation.

This chapter investigates previous literature, followed by the description of the concept of development in detail, through looking at its three definitions; namely, development as a long-term process of structural societal transformation, development as a short-to-medium term outcome of desirable targets, and development as a discourse of western modernity. The second focus will be on how international organisations, namely, the World Bank, the International Monetary Fund (IMF) and United Nations Development Programme (UNDP), classify developing nations. Thirdly, the characteristics of developing nations, sustainable development as well as the various stages of economic growth/ development will be examined. Finally, an analysis of Millennium Development Goals (MDGs) trends and progress on a global level will be given.

Chapter two therefore seeks to review the literature that has been conducted in previous years with regard to socio-economic development and FDI. Furthermore, the chapter explores the concept of development as a whole and uses a top-down approach that first looks at development in the general sense and then looks at the Millennium Development Goals (MDGs), as these provide an idea on the progress made in developing nations. This chapter is important for this study as it highlights one of the two important topics of this study: socio-economic development. This chapter looks at the important aspects of development, sustainable development and the MDGs. Knowledge of this will aid the reader with an understanding of how FDI and socio-economic development link and particularly how the former plays a role on the latter.

2.2 LITERATURE REVIEW

The impact that FDI has on economic growth and development is quite a controversial topic in various disciplinary fields including Development Studies, International Business and Economics. Section 2.2.1 discuses two hypotheses on development and FDI.

2.2.1 Modernisation and Dependecy Theories

Two differing hypotheses to explain FDI's impact on development exist, namely Modernisation hypothesis and Dependency hypothesis. Tsai (1994: 137-163) notes the following about the two hypotheses:

Modernisation: FDI influences economic growth through supplying external capital, and through this growth, the benefits spread across the host country's economy. In this case, the presence, instead of the origin of the investment is seen to be important. In addition, FDI, on the most part, brings with it advances technology and better management and organisation to the host nation.

Dependency: This theory supports that there exists a possible short term positive impact of the flow of FDI on economic growth. However, there also exists a possibly adverse long term impact of FDI on economic growth as influenced by a negative relationship between the stock of FDI and growth rate. In the short run, any increase in FDI slows as a result of higher investment and consumption. This results in economic growth being directly and almost immediately created. However, as FDI increases and foreign ventures take hold, there are most likely to be unfavourable effects on the rest of the economy that negatively impact on economic growth. This is as a result of various intervening means of dependency and the lack of linkages.

On one hand, some academics have suggested that political, social and cultural factors are important role players in establishing the growth performance of any country. On the other hand, other academics have argued that the role that FDI plays on economic growth might differ across countries as a result of the different stages of development that the countries will be in. (Tsai 1994:137-163).

The following section discusses various research papers on FDI and socio-economic development.

2.2.2 Review of Past Research on FDI and Economic growth and Economic Development

Adewale (2008) explores the policy determinants of FDI in South Africa. The particular focus of this paper is on the role of the South African government's policy framework in attracting FDI, and the resulting impact on the implementation of programmes such as Reconstruction Development Programme (RDP); the Growth, Employment and Redistribution policy (GEAR); and Accelerated and Shared Growth Initiative for South Africa (ASGISA), to name a few. The reason for conducting that research was because the effectiveness of South Africa's policy framework with regard to attracting FDI was somewhat doubtful. Through the use of a Likert-type questionnaire directed at a randomly selected sample of investors from a chosen population, Adewale (2008) concludes that the policy determinants for FDI inflow were not in the best interests of FDI. In addition, the research found that reforms would need to be implemented in order to counter some of the macro-economic flaws. In this way, the government of South Africa would be creating an environment favourable for attracting FDI into the country.

Luiz (2002) reviews the promises made by the South African government elected in 1994 and provided an analysis of various programmes implemented in the effort to stimulate growth and development. The methodology used by Luiz (2002) was based on an analysis of historical data. The results of the study showed that programmes such as RDP and GEAR did not fully achieve the intended goals. He argues that there was a great need for government to establish a selective, clear, concise strategy that is based on dynamic comparative advantages. This will in turn, according to Luiz (2002), allow for programmes that fuel the socio-economic development of South Africa.

Ukpere and Slabbert (2009) explore the relationship between globalisation, unemployment, inequality and poverty. The study, which is meta-analytical and qualitative in nature, relies on secondary data and is based on conceptual analysis and theory building. The paper reveals that unemployment increased levels of inequality and poverty in society. Globalisation, according to the results, seemed to have exacerbated the problem of global unemployment. The practical implications of these findings are

that problems of global competition, job termination, wage reductions, labour immobility and technological displacement of workers have increased the rate of global unemployment, and reinforced widespread inequality and poverty.

As mentioned above, not much research has been conducted in terms of finding a link between FDI and socio-economic development in South Africa, and from a Development Studies perspective. However, to the author's knowledge, the majority of research on FDI has been conducted in the field of Economics, mainly focusing on the impact of FDI on developing countries' economic development - particularly selected sub-Saharan African countries as revealed by the literature review.

The process of linking FDI and development for developing countries has been a significant challenge for a number of countries. (Robbins, Lebani and Rogan 2009: 6). The Development Studies- focused research conducted by Robbins, Lebani and Rogan (2009: 6) explores some of the ways and means that FDI can contribute to lasting structural change in developing country production and productivity dynamics by focusing on South Africa, Mozambique and Lesotho. The article conducted surveys in selected sectors in the chosen countries' economies, and results were analysed. Results of the case studies reveal that, "whether it be at a national policy level or through a combination of sensitive national policy frameworks and robust local inter-firm networking possibilities do exist to carve out opportunities for linkages that have the potential to deepen gains from FDI." (Robbins, Lebani and Rogan 2009: 6).

Seetanah and Khadaroo (2007) investigate the impact that FDI had on economic growth for a group of 39 sub-Saharan African countries for the period 1980 to 2000.Seetanah and Khadaroo (2007) used an extended Cobb Douglas production function, whereby investment was disaggregated into its different types, namely, domestic private, foreign direct and public investment, for more insights and comparative analysis. Taking into account the possible existence of endogeneity in FDI modelling, the study employed both static and dynamic panel data estimates. Results from the analysis suggest that FDI is a vital component in explaining economic performance of sub-Saharan African countries, though to a lesser degree in comparison to the other types of capital.

Furthermore, the study confirms the incidence of important endogeneity in the FDI - growth relationship as FDI is not only seen as a driver of growth, but it follows growth as well.

Adams (2009) investigates FDI and economic growth literature in the context of developing countries, with sub-Saharan Africa as the main area of focus. The two main findings of the paper are as follows: Firstly, FDI contributes to economic development of a host country in two main ways, namely, the expansion of domestic capital and the improvement of efficiency through the transfer of new technology, innovation, marketing, managerial skills and best practices. Secondly, FDI has both benefits and costs, and its impact is determined by conditions unique to a country in general; and the policy environment, particularly in terms of the ability to diversify, the level of absorption capacity, targeting of FDI, and opportunities for linkages between FDI and domestic investment. The findings of the review suggest that FDI is needed, but it is not a sufficient condition for economic growth.

Thomo (2010) examines the impact that inward FDI has on the skills development and job creation in South Africa. The research highlights the two main challenges that South Africa faces: unemployment and the availability of skills for its population. Thomo (2010) conducted telephonic interviews with the relevant companies. Results from the survey were analysed qualitatively. The results of his study concluded that FDI had a positive impact on the skills development and job creation in South Africa, therefore positively impacting on the economy.

With the introduction of the Human Development Index (HDI) by the UNDP, some scholars have viewed it as the more suitable indicator of economic and societal progress of countries (Streeten: 1999; Ranis, 2000). Given this shift in the conceptualization and measure of development, one important question that Sharma and Gani (2004) explored was whether some of the causes of economic growth, such as foreign direct investment (FDI) by Transnational Corporations (TNCs), also considerably influence human development. Sharma and Gani's paper examined the above question by means of investigating the effects of FDI on HDI. The findings of

Sharma and Gani show that FDI somewhat has a positive effect on economic growth and building of infrastructure in host countries, which in turn contribute to the uplift of the population. This infers that open economic policies with increasing efforts towards integration of national economies into the global marketplace could be a necessary condition for human development (Sharma and Gani 2004: 4). Several other studies have previously examined this issue, mainly focusing on growth, and the majority of them have found that FDI has a positive effect on the economic growth of developed as well as developing countries. The findings further suggested that economic growth has not necessarily led to improvements in human conditions everywhere, although its ultimate objective is to improve human conditions.

The literature review above suggests that a gap exists in terms of research regarding the impact of FDI on socio-economic development of South Africa from a Development Studies perspective. As it has been seen, the majority of the research has been on FDI's impact on economic growth in mainly Economics and International Business fields of study. This study will focus on the role that FDI plays on the socio-economic development in South Africa, thereby adding to work in the field of Development Studies field. Areas looked at will be specifically economic growth, unemployment, inequality, health, service delivery as well as HDI trends, all of which will be analysed in the chapters that follow.

Discussing the concept of development will be vital in answering the research questions in chapter one. The following section discusses the concept of development, showing various definitions that exist.

2.3 CONCEPT OF DEVELOPMENT

The definition of development has been a controversial one and has been tentative over time Sumner and Tribe (2008: 9-27). Three perspectives on the definition of development exist:

- Development as a short- to medium-term outcome of desirable targets;

- Development as a long-term process of structural societal transformation; and
- Development as a dominant “discourse” of western modernity.

2.3.1 Development as a Short- to Medium-term Outcome of Desirable Targets

Thomas (2000, 2004) explains this first definition as a “vision or measure of progressive change”, and Gore (2000: 797) relates it to “performance assessment”. In this approach, development is evaluated on the basis of a set of short- to medium-term performance indicators (results or outcomes), which are then measured and compared with goals/targets. Experts in the field of development, particularly those in international development agencies, are most likely to favour the instrumental element tied to this approach. International agencies such as the Organisation for Economic Co-operation and development (OECD), United Nations (UN) , the World Bank (WB), or bilateral-aid agencies have begun in recent times to consider poverty reduction objectives and Millennium Development Goals (MDGs) when making decisions (Sage Publications 2011:13).

Saith (2007) argues that the MDGs are a potentially great achievement in principle, whereas in practice their translation into forms of results-based management has proven problematic to development research and practice. This is because it assumes a set of objectives which may not be necessarily shared by the majority of people meant to benefit from development (Sumner and Tribe 2008: 14). There is little emphasis on the development aspect of previously valued and vital dimensions, such as participatory processes, empowerment and structural change (Wright 2008: 2). In the late 20th century, Non-governmental organisations (NGOs) were criticised for “moving their eye from the ball”, as they mainly centred their attention on accountability to donors and redirected their focus away from what they claimed to pursue. Intense competition from other providers has created an environment where NGOs have had to prove their accountability and added value (Wright 2008: 2).

It is of major concern to solely focus on poverty, or just one indicator, as this will lead to other important and interconnected elements of development being ignored Sumner and Tribe (2008: 9-27).

2.3.2 Development as a Long-term Process of Structural Societal Transformation

Thomas (2000, 2004) contends that development is a process that involves historical change. This perspective has three main characteristics:

- its main focus is on processes of structural societal change,
- it is historical, and
- its outlook is long term in nature, that is, if there is an enormous societal change in one dimension (for example, changing from an agricultural society to an industrial society), there in turn would be major implications for another facet (for instance, the relationship between owners of factors of production and human resources).

This implies that development involves adjustments to socio-economic structures such as ownership, organisation of production, technology, and institutional structure and laws (Sumner and Tribe 2008: 12). All countries tend to experience some economic growth and societal growth, as they change over time, as observed over the centuries. In the context of this perspective, this could be viewed as development (Sumner and Tribe 2008: 12).

Hickey and Mohan (2003: 4) argue that one reason why there has been a shift away from defining development as being directly linked to structural change is the lack of success in this development theory. Hickey and Mohan (2003: 4) go further in arguing that this long-term, broad view does address the bigger picture but its capacity to effectively steer the practice of development, such as policy-making which focuses on shorter time periods, is limited.

2.3.3 Development as a Dominant "Discourse" of Western Modernity

This third definition of development is based on the view that development comprises of "bad" change and "bad" outcomes through western, ethnocentric philosophy of development being imposed on society, and this is known as the "post-modern conceptualisation of development or post-development, or post-colonial or post-structuralist development" (Sumner and Tribe 2008: 14). The post-modern approach is more of an onslaught on the development industry; this includes researchers, practitioners and aid organisations. According to Sumner and Tribe (2008: 14), the post-modernists' view is that "development and poverty are social constructs that do not exist in an objective sense outside of the discourse (a body of ideas, concepts and theory)" and that it is only through this discourse that one can know reality. Objective reality simply does not exist in this approach (Sumner and Tribe 2008: 14).

Booth, Leach and Tierney (2006: 12-13) point out in their book that the 'discourse approach' examines the use of various types of languages, metaphors and images by people to be a symbol of themselves and other people through specific means. The main focus is on how these images are portrayed by and reproduced through power relations and what the social and economic impact is, rather than on whether they are accurate or not. This right to define reality is a critical aspect of power. This poses a huge challenge in which certain groups are silenced or oppressed (Booth et al. 2006: 12-13).

The post-modernist perspective to development proposes that those contribute to the 'discourse' (for example, the perception that some rural communities are backward, based on agricultural production technology) have in mind this built-in component of inferiority-superiority. Post-modernism is criticised as it suffers from an internal contradiction: "that is to say that if we can only know reality through discourse then why should we believe any one account (such as that of the post-modernists) more than any other – each account might be equally 'socially constructed'" (Sumner and Tribe 2008: 14).

The next section looks at an increasingly influential approach to the theory and practice of development: sustainable development. Sustainable development has gained influence as it is more “future-oriented”, meaning it considers not only three but four pillars of development that are inter-linked.

2.4 SUSTAINABLE DEVELOPMENT

According to the World Commission on Environment and Development’s (1987) Brundt Commission, sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. It contains within it two key concepts:

- the concept of needs, in particular the essential needs of the world's poor, to which overriding priority should be given; and
- the idea of limitations imposed by the state of technology and social organization on the environment's ability to meet present and future needs.

The world, according to sustainable development definitions, is a system that links space; and links time (International Institute for Sustainable Development: 2012). As a system over space, actions from one end of the world impact on other ends; for example, air pollution in one continent affects air quality in another. As a system over time, decisions made centuries and decades ago by forefathers and grandparents regarding, for example, farming practices, affect practices today; and economic policies implemented at present will have an impact on poverty for future generations.

The concept of sustainable development helps human beings to have a better understanding of themselves and the world as a whole. The environmental and social problems currently faced are complex and grave—and the world needs to address these problems. Promoting sustainable development brings up discussions about human beings’ relationship with the nature, about what makes up social progress; and about the character of development worldwide, in the present and into the future (Baker 2006: 1).

The sustainable development model challenges the conventional form of development. Conventional approaches view development as modernisation of the world, along western lines, which sees society going through different stages of economic growth and development (Baker 2006: 2).These will be discussed in later sections.

2.4.1 The Three Pillars of Sustainable Development

The sustainable development model suggests that meeting the needs of the future depends on the extent to which the social, economic, and environmental objectives are balanced when making decisions at present. A few of these needs are illustrated in Table 2.1 below.

Table 2.1: The three pillars of sustainable development

ECONOMIC	SOCIAL	ENVIRONMENT
Services	Equity	Biodiversity
Household needs	Participation	Natural resources
Industrial growth	Empowerment	Carrying capacity
Agricultural growth	Social mobility	Ecosystem integrity
Efficient use of labour	Cultural preservation	Clean air and water

(Source: Adapted from World Bank: 2001)

Many of these objectives in each of the pillars may seem to conflict with each other in the short term. An example is that industrial growth might conflict with preserving natural resources. However, in the long term, careful and responsible use of natural resources at present will assist with ensuring the availability of resources for continued industrial growth in the future.

The three-pillar approach raises a number of tough questions, for example:

- Can the long-term economic objective of sustained agricultural growth be met if the ecological objective of preserving biodiversity is not?
- What happens to the environment in the long term if a large number of people cannot afford to meet their basic household needs today?
- If you did not have access to safe water, and therefore needed wood to boil drinking water so that you and your children would not get sick, would you worry about causing deforestation?
- Or, if you had to drive a long distance to get to work each day, would you be willing to move or get a new job to avoid polluting the air with your car's exhaust?
- If we don't balance our social, economic, and environmental objectives in the short term, how can we expect to sustain our development in the long term? (World Bank: 2001).

These questions are in fact the situations and dilemmas that people from everywhere in the world, developing and developed, face on a daily basis. International agencies all strive to adhere to the principles of sustainable development, even the MDGs are in line with this model, as implementation of this model of development needs to be in sync with the MDGs for it to be successful. The millennium development goals are discussed in a later section in this chapter.

According to Nurse (2006: 33), sustainable development originally consisted of three pillars, but a fourth pillar, culture, was added in recent years.

2.4.2 Culture: The Fourth Pillar

The Articulate (2006: 2), states that the four-pillar model recognises that a community's vigour and quality of life is directly proportional to the "vitality and quality of its cultural engagement, expression, dialogue and celebration". This approach further realises that culture contributes to the construction of lively cities and communities in which its

inhabitants opt to live, work and visit; which plays an important role in maintaining social and economic wellbeing. Nurse (2006: 5) states:

> When it comes to sustainable development not all cultures are equal, some cultures are more equal than others, depending on the political and historical context. At one end of the sustainable development discourse western science is viewed either as the cause or the solution to the problem. At the other end of the spectrum, traditional or localized, particularly non-western, knowledge is either seen as 'backward' and problematic or romanticised as 'sacred wisdom' and therefore valued for its future value.

It is important to view adding culture to sustainable development as more than just an additive framework. In this sense, culture is not just a fourth pillar to be integrated into the well-settled notion of sustainable development. Alternatively, it is a basis for interrogating the meaning and practice of sustainable development at its core, so that culture does not become just a palliative (Nurse 2006: 7).

Protecting and promoting cultural diversity is seen as important to universal human rights, and fundamental freedoms together with securing the economical and geological diversity. That statement is under the premise that sustainable development can, thus, only be attained through harmony and alignment of cultural, social, economic and environmental objectives.

The next section discusses the definitions of a developing country and the objectives of development that any country planning to undertake development as an initiative needs to consider. This information is important, as country classifications assist in decisions on which countries need to mainly focus in terms of development initiatives.

2.5 INTERNATIONAL ORGANISATIONS' COUNTRY CLASSIFICATION SYSTEMS

According to the encyclopaedia of the UN (2008: 119), the term 'developing nation' refers to all countries that are not greatly industrialised. Todaro and Smith (2009: 14) mention that development has traditionally meant a country's economic ability, whose initial economic situation has been more or less stagnant for a long period of time to generate and sustain an annual increase in its gross national income (GNI) at rates of 5% to 7%, or more.

There has been difficulty in clearly defining what constitutes a developing or developed country. As a result, various international organisations came up with ways of classifying countries based on various criteria.

Over time, the UN General Assembly has questioned country classification issues. The General Assembly has never established development taxonomy for all its members. In contrast, international organizations such as the World Bank, the UNDP and the IMF have established such taxonomies (Nielsen 2011: 7). This section investigates the development taxonomies used by each of the above-mentioned international organizations. Analysing the classification system of selected international organisations allows for some way of defining a country in terms of its level of development. This is because, as mentioned above, there has been some dispute in agreeing to a single definition of what comprises a developing or developed country. For example, a country like South Africa will be, according to criteria used, defined as a developed or developing country. The following sections discuss classification systems in detail.

2.5.1 World Bank's Analytical Classification System

The common method of defining the developing world is the use of per capita income. International agencies such as the OECD and the UN offer classifications of countries based on their economic status, though the most popular system is that of the International Bank of Reconstruction and Development (IRBD), better known

as the World Bank (WB) (Todaro and Smith 2009: 41). The WB's main criterion for classifying economies is Gross National Income (GNI). The WB classifies all its member countries (187) and all other economies with a population greater than 30,000 each (a total of 215 countries), and they are positioned based on their levels of GNI per capita using the World Bank Atlas method (World Bank: 2011).These economies are further classified as Low Income Countries (LICs), Lower Middle Income Countries (LMICs), Upper Middle Income Countries (UMICs), and High Income OECD and other high-income countries (Todaro and Smith 2009: 41).

a) Low Income Countries (LICs)

According to the World Bank (2011), Low Income Countries, also known as Least Developed Countries (LDCs), are those with a GNI of US$ 1 005 or less. Low income countries are for the most part agro-based countries with minimum industrialisation and exceedingly low levels of national and household income (Szirmai 2005: 20) Countries in this category are eligible for loans on more sympathetic terms than richer developing nations. This category has a large number of African countries as well as countries from South and South-East Asia (Szirmai, 2005: 20; World Bank 2011).

b) Lower Middle Income Countries (LMICs)

LMICs are countries with a GNI of US$1 006-US$3 975. The differentiation between LICs and LMICs is to some extent subjective. Several poor countries that are barely distinguishable from LICs are included in the LMIC category. The LMIC class includes several poor countries from Central and South America, namely, El Salvador, Paraguay and several Middle Eastern countries, namely, Egypt, Morocco and Iraq (World Bank: 2011; Szirmai 2005: 21).

c) Upper Middle Income Countries (UMICs)

The World Bank (2011), states that the UMIC countries are those with a GNI of US$3976-US$12 275. One finds, in this category, amongst other countries, four

large populous Latin American countries: Argentina, Brazil, Mexico, and Venezuela. African countries in this category are Gabon, Libya, Namibia and South Africa (World Bank: 2011).

d) High Income Countries (HICs)

The World Bank (2011), states that HICs are countries with a GNI of US$12 276 or more. Szirmai (2005: 6) asserts that high income countries are those with greatly industrialised economies; technologically advanced industrial, administrative and service professions; and increasing levels of national and household income. Examples of countries in this category are USA, Japan, Canada and West European countries (World Bank 2011; Szirmai 2005: 22).

The World Bank Classification system focuses primarily on the GNI of a country when classifying development as opposed to UNDP classification system which incorporates more than one dimension in its classification. The use of more than one classification system gives a much broader understanding of the categories of development. The next section presents the UNDP's classification system.

2.5.2 United Nations Development Programme's (UNDP) Country Classification System

The UNDP devised a classification system that centres around the Human Development Index (HDI), which was launched together with the Human Development Report in 1990 (Nielsen 2011:8). According to the UNDP (2011), HDI is the measure that summarises human development, measuring the average achievements in a country in three basic dimensions of human development: longevity (a long and healthy life), access to knowledge, and a decent standard of living. The UNDP (2010: 216) explains that "the HDI is the geometric mean of normalised indices measuring achievements in each dimension". Countries are grouped in the categories illustrated in Table 2.2 below.

Table 2.2: HDI thresholds

CATEGORY	THRESHOLD
Very High Human Development	≥0.9
High Human Development	0.7≤HDI≤0.89
Medium Human Development	0.48≤HDI≤0.69
Low Human Development	≤0.47

(Source: Adapted from the UNDP 2010: 215)

A country's ranking on the HDI may substantially differ from its income per capita (GNI) ranking (Szirmai 2005: 15). For example, some countries have big differences in their HDI and GNI rankings, for example, in 2010 China, with an HDI ranking of 89, has a GNI ranking minus HDI ranking of -4, the United Arab Emirates has an HDI ranking of 58, and a GNI ranking minus HDI ranking of -28, South Africa had an HDI ranking of 110 and a GNI minus HDI ranking of -37 (UNDP 2010: 215-220).

2.5.3 International Monetary Fund's (IMF) Analytical Classification System

The IMF classification system is similar to that of the World Bank. The IMF separates the world into two main groups, namely:

- advanced economies, and
- emerging and developing economies (IMF 2011: 168-170).

a) Advanced Economies

Advanced economies comprise of 34 economies. The seven biggest economies based on GDP are the USA, Japan, Germany, France, Italy, the United Kingdom, and Canada, and these countries constitute the sub-group of major advanced economies, which is also referred to as the Group of Seven (G7). Other sub-groups also include the Euro area and the newly industrialized Asian economies (IMF 2011: 168).

b) Emerging and Developing Economies

Emerging and developing countries are 150 countries that include all countries that are not classified as advanced or transition economies. Developing countries are also classified according to analytical criteria and into other groups. The analytical criteria show countries' composition of export earnings and other income from outside the respective countries, a difference between net creditor and net debtor countries. For the net debtor countries, financial criterion is based on external financing source and experience with external debt servicing. Other groups include the heavily indebted poor countries (HIPCs), the least developed countries, and the Middle East and North Africa (MENA) countries. (IMF 2011: 170).

From the above discussion it is evident that countries are grouped based on various considerations. The various classification methods do not all have the same rankings for individual countries. However, these classifications do assist international organisations in deciding which specific countries to focus on in terms of assisting with development. These classifications do to some extent lead individuals, or groups of people, to view some countries as "better" than others. Table 2.3 below illustrates a summary of each development taxonomy.

Table 2.3: Country classification systems in selected International Organisations

	IMF	**UNDP**	**WORLD BANK**
Name of 'developed' country	Advanced Country	Developed country	High-Income country
Name of 'developing' country	Emerging and developing country	Developing country	Low-or middle-income country

Development Threshold	Not explicit	75 percentile in the HDI distribution	US$6,000 GNI per capita in terms of 1987 prices
Type of Development threshold	Most likely absolute	Relative	Absolute
Share of countries 'developed' in 1990	13 %	25%	16%
Share of countries 'developed' in 2010	17%	25%	26%
Sub-categories of 'developing' countries	(1) Low-income developing countries, and (2) Emerging and other developing countries	(1) Low human development countries, (2) Medium human development countries, and (3) High human development countries	(1) Low-income Countries and (2) Middle-income countries, which constitute: (a) Upper Middle Income Countries, and (b) Lower Middle Income Countries

(Source: Adapted from Nielsen 2011:19)

Table 2.3 above is a summary of three international agencies' classification of developing and developed countries, as well as the share of developed and developing countries according to each international agency. As seen in the table, the share of developed countries in the world in 2010 was 17% according to the IMF, but according to the UNDP and the WB it was 25% and 26%, respectively. Also important to note are the different sub-categories of developing countries; which are, again, specific to each international organisation. These sub-categories tend to overlap, for example. The IMF has two sub-categories and both the UNDP and the World Bank have three sub-categories.

Having looked at how countries are classified in terms of their development level, it is now important, to explore the primary characteristics of developing nations. This will lead to an understanding of the current socio-economic development situation in South Africa.

2.6 CHARACTERISTICS OF DEVELOPING COUNTRIES

It is important to view developing countries in a comparable framework. The similarities will be identified and illustrated in the discussion below. The common characteristics are classified into the following six broad categories:

- Low levels of living, comprising low incomes, high inequality, poor health and inadequate education;
- Low levels of productivity;
- High rates of population growth and dependency burdens;
- High and rising levels of unemployment and underemployment;
- Significant dependence on agricultural production and primary product exports; and

- Dominance, dependence, and vulnerability in international relations (Desai and West (s.a): 11).

2.6.1 Low Levels of Living comprising Low Incomes, High Inequality, Poor Health and Inadequate Education

In general, the living standards for the majority of people in developing countries are very low. These low levels of living lead to the following underdevelopment indicators:

- very low income levels;
- high poverty;
- malnutrition;
- more prevalence of diseases;
- high infant mortality;
- low life expectancy;
- an inept supply of public goods in public health, schools and universities;
- illiteracy;
- few opportunities to earn a sufficient income; and
- insufficient living and housing conditions. (Siebert 1999: 151; Desai and West (s.a): 12).

Before the global recession which started in 2007, many developing nations experienced slower GDP growth than developed nations. However, developing countries' GDP are growing at a faster pace than developing countries' GDP, having recorded an average of 5.4% growth as opposed to developed countries' 2.7% (World Bank 2011: 1).

There are wide income disparities in all nations of the world, as seen from the large differences between incomes of the rich and poor in both developed and developing countries (Siebert 1999: 152).

2.6.2 Low Levels of Productivity

Developing countries are further characterised by low levels of labour activities-the output by each unit of labour. The combination of various factor inputs in relation to the outputs for a specific technology is used to explain how societies provide for their needs. Other "softer" inputs such as managerial competence, worker motivation, and flexibility of the institution need to be considered. (Kintu: 2008).

Compared to those in developed nations, the levels of labour productivity in developing countries are very low. Many developing countries struggle with limited technological breakthroughs and advancement; as a result of limited schooling, little or no training and experience. This lack of advanced technology negatively affects productivity and leads to the inability to successfully compete globally with developed countries. (Szirmai 2005: 32-33).

Poor health for most low-income earners also shows that a link exists between low-income levels and low levels of productivity in developing nations. Health of the workers is negatively impacted by poor diet and insufficient nutritional meals. This can adversely influence the workers' attitude towards and ability to do their jobs, and, also, their co-operation with other people at work (Todaro (s.a): 17).

Causes of low levels of productivity are thus lack of physical capital (principle of diminishing marginal productivity) and poor quality of labour (Dixie State College of Utah (DSCU): 2009). As a result, governments of developing nations need savings and foreign finance so as to create fresh investments in physical capital and developing human capital/resources through investing in education and training (Kintu: 2008).

2.6.3 High Rates of Population Growth and Dependency

According to the DSCU (2009), both birth and death rates are much higher in developing than in developed countries and, as a result, contribute to high dependency burden in developing nations.

According to Desai and West ((s.a): 19), more than 75 per cent of the world population is in developing nations. People older than 64 years of age and those under the age of 15 are known as dependency burden as they need to be supported by a country's labour force (individuals older than 15 years of age and those under 65). Even though the number of people older than 65 years is greater in developed than in developing countries, the dependency burden in developing nations is much greater (Desai and West, (s.a): 19).

2.6.4 High Rising Levels of Unemployment and Underemployment

According to (Todaro (s.a): 19), the under-utilisation of labour is portrayed in two ways:

- Underemployment: This applies to people in both rural and urban areas who work less than they possibly could because the job is seasonal, weekly, or daily. This affects mainly those people who work on a full-time basis, but whose productivity is so low that decreasing the hours worked would not affect the total output.
- Open Unemployment: This type of unemployment is where people are able and usually keen to work, but no fitting employment is available for them.

2.6.5 Substantial Dependence on Agricultural Production and Primary Product Exports

Agriculture is a key feature of developing nations (Barbier, Kuiper and VanTongeren 2005: 17). The majority of developing nations' population lives and works in rural areas (DSCU: 2009). Agriculture is vital to developing nations as it is the main source of income for most of the population; it provides the main source of employment, a safety net and export earnings (Barbier et al 2005: 17).

Agricultural products are the main sources of these export earnings and, in many cases, they rely on exporting only raw materials instead of processed goods that would have gained value in the value chain (Siebert 1999: 152; Barbier et al 2005: 18).

2.6.6 Dominance, Dependence, and Vulnerability in International Relations

A large part of developing countries' trade, technology, foreign aid, and expertise depends on developed countries. This dominance of rich industrial nations often leads to the adoption of inappropriate technologies, educational structures and cultural values in developing countries. The influence of the developed countries can lead to elite lifestyle, private accumulation of capital, brain drain and transfer of capital, all of which retard economic development in the developing countries. (DSCU: 2009).

2.6.7 The Prevalence of Imperfect Markets and Incomplete Information

A developed market's economy's success primarily relies on the availability of certain institutional, cultural and legal basics. These basics include a strong judiciary system, stable currency, infrastructure of roads and utilities, functional transport and communication system, and free flow of information, to name a few (DSCU 2009). In the developing countries, most of these legal and institutional foundations are either weak or completely non-existent (Barbier et al., 2005: 18; DSCU 2009). The result is misallocation of resources (Barbier et al 2005:18).

Section 2.6 discussed developing-country characteristics in detail, the knowledge of which is imperative for purposes of this study. It is important to look at the stages of socio-economic development that were set out by Rostow (1960: 4-16) and are still relevant to this day. The following section discusses, in detail, the five stages of socio-economic development. The description of these stages offers a guide to countries as to which one they are at, making it simpler to identify which policies need to be implemented so as to fuel growth and development.

2.7 THE FIVE STAGES OF SOCIO-ECONOMIC DEVELOPMENT

According to Rostow (1960; 4-16), every country goes through five stages during the course of economic development. These stages are: traditional society, pre-conditions for take-off, take-off, drive to maturity, and the age of high mass consumption.

2.7.1 Traditional Society

The first stage of economic development is characterised by farming and handcrafts as the main forms of economic activity (Thutong 2011: 126).These societies, because of the limitation on productivity, devote the majority of their resources to agriculture. Flowing from the agricultural system is a hierarchical social structure, with a relatively narrow scope that allows some vertical mobility (Lawson: 2010). A low per-capita income is the main feature of this stage (Thutong 2011: 126). It is a stage where basic needs of individuals, such as food, shelter and clothing, are fulfilled (Aislahi 1989: 4). There is a basic division of labour between urban and rural activities, where the urban sector produces many goods and services and the rural sector produces food and many other agricultural products (Sachs 2004: 3). There is not adequate integration between the agricultural sector and the urban economy (Sachs 2004: 3).

2.7.2 Preconditions for Take-off

Rostow (1960:4-16) contends that, “societies in transition where preconditions to take off are developed, because it takes time to transform a traditional society in the ways necessary for it to exploit the fruits of modern science, to fend off diminishing returns and thus enjoy the blessings and choices opened up by the march of compound interest”. In other words, this stage is characterised by the accumulation of capital through the development of infrastructure as the society transforms from being a traditional society towards being an industrial one (Thutong 2011: 26).

Sachs (2004: 5) points out that this stage comprises basic division of labour, interaction between rural and urban sectors, and that farming are no longer for subsistence as farmers produce for both consumption and to sell to cities.

2.7.3 The Take-off

At this stage, improved methods of production are extended from leading industries to the rest of the economy (Thutong 2011: 26). The economy shifts from the primary commodity and micro-urban sector to manufacturing goods and industrialising (Sachs 2004: 5). This stage, according to Rostow (1960: 4-16), is the period where the old blocks and opposition to steady growth are overcome. A rise in savings and investment, including foreign investment, is witnessed at this stage (Thutong 2011: 26).

2.7.4 Drive to Maturity

After the take-off stage comes a long period of sustained progress, as the growing economy strives to improve modern technology in its overall activity. The structure of the economy changes constantly as technique improves; new industries pick up the pace, and older industries decline. As the economy modernises, it finds its place in the international economy, as previously imported goods are produced at home; new requirements for imports and matching export commodities are developed. (Rostow 1960: 4-16). Industrialisation is firmly established at this stage (Thutong 2011:126).

2.7.5 The Age of Mass Consumption

The leading sectors at this stage move towards durable consumer goods and services (Rostow 1960: 4-16).The material standards of living are high and social welfare systems are well developed. This stage, which is mainly associated with developed nations, is a phase that the USA, Western Europe, and Japan have entered (Thutong 2011:126).

2.7.6 Criticism of The Five Stages of Economic Development

Rostow's theory has been criticised as being biased towards the western model as the only path towards development. The model fails to explain the development model of countries with different cultures and traditions such as Sub-Saharan countries These countries, although with a different culture have generally undergone little economic

development. (Martinez: 2004). Furthermore, according to Binns (2008: 29), Rostow does not take into account the impact of geographical location on economic development. Binns in addition, states that Rostow's theory assumes that all countries have an equal chance to develop, disregarding population size, natural resources or the location.

In spite of the criticism of Rostows model exist, it is still one of the most widely used development theories and is a primary example of the connection of geography, economics and politics (Martinez: 2004 and Binns 2008: 29).

The following section, 2.8, looks at the MDGs which have been a means of measuring development in developing regions. Goals are set, and then targets to achieve the goals are set; development, in this case, is the attainment of these goals.

2.8 MILLENNIUM DEVELOPMENT GOALS (MDGs)

In 2000, the heads of states from 189 countries agreed and signed the Millennium Declaration at the UN Millennium Summit (End poverty 2015: 2012). In the Millennium Declaration, countries committed themselves to improve policies and governance, as well as to increase accountability to their respective citizens; developed countries further committed to offer the resources needed for this. International financial institutions such as the World Bank, IMF, WTO and regional development banks explicitly promised to play key roles in achieving these goals (End poverty 2015: 2012).

The Millennium Development Goals and their associated targets, according to UN (2008), are listed in Annexure A. MDGs are an important tool of measuring development in participating countries. Evaluating the MDGs progress globally assess if economic growth has led to the overall well being of the population. Sections 2.8.1 to 2.8.8, below, discuss the MDGs.

2.8.1 MDG1: Eradicate Extreme Poverty and Hunger

The number of people in developing countries living on less than$1.25 a day has declined from about 1.8 billion in 1990 to 1.4 billion in 2005. Also, the related poverty rate dropped from 46 per cent to 27 per cent. The global financial crisis of 2008-2009 led to reductions in prices of commodities, and trade and investment, leading to slower growth worldwide. Current trends, however, suggest that growth in developing regions stays strong enough to maintain the progress much needed to achieve the target of reducing global poverty. Currently, the World Bank projections suggest that the overall poverty rate is expected to fall to less than 15 per cent by 2015, showing that it is possible to achieve the MDG1 targets. (UN 2011: 11).

2.8.2 MDG2: Achieve Universal Primary Education

Enrolment in primary education increased slowly from 1990 onwards in developing regions. The net enrolment ratio went up by merely 7 per cent since 1999, reaching 89 per cent in 2009. Between 2004 and 2009, the enrolment ratio increased by only two per cent, making slim the chance of attaining universal primary education by 2015 (UNDP: 2012)

Sub-Saharan Africa has the best record for improvement, following an 18 per cent increase in net enrolment between 1999 and 2009. Southern Asia and Northern Africa followed with 12 per cent and 8 per cent increases, respectively. Latest trends and statistics revealed that the world is far from meeting the MDG2. Only 87 out of 100 children in the developing regions complete primary education. At least two out of five children in primary school drop out before reaching grade seven. In 2009, more than 20 per cent of primary-age children in least developed countries were excluded from education (UN 2011: 21).

2.8.3 MDG3: Promoting Gender Equality

The Millennium Declaration promotes gender equality and women empowerment, as affording women a fair share is crucial to fighting poverty, hunger and disease, and to

fuelling sustainable development. In order to assess progress, three areas in gender equality are assessed: education, employment and political decision-making (United Nations Department of Economic and Social Affairs (UN DESA) 2008:1).

Although progress is slow, the gender gap is narrowing in school enrolment in developing nations (Department of International development (DFID) 2008:1). With the number of girls for every 100 boys enrolled in both primary and secondary school being 96, a considerable improvement has been made since 1999, when ratios were 91 and 88 (UN 2011: 20). Nevertheless, of the eight developing regions, only three attained parity in primary education-a gender parity index of between 97 and 103. At secondary education, all other regions except Oceania, Southern Asia, sub-Saharan Africa and Western Asia did not attain gender parity. The highest gender parity index for the whole of the developing world was seen at tertiary education, at 97 girls for every 100 boys (UN 2011: 20).

Increasing women's economic security, defeating poverty, and promoting sustainable development and growth can be achieved through minimising gender inequality that is rife in the labour market. Gender inequality is evident in workplace segregation, gender wage inequality, and high representation of women in informal employment and unpaid work, as well as their higher unemployment rates (UN DESA 2005:1).

The global financial crisis (2008-2009) negatively impacted on the labour markets, globally having decreased employment and increased unemployment (UN 2011: 20)With the recovery process of the global economy commencing in 2010, unemployment began to decrease for both genders. However, unemployment of men decreased faster than that of women. This tendency together with the reality that the unemployment rates of women generally exceed those of men implies that gender disparity in most regions will not shift in the foreseeable future. In the same light, following major employment losses in 2008-2009, the employment growth that transpired during the recovery in 2010, notably in developing countries, was lower for

women than for men. The most affected were women in manufacturing industries (UN 2011: 20).

Little progress is being made with regard to the number of seats held by women in national parliaments (Department for International Development 2008:1). The 1995 Beijing platform for action suggested that governments set a target of at least 30 per cent of seats for women in national parliaments. Trends suggest that MDGs have failed thus far to live up to this aim, as globally, women make up a mere 17 per cent of parliamentarians. Based on these current trends, the Beijing target will only be met in 2068 Department for International Development 2008:1; UN 2011: 20).

2.8.4 MDG4 Reduce Child Mortality

The United Nations Children's Fund (UNICEF) (2012) notes that the target by 2015 is to reduce child mortality by two-thirds, from 93 children of every 100 dying before the age of five in 1990 to 31 of every 1000 by 2015. 99 per cent of the total number of children who die occurs in the developing world, with approximately half of these deaths occurring in sub-Saharan Africa. An estimated 90 per cent of all these child deaths are characteristic of these six conditions: neo-natal causes, pneumonia, diarrhoea, malaria, measles, and HIV/AIDS (Action for Global Health 2012). These deaths can be prevented by straightforward interventions such as access to clean water and sanitation (UNICEF: 2012).

Progress being made in reducing child deaths is stable. Results show that globally, the mortality rate for children under five has fallen from 89 in 1990 to 60 live deaths per 100 in 2009. Oceania, sub-Saharan Africa and Southern Asia are the only three regions that have not seen a decrease of at least 50 per cent (Action for Global Health: 2012). Although population growth has been witnessed, the child mortality rate fell from12.4 million in 1990 to 8.1 million in 2009, which means there are approximately 62000 less children dying daily. (UN 2011: 24). Basic low cost measures such as vaccine, antibiotics, nutritional supplements, insecticide-treated bed nets and improved

breastfeeding practices would play a key role in preventing these deaths, but a lot of children still die as a result of being unable to access basic services (Action for Global Health: 2012).

2.8.5 MDG5: Improve Maternal Health

Maternal mortality is mainly an issue of poverty and discrimination. Developed countries have lower risk of women dying from pregnancy-related causes. In most developing countries pregnancy is potentially fatal, with more than 500 000 women dying on a yearly basis. On average, 536 000 women and girls die each year due to complications in pregnancy, childbirth, or the six weeks post-delivery (Action Aid 2010: 25).

Maternal mortality is still a major issue in the majority of developing countries, although interventions that may possibly prevent disability or death during pregnancy and childbirth have been put in place. Most recent trends show noteworthy progress, with a 34 per cent drop in the maternal mortality ratio in developing regions between 1990 and 2008, from 440 maternal deaths per 100000 live births to 290 deaths. The MDG target is, however, still far from being attainable (UN 2011: 20).

Significant improvements in antenatal care have been seen worldwide, although, in terms of provision of care, rural areas still fall behind urban areas. Antenatal care coverage in every region improved since 1990. Worldwide, increased availability and access to safe, affordable, effective contraception methods has given individuals more opportunities for choice and responsible decision-making in terms of reproduction. (UN 2011: 32).

By 2008, more than 50 per cent of all women aged between 15 and 49 who were married in a form of union were making use of some form of contraception in all but two regions: sub-Saharan Africa and Oceania. Slow progress between 2000 and 2008 was observed in almost all regions. Sub-Saharan African women continue to have the lowest

level of contraceptive usage (22 per cent) with minimal progress noticed since 2000. (ActionAid 2010: 25).

2.8.6 MDG6: Combat HIV/AIDS, Malaria and other Diseases

The year 1996 saw a peak in the number of people newly infected with HIV, but this has begun to decrease since 2009. This trend can be attributed to the decrease in the annual number of new infections in some countries in Southern Asia and greatly in sub-Saharan Africa. On the other hand, Eastern Europe and Central Asia have seen a rise in the infection rates, where the number of people living with HIV has increased from760 000 to 1.4 million (World Health Organisation: 2010).

As 2009 came to a close, 5.25 million people in LICs and MICs were on ARV treatment. This represents a drastic increase of over 1.2 million people from December 2008, the largest increase ever recorded in a single year. Some countries have also achieved universal access, which is defined as coverage of at least 80 per cent of the population in need, to ARV treatment and/or interventions to avert mother-to-child transmission of HIV. (Action Aid 2010: 29).

Malaria kills approximately 1 million people a year, mainly children younger than five years old in Africa. On average, a child in Africa dies from malaria every half a minute (World Health Organisation: 2010). Major progress has been made in trying to fight malaria. Insecticide-treated nets (ITNs) have been supplied to regions where malaria is endemic, and this has played a key role in progressing towards reaching MDG 6 (Action Aid 2010: 30).

2.8.7 MDG7: Ensure Environmental Sustainability

The world is making progress towards halving the number of people without access to safe drinking-water, but sub-Saharan Africa will not meet this target (ActionAid 2010: 31). East Asia, Southeast Asia, North Africa as well as Latin America, and the Caribbean have met the target (UNDP: 2012). The 2015 target appears to be out of

reach as approximately 50 per cent of the developing nations' population lacks basic sanitation. Current trends suggest that the world will not meet the target of halving the proportion of people without access to basic sanitation, for example, toilets. The year 2008 saw approximately 2.6 billion people, globally, who lacked access to sanitation, and this number could increase to 2.7 billion if the trend continues. Recent data shows that 69 per cent and 64 per cent of sub-Saharan Africa's and Southern Asia's populations, respectively, still have little or no access to sanitation (UNDP: 2012).

The 2010 target to slow down the decline of biodiversity was missed by the world. Currently, thousands of species of plants and animals are facing the risk of total extinction, and, at the same time, the number of species threatened by extinction is increasing on a daily basis. Issues such as very high consumption rates, habitat loss, pollution, and climate change, all of which are main causes of biodiversity loss, are not being adequately addressed. Billions of people rely on diverse species for their livelihoods and survival, thus making the existence of these species imperative for their survival (UNDP: 2012).

The target of improving the lives of slum dwellers has been achieved two times. Between 2000 and 2010, over 200 million people living in slums have gained access to improved water, sanitation, proper housing; enhancing their chances of avoiding being exposed to diseases and poverty. This in percentages shows that between 2000 and 2010, there was a decline from 39% to 33%, of people living in slums. As a result of urbanisation, the number of slum dwellers continues to grow. The number of people currently living in slums worldwide is approximately 828 million, in comparison to 657million in 1990 and 767million in 2000 (UNDP: 2012; UN 2011: 61).

2.8.8 MDG8: Develop a Global Partnership for Development

The targets attached to MDGs did not have specific due dates attached to them, which has in itself been a source of some contention for NGOs and other organisations. However, indicators mentioned are trade, new technology, and essential drugs; and

addressing the specific needs of LDCs – which is interpreted as a commitment to increase aid. (Melamed 2012: 21).

On a global level, the commitment to MDG8 to 'develop further an open, rule-based, predictable, non-discriminatory trading and financial system' has not been reached. However, the number of rich markets duty free, has increased since the 1990s, and tariff levels have generally gone down. Actual trade patterns among developing countries vary enormously. Exports from many Asian countries have continued to increase, but the least developed countries have not gained, with their share of world trade declining to less than one per cent of exports in 2008; and their exports focusing on fewer products compared to their Asian counterparts, making them susceptible to progressively volatile markets, principally for primary commodities. The MDG framework has not succeeded in influencing alterations in trade rules or other delicate global economic governance issues which are relevant to reducing poverty and fuelling development. (Melamed 2012: 21-22).

Aid has increased since the 1990s, and debt service ratios for developing countries have gone down, in some cases significantly. Overall, aid has tended to be allocated disproportionately to countries furthest from the MDG targets, providing additional weight to the argument that the poverty focus of the MDGs was at least correlated with aid spending in recent years. Africa was a particular focus of G8 summits prior to the economic crisis of 2009, and aid to sub-Saharan Africa increased from US$12 billion in 2000 to US$42 billion in 2009. Governments have responsibilities for acting on trade rules and on aid. The cooperation of both the private and the public sectors is needed, so as to achieve the MDG8 targets. (UN 2011:58).

Access to some technologies has been growing speedily in developing countries, as a result of private sector investments in mobile phone and internet connections. This rapid growth shows that the private sector can be used to fuel development, if the incentive is attractive and the environment is right. (Generation development: 2012).

2.9 CONCLUSION

The literature review reveals mixed results on the impact that FDI has on socio-economic development. The general consensus is that FDI has a positive impact on the economic growth of developing nations. Not much research has been done with regard to the impact of FDI on socio-economic development as a whole.

The rest of the chapter examines development as a whole, focusing on the various definitions that exist, namely: development as a short- to medium-term outcome of desirable targets; and development as a long-term process of structural societal transformation; and development as a dominant "discourse" of western modernity. A relatively new approach to development, sustainable development, is viewed as important, in that it encompasses four interrelated pillars: culture, economy, society and the environment. The sustainable development model is very important as it is a "future-oriented" approach to development. The section that followed looked at three international organisations' classification systems on what constitutes a developing country and a developed country. The organisations looked at are the World Bank, the IMF and the UNDP.

As this chapter's focus was on development and developing nations, the section that followed discussed the seven main characteristics of developing countries in an effort to deepen the discussion on developing countries. Some characteristics of developing countries are similar to those of developed countries, for example, the issue of underemployment.

The section 2.5 examined Rostow's five stages of economic development. These show how a country develops from a traditional society up to the age of high mass consumption, which is where developed countries are tapping into. The final section discussed MDG trends. This is relevant since the MDG trends are a way of measuring development, as achievement of these goals by 2015 is viewed as development, though many goals will not be reached in some parts, including sub-Saharan Africa which struggles in many areas of potential development. This section concludes the chapter of

development and developing nations. The next chapter, Chapter 3, focuses on South African socio-economic development trends, post-apartheid.

CHAPTER 3

SOCIO-ECONOMIC DEVELOPMENT IN SOUTH AFRICA

3.1 INTRODUCTION

As a diverse, unique and culturally rich country, South Africa faces a number of socio-economic challenges. Apartheid played a key role in creating these socio-economic challenges that South Africa is still slowly addressing more than 15 years after the fall of apartheid.

The main socio-economic challenges that South Africa faces include high unemployment, skills shortages, stifled economic growth compared to other emerging countries, poverty, high inequality, high levels of violence and crime, poor service delivery, poor education system and health challenges (Ikejiaku 2009: 451). The 2008/2009 global financial and economic crisis exacerbated the challenges, and affected GDP growth and job creation, which further widened the poverty and inequality gap (Engineering News: 09 January 2010). The issue of poor service delivery is one that South Africa has battled with in recent years, with dissatisfied residents protesting against the inability of the government and the municipalities to provide them with basic services such as electricity, clean water and housing (Clark: 2012).

Despite these challenges South Africa's macro-economic strategies have had a good reputation since the mid-1990s. With the introduction of inflation targeting in 2000, the monetary policy has turned out to be more transparent and predictable, and a sound fiscal policy has sustained its framework. (Lysenko and Banard, 2011: 12).

This chapter looks at the socio-economic trends in South Africa post-1994. Firstly, a brief history of apartheid is outlined to give an understanding of the root of some of

South Africa's socio-economic problems. Secondly, the chapter discusses the main government programmes, such as the Reconstruction and Development Programme (RDP); Growth, Employment and Redistribution (GEAR); and Accelerated and Shared Growth Initiative for South Africa (ASGISA), all of which were implemented in the effort to mitigate the legacy of apartheid; followed by recent policies such as the New Growth Path (NGP), and the National Planning Commission's (NPC's) 2030 Vision; which provide an analysis of the current situation in South Africa, the policy options, and a visionary plan to 2030. (ANC: 1994; Adelzadeh 1996: 67; RSA 2006: 2; RSA 2010b: 6; National Planning Commission 2011: 2). These policies provide an insight into the democratic South Africa and how the government aims to improve the livelihood of the majority of South Africans.

Finally, this chapter presents the socio-economic development trends of South Africa by looking at selected indicators: economic growth, poverty, inequality, unemployment, trade, HDI trends in life expectancy, GNI per capita, and education. These selected indicators describe the main socio-economic aspects needed to make a sound analysis of any developing country. (RSA 2010a: 5)

3.2 BRIEF HISTORY OF APARTHEID

South Africa is known as a rainbow nation, due to its diverse nature. This diversity ranges from cultural to economic differences- the gap between the rich and poor being very large. The majority of the population, black people, lacked representation in decision-making prior to 1994, as a result of apartheid, which had been implemented 46 years prior to the country attaining independence. (Ikejiaku 2009: 451).

Apartheid dictated the separation of people based on race and encouraged living in separate areas; using different buses and even queue in separate lines for different services. Apartheid was an all encompassing set of laws and social constructions that regulated the details of black South Africans' lives principally (Lichtenstein 2005: 295).

Black people, who were the majority, had minimum resources, limited education and access to services, while the white minority enjoyed a wider access to resources; owning approximately 80% of South African land, and access to services and wealth. (Appiah and Gates: 1999).

Inequality during apartheid was not only expressed through race but also through the manner in which the country was laid out geographically, as a result of the system of homelands (Reitzes 2009: 10). These homelands which lacked natural resources were not economically viable and were both small and fragmented, therefore lacking the autonomy of independent states (Appiah and Gates: 1999).

In the wake of democracy in 1994, these units/states disappeared, but great rural/urban disparities were unearthed in every socio-economic aspect, such as the health levels, education provision, basic services, employment opportunities, and infrastructural development, to name just a few (Appiah and Gates: 1999).

With the fall of apartheid, the new South African government had to introduce policies that would help reduce the gap between the rich and the poor. Economic development programmes such as the RDP and GEAR were some of the programmes implemented in an effort to undo the wrongs of apartheid. The following section discusses RDP, GEAR, Accelerated and Shared Growth Initiative for South Africa (ASGISA), the New Growth Path (NGP), and the diagnostic overview by the National Planning Commission.

3.3 RECONSTRUCTION AND DEVELOPMENT PROGRAMME (RDP)

As mentioned in the previous section, apartheid resulted in gross differences between the black majority and the white minority, in terms of the distribution of resources. In an effort to curb the challenges brought on by the apartheid era, South Africa had, for the first time in its history, a policy framework for all of its citizens (ANC: 1994).

3.3.1 The Goals, Aims and Results of the RDP

Former South African president Nelson after attaining liberation, in his inaugural speech in 1994, said:

> My government's commitment to create a people-centred society of liberty binds us to the pursuit of the goals of freedom from want, freedom from hunger, freedom from deprivation, freedom from ignorance, freedom from suppression and freedom from fear. These freedoms are fundamental to the guarantee of human dignity. They will therefore constitute part of the centrepiece of what this government will seek to achieve, the focal point on which our attention will be continuously focused. The things we have said constitute the true meaning, the justification and the purpose of the Reconstruction and Development Programme, without which it would lose all legitimacy. (ANC: 1994).

The RDP's main aim was to address the socio-economic problems that haunted South Africa; and its key aspect was that it linked reconstruction and development (Knight: 2001). This is all encompassed in the definition of RDP, according to the African National Congress (ANC) (1994):

> The Reconstruction and Development Programme (RDP) is an integrated, coherent socio-economic policy framework. It seeks to mobilise all our people and our country's resources toward the final eradication of the results of apartheid and the building of a democratic, non-racial and non-sexist future. It represents a vision for the fundamental transformation of South Africa.

The ANC (1994) still asserts that the integrated process of transformation must ensure that the South Africa:

- develops strong and stable democratic institutions and practices characterised by representativeness and participation;

- becomes a fully democratic and non-racial society;
- becomes a prosperous society, having embarked upon a sustainable and environmentally friendly growth and development path; and
- addresses the moral and ethical development of society.

As seen, the RDP sought to attain socio-economic growth and basic needs delivery, while at the same time tackling the legacy of injustice. A 'people-centred development', 'integrated development' and 'sustainable development' that is democratic and participatory were the highlights of the RDP (Chicano: 2005). The RDP defined priorities to achieve socio-economic transformation of the South African society. The RDP is summarised in Table 3.1 below.

Table 3.1: Selected RDP's socio-economic commitments and targets.

Housing: Provide well-located and affordable shelter for all by the year 2003. Build one million houses by 2000.	*Water:* Supply 20 to 30 litres of clean water daily to every person by 1997 and 50 to 60 litres per day by 2000, from a point no more than 200 meters from their dwelling.
Electricity: Supply 2.5 million more households, and all schools and clinics with electricity by the year 2000.	*Health care:* Give free medical care to children under 6 years of age and to homeless children; improve maternity care for women; organize programs to prevent and treat major diseases like TB and AIDS.
Land reform: Implement land reform based on the distribution of 30% of agricultural land to emerging black farmers; redistribution of residential land to those who need it but cannot afford it,	*Job creation through public works:* A national public works program to provide basic needs such as water supply, sewerage and roads; and at the same time create jobs, particularly

and compensation to those who lost land as a result of apartheid laws.	in poor and rural areas.
Social security and social welfare: A new system to provide for all people regardless of their race, gender or physical disability. A pension system to meet the needs of workers in the formal and informal sectors.	*Education and training:* Literacy for all, equal opportunity, 10 years of free and compulsory education, class sizes of no more than 40 pupils, and training workers to meet the challenges of the new political and economic conditions

(Source: Adapted from Chicano: 2005; Wright 2001)

The first post-apartheid government targeted the main problem areas in the country. Table 3.2 below illustrates the extent to which these targets were met; the improvements made between 1994 and 2000, as a result of the RDP:

Table 3.2: Improvements made as a result of RDP.

Water	4 million more people given access to clean running water
Housing	900,000 units completed,1.1 million housing subsidies allocated
Electrification	1.5 million new connections
Telephones	4.2 million new connections
Poverty relief	R3 billion allocated
Health	600 new clinics, free health care for pregnant women and children under 6
Public works	1,500 kilometres of roads built
Land	68,000 families resettled on farming land

(Source: Adapted from Chicano: 2005)

Although the RDP managed to improve in the various problem-areas, the programme had some cracks in it, and criticism ensued (Chicano: 2005; Lodge 2003: 64-75). This is discussed in the next section.

3.3.2 Criticism and Failure of the RDP

Between 1994 and 1996, the RDP was viewed as the foundation of government development policy – a means of measuring the success of the government development policy. With it, however, as a development policy document, the RDP, according to Chicano (2005), had a number of shortcomings mentioned below:

- it looked more like a 'wish list' than a detailed plan focusing on opportunities and constraints;
- it did not set priorities, or assign responsibility for the implementation of each programme component;
- it did not have enough mechanisms for inter-departmental co-ordination; and
- local government, which had been assigned constitutional responsibility for promoting socio-economic development, had a lack of planning and implementation capacity.

The South African government was accused of exaggerating the improvements made as a result of the RDP and, as a result the standards of housing; water delivery; healthcare improvement; and the successfulness of the land reform policy, were targeted by critics (Lodge 2003: 64).

A large number of the water projects faced design challenges leading to difficulty in execution. As a result, the number of households relying on rivers, streams and dams for their water slightly increased between 1995 and 1999, with the proportion of households using piped water somewhat improved (Lodge 2003: 64). in terms of land redistribution under the RDP, only approximately 1% of this goals set was reached (Lodge 2003: 64). Furthermore, advances experienced in many other areas of public services were, in part as a result of the removal of agricultural subsidies—which

consequently led to high job losses (Lodge 2003: 64). Between 1994 and 1998 the number of workers on commercial farms saw a reduction from approximately 1.4 million to approximately 637,000 (StatsSA 2001: 75). The number of people employed in the agricultural sector declined by over 50 per cent under the RDP (StatsSA 2001: 75).

Healthcare somewhat enhanced as a result of RDP although with moderately improved access, standards at many medical institutions fast declined (Lodge 2003: 64). Although the usage of healthcare facilities increased by approximately 1.6% between 1995 and 1999 (StatsSA 2001: 75) there has been a noticeable decline in the quality of services. An example is that of in Soweto where there were 800 nurses for every at primary health care clinics but by 2000, the number of patients had rapidly increased to approximately 2 million people and at the same, the number of nurses had fallen to around 500- a significant drop (StatsSA 2001: 75).

As early as 1995, problems with the RDP had began to emerge, as the economy was not growing at the envisioned rate. This less-than-expected performance of the economy caused the failure of the RDP to make a desired impact (Chicano: 2005). The RDP offices were shut down in 1996, although a separate RDP fund continued for some years later (Lewis 2001: 3). No central agency at the national level responsible for the design, implementation, coordination, and monitoring of poverty-relief programs was set up; and this led to the birth of the Growth, Employment and Redistribution programme (GEAR), a macro-economic strategy (Lewis 2001: 3); which will be presented in the next section.

3.4 GROWTH, EMPLOYMENT AND REDISTRIBUTION (GEAR)

As mentioned earlier, the RDP was not as successful as anticipated and this was due to various reasons mentioned in the previous section. In response to this lack of success, the South African government came up with a new macro-economic strategy in 1996, termed the Growth, Employment and Redistribution (GEAR) (Adelzadeh 1996: 67).

3.4.1 The goals of GEAR

GEAR did not shift entirely from the earlier government policy (RDP), but rather dedicated the government to some aspects of existing policy as some of the policies initiated in the RDP were subsequently incorporated, although with an incredibly significant compromise to the neo-liberal policy (Lewis 2001: 3).

GEAR was intended to accomplish high rates of economic growth; to expand the private sector; to improve outputs and the employment rate; achieve fiscal reforms; and encourage trade and foreign investment (Harsh, 2001: 13). The following are the goals which were meant to facilitate GEAR:

- a competitive fast-growing economy which creates sufficient jobs for all work-seekers;
- a redistribution of income and opportunities in favour of the poor;
- a society in which sound health, education and other services are available to all; and
- an environment in which homes are secure and places of work are productive. (Lewis 2001: 3; Harsh 2001: 13).

The results of this strategy were expected to give rise to an economic growth rate of 6 % per annum by 2000, which in turn would generate up to 400000 jobs per annum, and increase the country's exports by over 8 % per annum; all of which would lead to a great improvement in socio-economic conditions (Chicano: 2005).

Adelzadeh (1996:67) argued that the delivery of the GEAR policy was in sharp contrast to the delivery of the RDP goals. However, GEAR's main aim was to achieve redistribution and improving basic living conditions for the poor as a result of generally renewed economic performance. GEAR's theory was that expanding the private sector would substantially boost the South African economy, at the same time as the role of the state was mainly to facilitate the process (Office of the President: 1996).

3.4.2 Criticism and Results of GEAR

There were various concerns regarding GEAR. Unlike the RDP, international financial institutions such as the IMF played a role in formulating GEAR and an important element– the objective of restructuring the economy- was neglected. Moreover, it was argued that since GEAR was a strategy concerned with macro-economic restructuring, the cause of delivery was then abandoned (Lehloesa 2000: 6).The Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP) criticised GEAR for having a narrow focus on growth, lacking development. The two organisations highlighted that GEAR was unsuccessful in protecting existing jobs and creating new ones, meaning that this policy would be incapable of addressing the issue of poverty in South Africa (The Shopsteward: 1997). Nzimande (2005) argues that even if the growth rate was to reach 6%, which was the aim of GEAR, it was not necessarily going to lead to employment creation and social development.

GEAR was generally successful in generating growth and a middle class, however, its strategy regarding the reduction of poverty was not seen as being successful in reducing poverty by 2005, as the wealth generated was claimed not to have been able to reach the poor in society (Terreblanche: 2005:42). With a wide wealth gap and the rareness of skills within the South African majority population, a higher growth on its own led to more accumulation of wealth by a few individuals, having very little impact on the majority of the poor people (Nzimande: 2005).

GEAR is said, according to Venter and Landsberg (2005), to have made the rich, richer and the poor, poorer, and also widened the gap between the rich and the poor in South Africa. As a result of this gap, former president Thabo Mbeki declared that South Africa was made up of two nations and economies: the two-tier nation/economy (Batyi 2009: 25).

From the above analysis, it is evident that both GEAR and RDP did not fully achieve what the new South African government had set out to, in an effort to aid development

in the poorest areas of the country so as to make the lives of the once deprived-the majority of the population-much bearable.

In 2006, the government of South Africa instituted a new policy called the Accelerated and Shared Growth Initiative for South Africa (ASGISA (Chicano: 2005). This policy, in response to the previously failed initiatives, had the main goal of halving both unemployment and poverty by 2014 (Batyi 2009: 26). The next section sheds more light on the programme.

3.5 ACCELERATED AND SHARED GROWTH INITIATIVE FOR SOUTH AFRICA (ASGISA)

In 2000, the main issue for the South African government was to find a balance between economic growth of the nation on one hand, and social development needs of the inhabitants on the other (Reitzes 2009:17). The South African government designed a national programme called the Accelerated and Shared Growth Initiative for South Africa (ASGISA) which emphasized economic growth and aimed at making sure unemployment and poverty in the country are halved by 2014 (Batyi 2009: 26). The challenge to halve poverty could, according to ASGISA, be achieved through effective economic leadership from the South African government and effective partnerships between government and significant stakeholders such as labour unions and business (RSA 2006: 2).

This programme was in line with the country's social objectives and commitment to the Millennium Development Goals (MDGs) set by the UNDP in the same year (UNDP: 2010).This meant, without a doubt, setting out to achieve, by 2015, the eight Millennium Development Goals (MDGs) discussed in Chapter 2.

The strategy formulated for the implementation of ASGISA adopted a diagnostic analysis, which identified "binding constraints" on achieving objectives (RSA 2006: 2). This methodology maintained that although healthy economies have some common

features, such as good and well-managed monetary and fiscal policies as well as efficient government management, each country faces challenges unique to that country as it strives to shift from average to good performance (RSA 2006: 2). The set of the binding constraints were as follows:

- The volatility and level of the currency.
- The cost, efficiency and capacity of the national logistics system
- Shortage of suitably skilled labour amplified by the cost effects of apartheid spatial patterns on labour.
- Barriers to entry, limits to competition and limited new investment opportunities.
- Regulatory environment and the burden on small and medium enterprises (SMEs).
- Deficiencies in state organisation, capacity and leadership. (RSA 2006: 2).

To counter the binding constraints mentioned above, action was needed in various categories which were regarded as imperative. Sections 3.5.1 to 3.5.4 will discuss these six categories.

3.5.1 Macro-economic Issues

The main macro-economic issues focused on various aspects mentioned below:

- Reducing currency volatility via progressive improvements in macro-economic policy management.
- Ensuring that inflation targeting continues to support growth.
- Selecting projects and programmes to ensure spending efficiency and to eliminate government dissaving.
- Continuing improvements in budgeting to enhance the environment for economic growth.
- Removing obstacles to investment. (RSA 2007: 6)

3.5.2 Sector Investment Strategies

Sector policies such the National Industrial Policy frameworks were to be prepared and implemented in an effort to encourage private sector investment. One reason for the establishment of ASGISA was to create long-lasting relations between the South African government and its business allies. As a result, the business process outsourcing and tourism sectors, both of which are labour-intensive and rapidly growing worldwide, were prioritised (RSA 2006: 2).Sector strategies focused on promoting inclusivity by supporting small, medium and micro enterprises (SMMEs), development in historically black communities and rural areas, job creation as well as skills development (RSA 2007: 21).

3.5.3 Skills and Education Initiatives

One of the six 'binding constraints' on ASGISA is poor education and skills development. Education and skills development are a vital obligation of the government. ASGISA's aim was showing commitment of the departments of education and labour to improve the value, relevance and effectiveness of the education and training system in South Africa. This commitment was in line with ASGISA's specific short- and medium-term objectives. (RSA 2007: 21).

3.5.4 Second Economy Interventions

The chief reason for mass poverty in South Africa is the lack of employment opportunities with black people- mainly black women and youth, are the most affected. Most of the unemployed are under the age of 30, with a mere average of 10 years of schooling (RSA 2007: 25). Interventions that directly address decreasing South Africa's historical inequalities are imperative to the growth in the country. Eliminating the second economy requires interventions that address deep-seated inequalities and that focus on the marginalised poor. ASGISA is not the only response to the second economy challenges (RSA 2006: 2).

3.5.5 Criticism and Results of Accelerated and Shared Growth Initiative for South Africa (ASGISA)

The aim of ASGISA was to halve unemployment from 28% in 2004 to 14% by 2014, and to halve the poverty over the same period. For this to be attained, an average growth of at least 4.5% between 2005 and 2009, and at least 6% from 2010 to 2014 was needed. The average economic growth recorded between 2004 and 2007 was 5%, and 3.1% in 2008 (Lunsche: 2010).

Shortly after his induction as the president of South Africa, Jacob Zuma declared that the government planned, in line with the ASGISA targets, on creating 500 000 jobs by the end of 2009, and four million jobs by 2014. However, government's ability to achieve these targets was dealt a blow by the 2008/2009 global and local recession. Since the beginning of the crisis in September 2008, about one million jobs were lost between 2008 and 2010 (Lunsche: 2010).

The possibility that ASGISA's main target of halving unemployment by 2014 will be achieved is highly unlikely. The Human Sciences Research Council's (HSRC) (2010) findings revealed that an average growth rate of between 3% and 4.5% until 2014 would leave unemployment at between 21% and 28% respectively. The only way it would be possible to meet these targets, according to the HSRC's study, is if the economy sustains an annual growth rate of six to seven per cent or more.

As seen, ASGISA has not been successful as its main aim of halving unemployment and poverty by 2014 will most likely not be achieved as a result of the economic crisis that took place from 2008/2009 (Lunsche: 2010). As a result, the South African government saw the need for other programmes. The next section focuses on the New Growth Path, which is in line with creating jobs for five million unemployed South Africans (RSA: 2010).

3.6 THE NEW GROWTH PATH (NGP)

The government of South Africa, in response to the failed ASGISA, formulated a new programme in 2010. This new policy, the New Growth Path, was aimed at improving growth, employment creation and reducing inequality.

3.6.1 The goals of the NGP

Minister of Economic Development, Ebrahim Patel, explaining what the New Growth Path was about, was quoted as saying:

> This document reflects Government's commitment to prioritising employment creation in all economic policies. It lays out strategies to enable South Africa to grow in a more equitable and inclusive manner in the future, fulfilling the promise of our democracy... The centrepiece of the new growth path is a massive investment in infrastructure and people through skills development, together with smart government and better coordination with the private sector and organised labour so that we can achieve our national goals. (RSA: 2010b).

The main aim of the NGP is to create five million jobs by 2020 and to encourage a new more wide-ranging, labour-absorbing and competent economy. To achieve this, government-created jobs, social-democratic consensus building; and macro-economic, labour and industrial policies are all needed. The NGP was seen as more of a vision than a 'plan or projection' (Nattrass 2011: 1). Should the government manage to grow employment by five million jobs in 2020, more than 50 per cent of working-age South Africans will have paid employment and unemployment would drop from 25% to around 15% (RSA: 2010). The majority of the projected new jobs were expected to come from the private sector (RSA: 2010).

The rate of economic growth and the employment intensity of that growth are two key variables than could affect the target. Both these variables are needed to maximise growth and guarantee that it creates more employment, mainly in the private sector, in

order to reach the target. The employment intensity of growth needs to be kept between 0.5 and 0.8, while the rate of growth in GDP has to rise to between 4% and 7% a year. (Eastern Cape Socio-Economic Consultative Council (ECSECC) 2010:6).

For a more employment-intensive growth, there is a need for the support of the jobs drivers through appropriate measures. The jobs drivers identified are:

- Substantial public investment in infrastructure to create employment, directly and indirectly, by improving efficiency across the economy.
- Targeting more labour-absorbing activities across the main economic sectors.
- Taking advantage of new opportunities in the knowledge and green economies.
- Leveraging social capital in the social economy and the public services. (ECSECC 2010: 6).

The categories of the jobs drivers are not rigid – they may change as new opportunities that are not foreseen emerge, and the assumptions on which existing opportunities are based change - nor are they fully independent on each other. A critical element of the New Growth Path is to ensure that the drivers leverage and reinforce each other based on their inter-linkages. Priority is given to the following sectors, in an effort to support employment creation:

- infrastructure;
- the agricultural value chain;
- the mining value chain;
- the green economy;
- manufacturing sectors; and
- tourism and certain high-level services. (ECSECC: 2010: 7).

The New Growth Path was built on previous development initiatives, including the RDP and ASGISA. For each of the jobs drivers, a target was set for employment creation. These targets would be attainable if a supportive environment existed, and specific

support measures were implemented.(Eastern Cape Socio-Economic Consultative Council: 2010: 7).

3.6.2 Criticism and Results of the New Growth Path (NGP)

The New Growth Path is criticised as it is accused of having an unrealistic belief that the state has the capability of initiating and overseeing large-scale structural transformations in the economy. This misconception applies evenly to education and skills training. The New Growth Path fails to mention enough about either of these components of human resource development (Archer: 2011).

The New Growth Path is aimed at targeting and improving issues relating to labour regulations and relations, ease of doing business, improving infrastructure and ensuring that the economy becomes more environmentally friendly. To have an effect on the goals set will requires vast and dedicated political resources, which are what South Africa does not have. (Archer: 2011).

The New Growth Path faced criticism from various individuals and groups, based on the fact that the South African government does not have the resources to achieve the set goals in the policy. The National Planning Commission (NPC), which is led by Minister Trevor Manuel, engaged with the South African public to find solutions to the problems facing the nation. The National Dialogue planned to come up with credible solutions that are able to be put into practice, with the involvement of all leaders and all sectors of the South African society. The following section looks at the National Planning Commission's diagnostic overview in detail.

3.7 THE NATIONAL PLANNING COMMISSION'S (NPC) DIAGNOSTIC OVERVIEW

The NPC used the preamble of the Constitution and the Bill of Rights as the foundation as follows:

- A democratic state, rooted in the values of the Constitution, working with all sectors of society to improve the quality of life.
- People are united in diversity, recognising the common interest that binds us as a nation, and have achieved greater equality for women in all aspects of life.
- High-quality education and health care, and adequate provision of housing, water, sanitation, energy, and transport give impetus to human development.
- Comprehensive social security covers all citizens in need.
- Natural wealth is harnessed sustainably, in a way that protects our environment, using science and modern technology to ensure a growing economy that benefits all.
- People who are able to work have access to jobs, workers' rights are protected, and the workforce is skilled.
- Business is afforded an environment to invest and profit while promoting the common interests of the nation, including decent work.
- An efficient state protects citizens, provides quality services and infrastructure, and gives leadership to national development.
- Individuals and communities, at work and at play, embrace mutual respect and human solidarity.
- Government, business and civil society work to build a better Africa and a better world. (National Planning Commission 2011: 5).

The NPC's diagnostic overview document steers clear of any reference to the 'developmental state' or to nationalisation, however, it asserts the need for South Africans to come together to develop the economy in the common interest to improve education and healthcare, as well as to provide social security to 'all citizens in need'.(National Planning Commission: 2011: 7).

The document is a problem statement drawn up by the NPC, which is a panel comprising various stakeholders, mainly academics, economists, unionists and

business leaders. The NPC analyses the current affairs of the state, and the nine challenges to eliminating poverty and reducing inequality were identified as follows:

- Too few South Africans work,
- The quality of school education for most black people is sub-standard,
- Poorly located and inadequate infrastructure limits social inclusion and faster economic growth,
- Spatial challenges continue to marginalize the poor,
- South Africa's growth path is highly resource–intensive and hence unsustainable,
- The ailing public health system confronts a massive disease burden,
- The performance of the public service is uneven,
- Corruption undermines state legitimacy and service delivery, and
- South Africa remains a divided society. (National Planning Commission: 2011: 8).

As seen from the above, in the NPC's diagnostic overview the government included various stakeholders in detecting the main challenges faced by the country. This document then assists the government in coming up with realistic solutions to the various challenges South Africa currently faces.

As seen from the discussion, the majority of the policies of the South African government have focused on reducing poverty through job creation. This discussion is especially important as it sheds light on the economic development policies of South Africa post 1994. Furthermore this is important to understand as this study is mainly focused on socio-economic development of South Africa post 1994. This explains why FDI impact on socio-economic development is such an important issue.

The next section looks at selected socio-economic development trends in South Africa as they will reveal if there has been an improvement or not in the various efforts that have been made to improve the lives of South Africans, especially the poor majority.

3.8 SELECTED SOCIO-ECONOMIC DEVELOPMENT INDICATOR TRENDS (1995-2011)

South Africa is a country that has achieved a lot for its people, for example, sound macroeconomic policies; and at the same time is haunted by issues such as poor service delivery, poverty, wide inequality gap, high unemployment rates, high levels of crime, and poor health services and education for the majority.

In 2006, former president Thabo Mbeki set new targets on service delivery and social development, to show commitment to the MDGs. These targets focused on basic needs of individuals and were stipulated as follows:

- The budget system would be eradicated in formally established areas by the end of 2007;
- 2.07 million households would be provided with potable water by December 2008;
- A total of 3.7 million households would be provided with sanitation by 2010;
- 3.4 million households would be electrified by 2012; and
- 2.3 million households would have adequate shelter by 2014. (Levin 2008: 54-55)

The next section will discuss the differences that exist between economic growth and economic development, followed by an analysis of the following trends in South Africa:

- Alternative macro-economic policies (monetary and fiscal)
- Economic growth
- Poverty

- Unemployment
- Service delivery
- Human Development Index (HDI) trends (Life Expectancy Index, GNI Index and Education Index)

3.8.1 Economic Growth vs. Economic Development

The terms economic growth and economic development are constantly used synonymously. It is crucial, for the purposes of this study to differentiate between the two terms.

Glanville and Glanville (2011: 114) mentioned that economic growth is the increase in a country's output or increase in the national income over time. The authors go further to explain that growth is a macro-economic variable that can be easily measured.

Growth, according to Mukherjee (2007: 928), does not only mean increased output, but also increased inputs and more efficiency - an increase in output per unit of input. Growth is measured as a percentage change in Gross National Product (GNP) or Gross Domestic Product (GDP).

Economic development, on the other hand, is defined as a much wider theory that involves non-economic and mostly immaterial improvements to the standard of living of inhabitants of a country in addition to economic growth. This includes attempting to measure improvements in variables such as freedom of speech, health care, education, employment, and poverty. (Glanville and Glanville 2011: 114).

The table below is a summary of the main differences between economic growth and economic development:

Table 3.3: Differences between Economic Growth and Economic Development

ECONOMIC GROWTH	ECONOMIC DEVELOPMENT
Single-dimensional: focus is on output alone	Multi-dimensional: more output and changes in technical and institutional arrangements
Quantitative change: change in national and per capita income	Qualitative change: change in composition and distribution of national and per capita income, and change in functional capacities
Continuous change	Discontinuous
Spontaneous in character	Regulated and controlled in character
Determinant of economic growth may be economic development	Economic development may determine economic growth
Growth is possible without development	Growth is to some extent essential for development
Solution of the problem of developed countries	Solution of the problem of underdeveloped countries

(Source: Adapted from Jain and Malhotra 2009:6)

3.8.2 Alternative Macro-economic Policies

In light of the of the GEAR strategy not fully achieving what it was expected to, as mentioned earlier, various alternative macro-economic policies have been recommended and implemented so as to boost economic growth, mainly in labour-intensive sectors (Khamfula 2004: 9).

Since the mid-1990s, South Africa's macro-economic strategies have had a good reputation both locally and internationally. With the introduction of inflation targeting in 2000, the monetary policy has turned out to be more transparent and predictable, and a sound fiscal policy has sustained its framework (Khamfula 2004: 9).

While the macro-economic framework has been generally successful, it has faced a number of challenges ever since the end of 2007. Rising global food and energy prices as well as increases in regulated electricity prices prompted an extended overrun of the inflation target, this at a time when the South African economy began to slow down. The high volatility of the exchange rate in both nominal and real terms was noted as a limitation to growth in ASGISA, which was discussed earlier (Lysenko and Banard 2011:6).

A brief look at the monetary and fiscal policies of South Africa follows in the next section.

a) Monetary Policy

Before 2000, the South African Reserve Bank (SARB) was implementing a monetary policy that emphasised financial stability more than it did on economic growth. High interest rates were sustained so as to circumvent capital flight, excessive pressure on the exchange rate and high inflation (Khamfula 2004: 9).

The South African government needed a macro-economic policy that would not stifle economic growth, as positive economic growth was the target of the government elected in 1994.

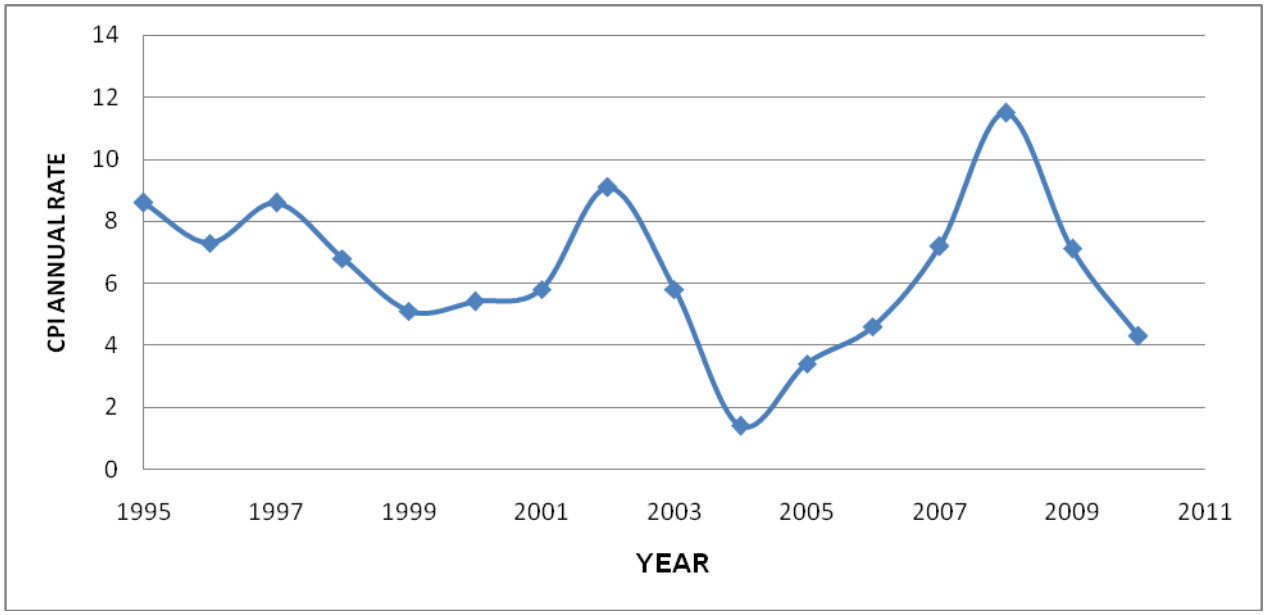
As from February 2000, the SARB established an inflation target range of 3 to 6 per cent, officially implementing an inflation-targeting monetary policy framework. The implication of this framework is that the monetary authorities saw the important role that

inflation targeting has in creating a more stable rand official exchange rate and interest rate in real terms, in the long term. (Khamfula, 2004: 9).

The main characteristic of this approach is the declaration of an official target range for the inflation rate at a particular scope and with the public acknowledging that the main goal of the monetary policy is the low and stable inflation (Lysenko and Banard, 2011: 12). With that, better communicating the plans and objectives of the monetary policy with the public is achieved (Lysenko and Banard 2011: 12). Therefore, increased accountability of the central bank lies in accomplishing those inflation targeting objectives set (Khamfula 2004: 9-10; Lysenko and Banard 2011: 12).

With the South African government's inflation targeting in mind, the following graph, Figure 3.1, looks at the CPI trends from 1995 to 2010.

Figure 3.1: CPI annual inflation rate (1995-2010)



(Source: Adapted from Statistics SA 2008: 1)

Figure 3.1 above shows the annual inflation rate of the consumer price index (CPI) in South Africa between 1995 and 2010. As seen in the figure, CPI fluctuated between the

given time period, with a peak of 11.5 per cent (the highest rate in the period under review) witnessed in 2008. This peak could be attributed to the impact of the global financial and economic crisis of 2008/2009, as prices of goods and services began to rise. However, a downward trend was noticed from 2009 to 2010, with CPI rates of 7.1 per cent and 4.3 per cent respectively.

In discussing further the macro-economic policies of South Africa, there is a need to also look at its fiscal policy. The next section discusses the prudent fiscal policy adopted by the South African government.

b) Fiscal Policy

Fiscal policy has, to a great extent, been regarded as one of the major successes in terms of meeting its objectives in the post-apartheid era. During this period, there has been a major transformation of the budgetary and expenditure processes (Khamfula 2004: 11).

The South African government executed a number of important fiscal plans, including a comprehensive tax reform, a multi-year expenditure planning horizon and reprioritisation of government expenditure towards social spending (Lysenko and Banard 2011: 7), with 3.5% of South Africa's GDP used for social assistance programmes, mainly pensions, child support and disability grants (Bertelsmann and Stiftung 2009: 19). Fiscal prudence has been the basis of the approach in South African fiscal policy, which resulted in surpluses in the 2005/06 to 2007/08 fiscal years, and to a fast decline in the public debt ratio and interest rate burden (Lysenko and Banard 2011: 12).

With a sound and reputable macro-economic policy by its government and the South African Reserve Bank (SARB), it is important to look at the economic growth trend of South Africa between 1995 and 2011.

c) Economic Growth in South Africa

South Africa's economy is the largest and the most sophisticated of all sub-Saharan African economies. The budget, between 2000 and 2007, was, in the main, balanced, with surpluses having been recorded in 2005 and 2006. However, in 2008 a deficit of 1% of GDP was recorded (African Development Bank 2009:3).

The decade prior to 1994 was one of the worst periods of economic growth for South Africa. The main reasons for this decline were the trade and financial sanctions placed against the apartheid government, political instability and macro-economic policy that saw an increase in inflation, an increase in uncertainty, and a decline in investment. In the case of South Africa, democracy proved vital to generating the possibility of a more stable future, and to reversing investor attitude at a fundamental level (Hannival and Maia 2008).

As discussed in the preceding section, a prudent fiscal policy, adopted by the South African Reserve Bank after 1994, and sound macro-economic management were key factors in forming an atmosphere favourable to a relatively lower inflation and interest rate, and to the build-up of foreign exchange reserves. Between 2005 and 2007, such domestic trends coincided with a generally favourable and synchronised global growth trend (Hanival and Maia 2007:1; Faulter and Loewald 2008:1).

In 2009, the world was affected by the worst economic crisis in the past 80 years. The crisis was caused by a number of factors, including serious imbalances and inequalities in the global economic system, the impact of the financialisation of economies, weak regulation in several of the major world economies, and poor business practices. These led to considerable asset depreciation, company liquidations and closures, increasing unemployment and an increased slowing down of economic growth, with a high number of highly industrialised countries entering a recession (RSA 2006: 1). The impact of the financial crisis on South Africa in late 2007 to 2009 was evident as the country entered a recession in April 2009, through declined GDP growth - which had fallen from 5% in

2007 to 3.6% in 2008, and to -1.7% in 2009, resulting in falling export earnings, shortage of international capital for domestic investment and worsening unemployment in South Africa (Edigheji 2009: 5).

South Africa is a country whose primary sector- based on manufacturing, services mining and agriculture- is well developed, and, as a result, trade plays a key role in the South African economy as South Africa is both a big importer and exporter (TradingEconomics: 2012). Section 3.6.3 looks at the trade in South Africa. Trade is pivotal to the economy and it affects economic growth.

3.8.3 Trade

Trade is an important part of the South African economy. Although an increase in growth has been witnessed since the 1990s when the economic growth was roughly 1%, there is a need for South Africa to come up with ways of fostering increased economic growth. Increasing South Africa's exports is imperative as this plays an important role in the country achieving strong economic growth. The issue, however, is how to increase these exports (Gonzalez-Nunez 2010: 1).

a) South African imports and exports

South Africa's trade policy has to a large extent gone through change since the 1990s. In recent times, due to increased globalisation-globally and thus locally - the main issues of this globalisation have to do with trade, including trade in services, and other major issues, namely, non-tariff measures and competition (Department of Trade and Imports: 2012). Table 3.4 below shows the comparison of South African exports and imports between 1999 and 2010.

Table 3.4: South African exports and imports (1999-2010)

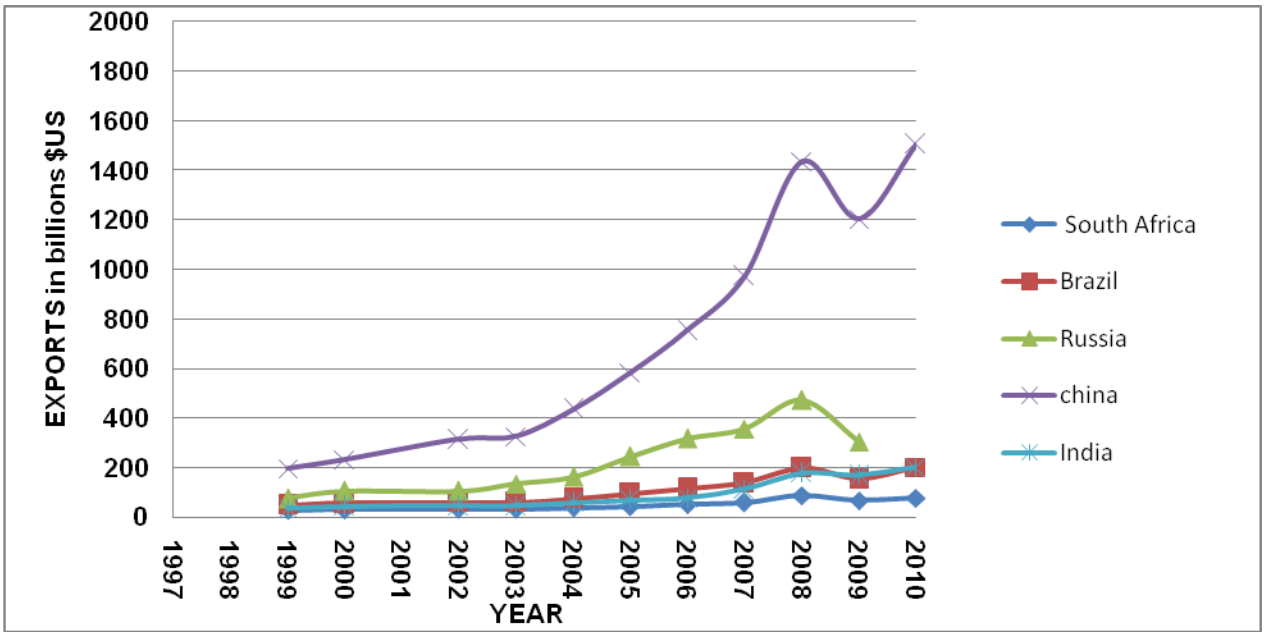
Year	Exports (Billions of US$)	Imports (Billions of US$)	Trade surplus/deficit(Billions of US$)
1999	28.0	26.0	2.0
2000	30.8	27.6	3.2
2002	32.2	28.1	4.1
2003	31.8	26.6	5.2
2004	36.77	33.89	2.88
2005	41.97	39.42	2.55
2006	50.91	52.97	-2.06
2007	59.15	61.53	-2.38
2008	86.12	90.57	-4.45
2009	66.54	66.01	0.53
2010	76.86	77.04	-0.18

(Source: Adapted from IndexMundi: 2012)

As seen in Table 3.4, 1999 to 2005 saw an increase in both exports and imports, with an increasingly positive trade balance. Although increases in exports were recorded, so it was the case for imports; and exports surpassed imports. The trade deficit trends where recorded from 2006 to 2008, with the highest of the period recorded in 2008 as US$4.45 billion. The year 2009 saw a decrease in both imports and exports and a surplus of US$ 0.53 billion was recorded. However, 2010 saw another trade deficit of US$ 0.18 billion recorded.

Although South African exports have grown since 1992, their growth is still not fast enough compared to growth in some strong developing nations, namely, India, China and Brazil, whose growths are more robust (Melter, Nzimande and Boyce: 14). A comparison of South African and other BRICS nations' exports is shown in Figure 3.2.

Figure 3.2: Comparison of exports in BRICS countries (1999-2010).



(Source: Adapted from IndexMundi 2012)

As seen in Figure 3.2 above, China surpasses Brazil, Russia and India in terms of exports; and all of these countries exports surpassed those of South Africa for the period 1999-2010.South Africa's population of 50 million people is quite small, compared to Russia's population of 143 million and China's population of 1.34 billion people (IndexMundi: 2012). This is one of the reasons why South Africa has lower exports compared to other BRIC nations. The economy of South Africa is also small in comparison to that of its fellow BRICS nations. Chapter 4 will also highlight that the FDI into other BRICS nations is much higher than that of South Africa.

b) The Exchange Rate

Exchange rates have been considered to be an important determinant of South Africa's export competitiveness. Competitiveness hinged not only on trade policy and changes in international prices, but also on government's supply side measures, labour market institutions, and macro-economic forces that underline these trends. South Africa has a relative advantage of abundant labour, but its share of unskilled labour-intensive products remains low. Although South Africa may be inhibited by the challenge of general skills shortages, it can reverse this by, for example, opting to make products that employ technology and are human capital intensive for exports, presenting a vast potential for growth. (Melter, Nzimande and Boyce 2010: 14).

The three major constraints to South Africa's competitiveness are:

- a shortage of skilled workers,
- crime, and
- an inefficient bureaucracy revealed through burdensome red tape.

  (Melter, Nzimande and Boyce 2010: 14).

Labour costs, which are very high in South Africa, are a significant subject related to the above constraints, and seem to be negatively affecting South Africa's competitiveness compared to countries in Asia, for example, which have very low labour costs (Melter, Nzimande and Boyce 2010: 14).

The section on trade shows how increased exports are vital to robust economic growth of South Africa, which leads to development of the economy. The next section looks at poverty, unemployment and service delivery issues in South Africa.

3.8.4 Poverty

South Africa is amongst the richest countries in Africa, but its levels of poverty, unemployment and inequality are very high (African Development Bank 2009: 9).

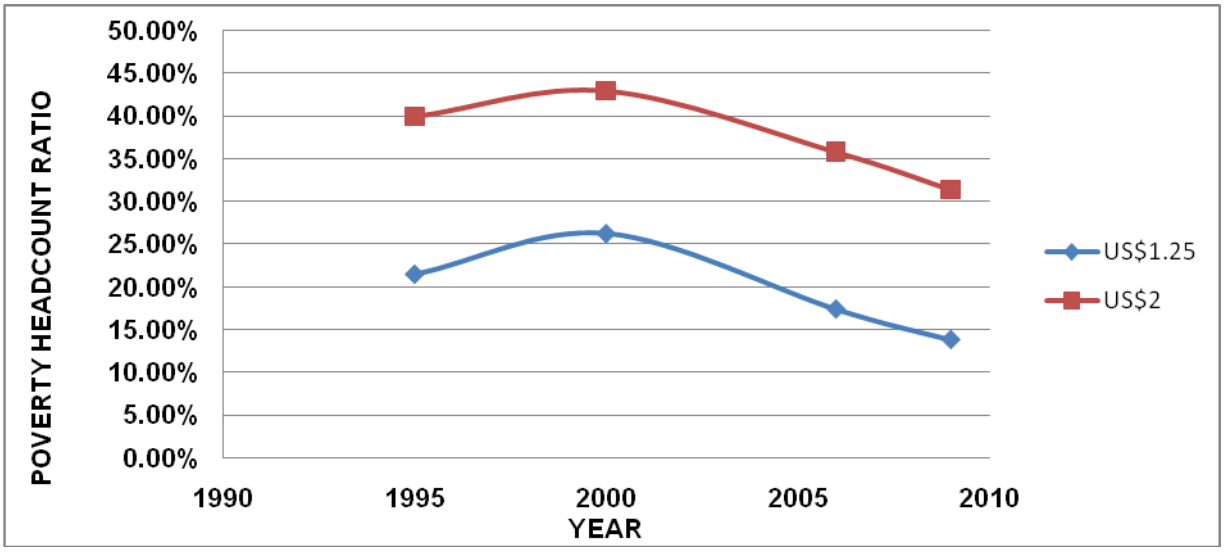
South Africa was described as comprising two economies: a “first economy” and a “second economy”, this after the use of the terms by former South African president Thabo Mbeki in an address to the National Council of Provinces in November 2003. Mr Mbeki described the second economy as follows:

> The second economy (or the marginalised economy) is characterised by underdevelopment, contributes little to GDP, contains a large percentage of our population, incorporates the poorest of our rural and urban poor, is structurally disconnected from both the first and the global economy, and is incapable of self-generated growth and development. (Devey and Valodia: 2003).

This marginalised economy has been the main focus of the South African government, as the challenges have existed since and hugely as a result of the apartheid era.

The main indicator to measure poverty in a country is the poverty headcount ratio, which shows the percentage of the population of any given country that lives on less than a certain amount a day - usually US$1.25 or US$2. The following Figure 3.3 shows the poverty headline ratios at US$1.25 and US$2 respectively. Figure 3.3 shows that there has been a general decrease in the percentage living below both US$1.25 and US$2 between 1995 and 2009. However, the percentage of very poor South Africans is still quite high. The highest figures for both the percentage of South Africans living below US$1.25 and US$2 were recorded in 2000 to be 26.2 per cent and 42.6 per cent, respectively.

Figure 3.3: South African poverty headcount ratios as a percentage of population (PPP) leaving on less than US$1.25, and US$2.



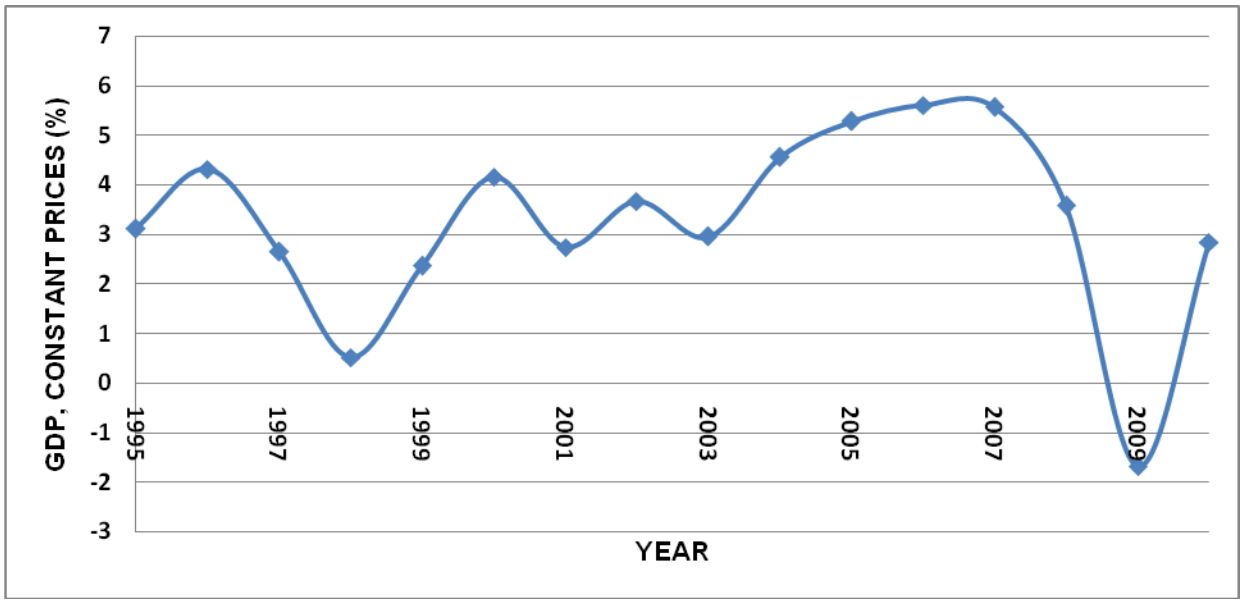
(Source: Adapted from IndexMundi 2012; RSA and UNDP: 2010)

The MDGs, discussed in Chapter two, are a means of measuring development. MDG1 is the eradication of extreme poverty and hunger. South Africa, having signed the Millennium Declaration in 2000, adopted the goals and aims to achieve these MDGs by 2015. According to RSA and the UNDP (2010: 27), South Africa managed to more than halve the number of people living below the poverty line of a $1 per day, consequently achieving MDG1 of halving poverty. A high level of unemployment recorded in June 2010, as a result of the 2009 global financial crisis, was a major contributor to poverty (African Development Bank 2009: 9).

Slow growth in per capita incomes is another explanation for poverty levels. GDP per capita was stagnant in 2001, and nearly reached R50 000 in 2008. On average, per capita incomes increased by only 1.2 per cent per annum over the 50-year period from 1960 to 2010, and by 2 per cent annually for the period 2001-2010. The speeding up of economic growth is not yet adequately high; it does not make a significant impact after lots of years of growth in population, and a relatively stagnant economy (National Planning Commission 2010: 8).

Figure 3.4 below, illustrates the GDP growth, at 2005 constant prices (%). As seen, there has been a general upward trend from 2003 to 2007, then as the global financial crisis of 2008-2009 set in, it saw a dip in 2008 to 3.576% and a sharp decline of -1.682%in 2009. The economy has begun to recover as the 2010 GDP was recorded as 2.841%.

Figure 3.4: South African GDP, constant prices (%) (1995-2010)



(Source: Adapted from IndexMundi 2012)

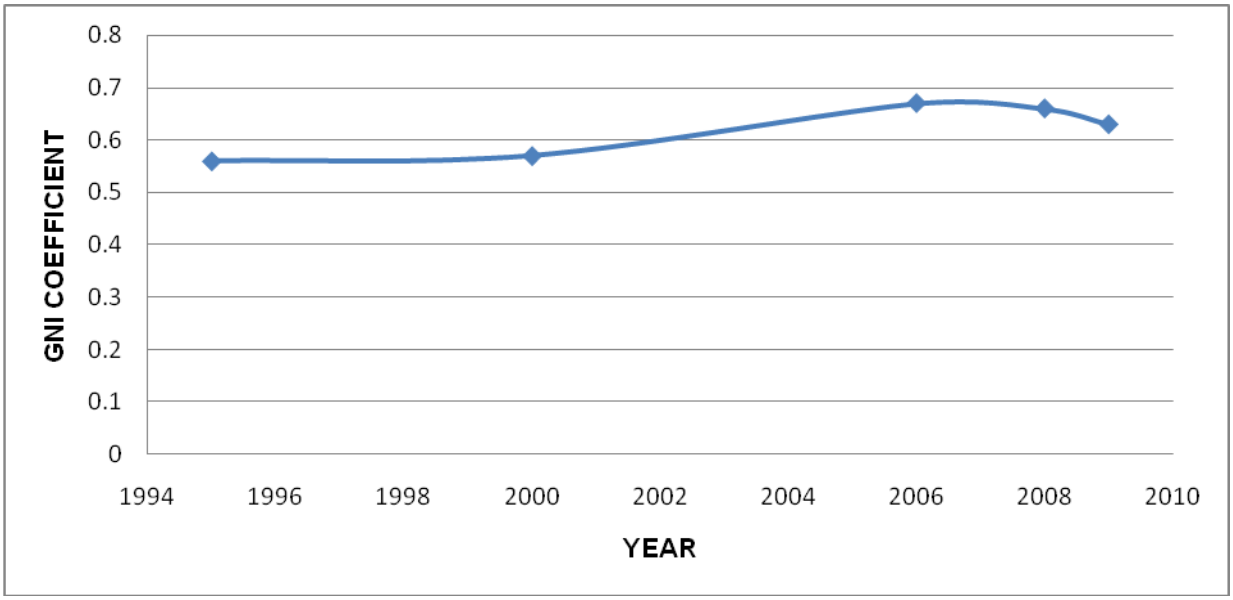
The issue of inequality in South Africa stems, according to Phillip (2010: 109), from the following key legacies of apartheid:

- the way in which the economy is structured: the main economy is centralized and has a monopoly structure, the distribution of resources such as land and capital is unfair, with the majority having little or none;
- the spatial legacy of Bantustans and apartheid cities;
- the gross inequalities of human resources development.

Even with the changes in South African society post-independence, the above forms of inequality continue to obstruct the efforts of the development policy (Phillip 2010: 109).

The very high Gini coefficient of 0.666 (RSA 2010: 25) illustrates high levels of income inequality (African Development Bank 2009: 9). The figure below (Figure 3.5) illustrates that inequality rose from a Gini of 0.56 in 1995, to 0.57 in 2000 and to 0.666 in 2008, and slightly lowered in 2009 to 0.63, which is still quite a high figure (IndexMundi: 2012).

Figure 3.5: South African Gini Coefficient (1994-2009)



(Source: Adapted from IndexMundi: 2012)

3.8.5 Service Delivery

The majority of South Africans had high hopes and expectations for the newly elected democratic government, as they anticipated this to translate to improved health and education services, poverty eradication, better housing, increased accessibility to clean water, electricity and sanitation, and an improvement of their quality of life. The excitement of these ideas was short-lived, due to the government's failure to deliver the basic services that were promised to the people (Zubane 2011: 1).

A survey carried out by the South African Institute of Race Relations between 1996 and 2009, yielded the following findings:

- The number of households living in brick houses had increased from 5.7 million to 10.4 million, an 80% hike - between 1996 and 2009;
- The number of households using electricity increased by 120% over the same period;
- At least 130% more households were using electricity to cook in 2009 than in 1996;
- In the same period, the number of households with access to piped water rose by 71%.; and
- the number of households in South Africa increased from more than 9 million to 13.8 million, or by 5%. (Basson: 2012)

Over the period under review, the country has seen improvement in the living standards of its people, reaching their highest ever levels (Basson: 2012). Despite considerable progress having been made, considerable demands still need to be addressed (Basson: 2012). This is witnessed by livid South African residents demonstrating in streets in protest to the poor performance of their respective municipalities. In many cases, the municipalities have been very slow in the provision of services such as water and electricity. With officials being investigated and found guilty of corruption, most residents perceive municipal workers as self-serving and not caring for the needs of the people (Clark: 2012). In 2011 alone, the Minister of Local Government stated that 38 municipalities were under investigation for fraudulent activities as well as corruption (Clark: 2012).

As seen in the discussion above, service delivery is a problem in South Africa, although there have been some positive changes made in the country. Issues such as corruption and fraud, which stunt growth, need to be addressed.

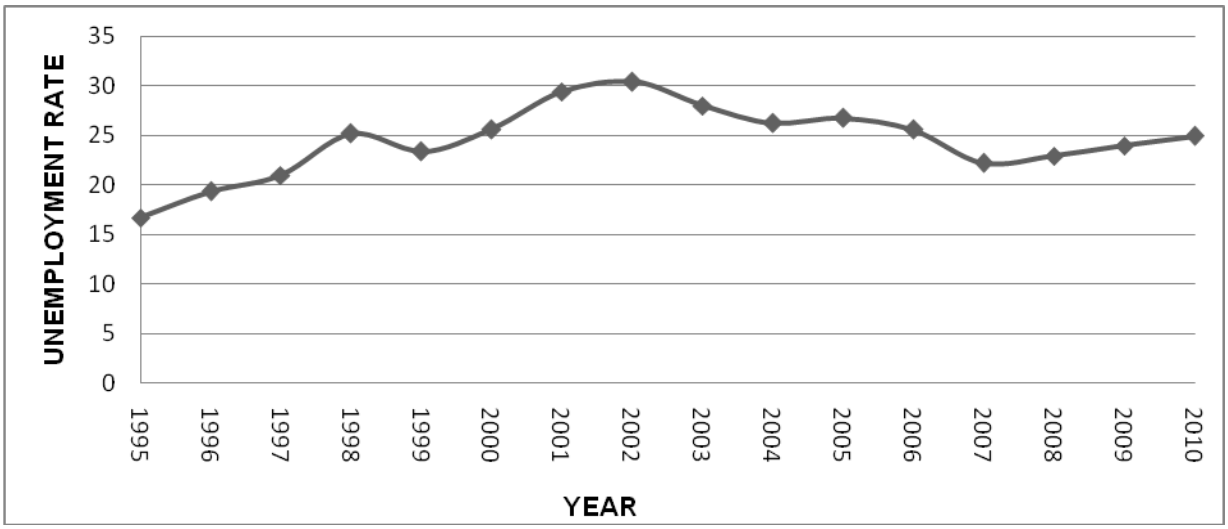
The next section looks at one of the major and difficult challenges that South Africa has faced over the years: unemployment. A look at the trends and how this impacts on the economy as well as how the economy impacts on unemployment, and, most

importantly, how the unemployment trend impacts on the development of South Africa as a whole.

3.8.6 Unemployment

The unemployment issue is one that has troubled South Africa for a long time. Thousands of qualified people, an increasing number of graduates, some of whom even have work experience, are unemployed and have increasingly become desperate enough to accept somewhat lower-paying jobs. (Ukpere and Slabbert 2009: 38).Figure 3.6 below illustrates the unemployment trend in South Africa from 1995 to 2010.

Figure 3.6: South African unemployment rate (1995-2010)



(Source: Adapted from Statistics South Africa 2012: 14; Business Report: 2012)

As seen from Figure 3.6, for the period 1995-2010, 1995 saw the lowest unemployment rate at 16.7 per cent and the highest rate was in 2002 at 30.4 per cent. Between 2000 and 2008, South Africa saw an unemployment rate average of 26.38 per cent per year. As South Africa entered a recession in 2009, thousands of people lost their jobs, which meant drastically reduced employment; and, since then, steady employment rates have been witnessed, despite an upward movement in economic growth (Business Report: 2012).

The recession saw per capita income and employment declining by roughly 4 per cent and 1 million jobs, respectively, between the fourth quarter of 2008 and 2009. Although growth started to look up, the long-term impact of the global economic downturn is still vague, and so is the course leading to employment revival (National Planning Commission 2010: 9). The introduction and implementation of programmes and visions such as the RDP, GEAR, ASGISA, NGP, the National Planning Commission's diagnostic overview, and many more in the hope of fully addressing the issue of unemployment could make the South African government to appear as failing to achieve its set goals, as all the programmes implemented thus far seem to have failed to yield the desired results.

The issue of high unemployment then gives rise to the issue of crime. Crime is an enormous challenge for South Africa, and some scholars have pointed to the ills of apartheid as well as the poverty and unemployment as contributing factors. The following section briefly discusses the crime situation in South Africa.

3.8.7 Crime

Crime, like issues of poverty and inequality, is quite a prominent issue in the country, with very high levels of rape, assault and murder (Centre for the Study of Violence and Reconciliation 2008: 22). The main reasons for crime in South Africa are many and no single satisfactory answer exists, instead various reasons could explain this (Petty and Brown 1998: 66-71).

The following are the main views for the reasons of high crime rates in South Africa:

- Firstly, the link that exists between South Africa's violent past and the current criminal behaviour; the impact of the proliferation of firearms; the growth in organised crime; changes in the demographic composition of the country and the consequences of a poorly performing criminal justice system are some of the reasons for the high crime rates in South Africa (Ikejiaku, 2009: 454);

- Secondly, South Africa is one of the most urbanised countries in Sub-Saharan Africa (Schontheich and Louw, 2001). Consequently, the main characteristics of urbanisation, such as overcrowding, unemployment and increased consumer demands and expectations (Ikejiaku 2009: 454), as well as other issues such as high inequality are connected to high crime rates in South Africa (Centre for the Study of Violence and Reconciliation 2008: 22);
- Finally, some of the crimes, mainly drug-trafficking are committed by individuals who are not South African. The South African Police Service (SAPS) was quoted by Ikejiaku (2009: 454) saying that "the number of people being arrested within and outside South Africa on trafficking charges is on the increase and that some of these are non-South African nationals moving drugs abroad on South African passports."

In addressing the issue of crime, two schools of thought emerged: The Criminal Justice School and the Developmental School (Petty and Brown 1998: 66-71). The former believes that answers to crime can be found through the transformation of the criminal justice system through ensuring tougher sentences as punishment for offences, refusing bail and the reintroduction of the death sentence. The second school of thought mainly takes into account the historical inequities and the socio-economic issues that reinforce crime and violence in South Africa. The approach used by this school of thought in dealing with crime is development and empowerment, which results from economic development. Poverty and unemployment are viewed as being the main causes of crime. Without automatically assuming a simple connection between poverty and crime, the solution to addressing and thus minimising crime is investment, economic growth and job creation (Petty and Brown 1998: 66-71).

The two schools of thought regarding tackling crime have their shortcomings. However, with regard to this study, there is a need for the South African government to address the issues of inequality, unemployment, and poverty as this would play a major role in reducing some of the crime in the country so well known for its very high crime rates.

3.8.8 Health

This section discusses the Health situation in South Africa by focusing on challenges faced and efforts to curb those challenges; as well as comparing this to the MDG goals.

a) The current state of health

Harrison (2010: 2) mentioned that restructuring of the public health sector post-1994 attained significant improvement based on access, rationalisation of health management and more equitable health expenditure. Harrison went on to say that by 2010, the early gains had been battered by the increase in diseases related to HIV/AIDS, generally weak health systems management and low levels of health-staff morale. In spite of uncertainty pertaining to the exact levels of mortality, the health of the South African population has worsened between 2000 and 2010 (Bradshaw, 2010: 1).The result has been poor health outcomes in comparison to total health expenditure (Harrison, 2010: 2). Although the health situation in South Africa is a challenge, there have been some accomplishments. The following table (Table 3.5) shows the accomplishments as well as the shortcomings between 1994 and 2010.

Table 3.5: Summary of the principle accomplishments and shortcomings between 1994 and 2010

ACCOMPLISHMENTS	SHORTCOMINGS
Legislation And Gazetted Policy Free primary health care Essential drugs programme Choice on termination of pregnancy Anti-tobacco legislation Community service for graduating health professionals	**Insufficient Prevention And Control Of Epidemics** Limited effort to curtail HIV/AIDS Emergence of MDR-TB and XDR-TB Lack of attention to the epidemic of alcohol abuse

Better Health Systems Management Greater parity in district expenditure Clinic expansion and improvement Hospital revitalisation programme Improved immunisation programme Improved malaria control	**Persistently Skewed Allocation Of Resources Between Public And Private Sectors** Inequitable spending patterns compared to health needs Insufficient health professionals in the public sector
	Weaknesses In Health Systems Management Poor quality of care in key programmes Operational inefficiencies Insufficient delegation of authority Persistently low health worker morale Insufficient leadership and innovation

(Source: Adapted from Harrison 2010: 2)

South Africa faces quadruple challenges with regard to health issues, namely,:

- the HIV pandemic;
- injury: accidental and non-accidental;
- infectious diseases such as tuberculosis, diarrhoea and pneumonia, which interact in vicious negative feedback loops with malnutrition and HIV;
- the growing epidemic of lifestyle diseases related to relative affluence. (National Planning Commission 2010: 21).

Disparities in health status have been seen between population groups, wealth groups, and urban-rural and education levels. On a global level, there has been increased focus on the determinants of health, including social determinants. An analysis of trends in South Africa reveals that both economic and social policies have given rise to economic growth and some progress in access to basic services, for example, water, sanitation and electricity. An increase in the provisions for social grants, wide wealth inequalities and very high unemployment likely play an important role in poor health outcomes. (Bradshaw 2010: 1). Annexures B and C illustrate the various programmes set out to improve the national health challenges faced by South Africa.

Poverty plays a key role in deaths, as poor people are not able to access services such as hospitals, or even have proper nutrition, or basic shelter from the physical elements- rain, sun and wind (National Planning Commission 2010: 21).

By world standards, South Africa's health outcomes are poor and the country faces several epidemics, according to the National Planning Commission (2010: 21):

- South Africa, whose population consists 0.6 per cent of the world's population, has approximately 17 per cent of the world's HIV infections and 11 per cent of the world's tuberculosis cases.
- With nearly twice the global average, trauma cases resulting from violence and road accidents have resulted in injury death rate of 158 per 100 000 population which is almost double the global average.
- South Africa has very high infant and maternal mortality, in comparison to other middle income countries, with death rates of 43 deaths 1000 live births and 625 per 100 000 live births, respectively.
- Non-communicable diseases (lifestyle diseases) such as diabetes and heart disease are rising sharply (non-communicable diseases in 2004 relative to baseline value in 1997 showed a fivefold increase).

In all the areas mentioned above, South Africa's rates surpass global averages – in some cases by a significant margin (National Planning Commission 2010: 21). HIV occurrence levels are quite high in South Africa in comparison to countries in North, West and Central Africa, although that prevalence has become stable. The South African government declared tuberculosis a top national health priority (Republic of South Africa and the UNDP 2010: 63).

Table 3.6 shows the various MDG health indicators in South Africa, and whether these are achievable by 2015. In most of these health issues, South Africa is not likely to meet the MDG targets by 2015. This is worrying as there is a need for quicker progress in addressing these issues. As mentioned earlier, high levels of poverty are the main contributors of the health challenges experienced in South Africa.

Table 3.6: Millennium Development Goals health targets and achievability

MDG Indicator	1994 (baseline or closest year)	Status in 2010 (or closest year)	2015 Target	Target Achievability
HIV Prevalence 15-49 (Male and female)	15.6	16.9	15.6	Unlikely
Proportion of population with advanced HIV with access to anti-retroviral drugs	13.9	41.6	100	Unlikely
Maternal Mortality ratio (per 100 000 live births)	369	625	38	Unlikely
Infant mortality rate (per 1 000 live births)	54	53	18	Unlikely

Mortality rate of <5 year olds (per 1000)	59	104	20	Unlikely
Incidence of tuberculosis	253	283	<253	Unlikely
Proportion of tuberculosis cases detected and cured under directly observed treatment short course	65.6	76.4	100	Possible

(Source: Adapted from UNDP: 2012)

From Table 3.6 above, it can be seen that HIV occurrence levels are still high in South Africa in comparison to the other countries in Africa. Nevertheless, it would seem as though the prevalence of HIV has steadied in the country. While the decline is a good indicator, the differential infection rates point to preponderance in rural provinces as a result of gender power relations. To add on to that are the fast-growing relationships that expose young girls to HIV due to gender power inequalities with older male sexual partners who give these girls (who are often poor) material items in exchange for sex (UNDP: 2012)

Although the strategies in health are strong and are likely to stabilise infant mortality, they are not adequate to reduce the under-five mortality rates. As seen in Table 3.6, the number of under 5 mortality has almost doubled since 1994; the target set for South Africa is 20 or less deaths per thousand live births by 2015, which compares unfavourably with the current level of 104 (UNDP: 2012).

Although there has been investment in public health, a high and increasing level of maternal mortality continues to increase and remain high in South Africa. Over 90% of pregnant women have access to antenatal care coupled with the fact that South Africa

has a contraceptive prevalence of over 60%- which is relatively high. The current level of maternal mortality ratio which is far higher than the 2015 MDG5 target of 38 maternal deaths per 100,000 live births is a huge concern for South Africa. Maternal mortality is not a one-dimensional health issue, rather both a multi-dimensional health and broader developmental challenge. Enhanced sexual and reproductive health relies on a range of additional factors such as education, decent work, safety, clean water and sanitation, and adequate transport facilities. (Republic of South Africa and UNDP 2010: 73).

Annexure B outlines some 'breakthrough strategies' needed to tackle these health issues in South Africa. The most important objective in the reduction of disease is to lessen the rate of new infections of HIV in South Africa through the implementation of an all-inclusive national HIV prevention programme, an adequate scale so as to have real impact. At the same time, the policy-makers need to focus on chronic disease epidemics on the health system such as TB and alcohol abuse.

Annexure C also shows strategies in which to improve the equity, efficiency and quality of healthcare in South Africa. The annexure shows the policies and the management of producing high quality care, efficient services, employing enough and qualified personnel, motivating staff and financing of the health service. Both annexures are recommendations to the Department of Health as the main issues that affect the South African health service are not only the diseases, but also the administration of the department.

b) The National Health Insurance (NHI)

The South African government's Department of Health came up with an initiative, the National Health insurance (NHI), to eradicate the current two-tier system where the scores of people who have the greatest need have minimum access to health care and have poor health outcomes (Department of Health 2011: 15).The following, according to the Department of Health (2011: 16), explains what the aims of the NHI:

> National Health Insurance will improve access to quality healthcare services and provide financial risk protection against health-related catastrophic expenditures for the whole population. Such a system will provide a mechanism for improving cross-subsidization in the overall health system, whereby funding contributions would be linked to an individual's ability-to-pay and benefits from health services would be in line with an individual's need for care. Moreover, by significantly reducing direct costs for health care, families and households under National Health Insurance are less likely to face impoverishing health care costs. NHI will ensure that everyone has access to a defined comprehensive package of healthcare services. The covered healthcare services will be provided through appropriately accredited and contracted public and private providers and there will be a strong and sustained focus on the provision of health promotion and prevention services at the community and household level.

The idea of the NHI has been met with criticism as well as great concern from different players in society. The criticisms according to Strydom (2010) and Austin-Evelyn (2011) are as follows:

- It has been viewed as being very ambitious for South Africa at this stage;
- Various members of opposition parties are apprehensive about the possibility that mandatory contributions would increase an already high tax load;
- The Congress of South African Trade Unions (COSATU), South Africa's trade union confederation, is concerned that the system could be a multi-payer and provider system, and is critical of the role private health providers may play in a state-funded scheme.
- Health lobbyists and some taxpayers are uneasy about the NHI's autonomy, seeing it would report to the Minister of Health and Parliament.
- The private schemes are concerned about what the NHI will mean for their future.

The South African government is concerned to improve its health system as well as the health of its poorest and most affected citizens this is seen with the various programmes such as RDP implemented to improve the department and service, and the plans at improving the department shown in annexures B and C. However, there is a lot more work that needs to be done as there needs to be a service delivery system that will work hand-in-hand with health professionals in order to improve the standards of hospitals and clinics as well as water and nutrition. This improved service delivery would then develop the lives of the South African citizens, especially the poor majority; and in that way foster development. Perhaps the NHI is the answer, but the results will show in time.

The Human Development Index (HDI), developed by the UNDP is a development measure that incorporates three indices: Life expectancy, education and GNI per capita. The rank a country has sheds some light on whether there has been progress in terms of development. The following section discusses the HDI trends in South Africa

3.8.9 Human Development Index (HDI) Trends in South Africa

In 2010, South Africa, with an HDI value of 0,597 ranked 110 out of 169 countries. This value rendered South Africa in the medium human development category (UNDP 2010: 145).

As mentioned in Chapter 2, HDI is a summary measure assessing long-term progress in three basic dimensions of human development: long and healthy life, access to knowledge (education) and a decent standard of living. As a result of the change in the underlying data and methods as well as the number of countries included in the HDI in 2011, it is of great difficulty to compare HDI rankings of 2010 to those of 2011 (UNDP 2011: 2).

South Africa's HDI trends (recalculated) based on new component indicators and new methodology show that between 1980 and 2011, South Africa's life expectancy at birth

decreased by 4.1 years; mean years of schooling increased by 3.8 years; and expected years of schooling increased by 2.0 years. Gross National Income (GNI) per capita increased by 13.0% over the same period and the HDI also has generally increased from 0.564 in 1980 and 0.614 in 2011. This general increase in most of the indices and in the HDI is a good sign that South Africa is developing in the various socio-economic aspects, though more work needs to be done to reach more people. (UNDP 2011: 4)

With regard to education, since 1994 SA has undergone many reforms. There has been an increase in participation in education, and it is now nearly universal. Approximately 14 million learners exist, and about 12 million (96 per cent) of those are in government schools with the rest in independent schools and tertiary institutions. 2007 saw the enrolment ratio for grades 1–7 of 98 per cent, suggesting almost all the children were enrolled, and 85 per cent for grades 8–12. The overall enrolment ratio is 92 per cent which is evidence that a high level of participation exists (National Planning Commission 2010: 13).

Table 3.7, according to UNDP (2012), summarises the education targets of the MDG2 and whether or not they are likely to be achieved.

Table 3.7: Millennium Development Goals for universal primary education (targets and achievability)

MDG Indicator	**1994 (baseline or closest year)**	**Status in 2010 (or closest year)**	**2015 Target**	**Target Achievability**
Literacy rate, youth female (% of females ages 15-24)	83.4	89	100	Likely
Literacy rate, youth	88.4	93.1	100	Likely

male (% of males ages 15-24)				
Adjusted net enrolment ratios primary education (female)	96.4	99.4	100	Achieved
Adjusted net enrolment rations primary education (male)	97	98.8	100	Achieved
Completion rate of primary education for 18 year olds	89.6	93.8	100	Likely

(Source: Adapted from UNDP: 2012).

The main features of primary education in South Africa, as shown in Table 3.7, are the very high rates of enrolment and retention. These rates illustrate strong gender equity, and where small dissimilarities are evident, they are in the girl child's favour. South Africa has achieved the goal of universal primary education before the year 2015, and its Department of Education can now be recognised as having attained near universal access. Nevertheless, if this achievement is to be linked to educational transformation in a significant way, there is a need to develop the quality and functionality of education in South Africa, and this still has a long way to go.

3.9 CONCLUSION

This chapter looked at the socio economic development in South Africa post-1994. The main issues discussed include the history of apartheid, which saw racial segregation and gave rise to socio-economic inequalities. The new South African government faced challenges on how to tackle these inequalities, so as to fuel development.

The RDP and GEAR were programmes put into practice soon after democracy was attained, so as to encourage development in the new South Africa. Although both programmes did help a lot of poor South Africans, they also had shortcomings. Both programmes were not as successful as projected as they both fell short in catering for the needs of the poorest of the poor. GEAR was even accused of widening the gap between the rich and poor as it made a few people rich and hardly uplifted the lives of the poor South Africans. ASGISA, which was implemented by the government in 2006 with the aim of halving poverty and unemployment by 2014will not meet its targets. This is mainly due to the global and local recession of 2009 and high volatility of the exchange rate in both nominal and real terms.

The 2009 global financial and economic crisis, the worst since the 1930s depression, led South Africa into a recession and increased unemployment, poverty, and inequality. Unemployment, poverty, health and education are intertwined as they all impact on each other. Inequality and unemployment were mentioned in this chapter as some of the causes of violent crime, for which South Africa is infamous.

Apart from unemployment, other socio-economic development trends were discussed, and these included poverty, inequality, trade, and HDI, by looking at education, life expectancy and GNI per capita. There has been an improvement in service delivery between 1996 and 2009, but with records of fraud and corruption in municipalities, not all that can be done is being done to offer basic services to the South African majority. On the issue of trade balance, there are more imports than exports, with a general deficit trend since between 2006 and 2008 as well as from 2010, as South Africa struggles with global competitiveness. Poverty has declined, inequality remains high, and service delivery is poor in some areas, with a lot of people protesting due to their basic needs not being met by municipalities. Crime is a major issue for the South African government, and the developmental school of thought suggests that developing the economy is important in reducing crime. HIV/AIDS occurrence levels in South Africa are much greater than the rest of Africa although this seems to be stabilising. The

Human development index (HDI) of South Africa has started to increase, after a serious dip in 2005. Education prevalence and retention is very high in South Africa, but there is a need to develop the quality and functionality of education in the country to fully transform the educational system.

The South African government still faces numerous hurdles and has a long way to go in terms of developing the country. Issues such as increased inequality and unemployment need to be addressed if there is any hope of making it a one-tier nation, without one part developing and the other part developed.

Foreign Direct Investment (FDI) has been said to aid with the development of the host countries. A number of developing countries come up with means and ways to attract FDI as it is said to be responsible for development in their countries. The South African government has initiated programmes such as GEAR, amongst others, that were also aimed at attracting foreign investment into the country in the hope that it would increase socio-economic development in the country. The next chapter focuses on Foreign Direct Investment as a whole, looking at its theoretical and conceptual frameworks as well and the trends in South Africa.

CHAPTER 4

GLOBALISATION AND FOREIGN DIRECT INVESTMENT

4.1 INTRODUCTION

Globalisation has played an important role in the world economy as its main goal is to offer organisations a greater competitive advantage coupled with lower operating costs, to attract more products, services and consumers (Pologeorgis: 2012). Globalisation has continued to grow over the years and has virtually broken international borders, helping to ensure a seamless flow of knowledge, policies, culture, technology and economic integration across these borders (Friedman: 2006). Although many countries have benefited from globalisation, some groups have opposed it; saying that globalisation only serves the interests of the already wealthy and has failed to meet the needs of the poorest inhabitants of the world (EU 2002: 2-4).

From the late 1980s through to the 1990s, many developing countries began to open up their economies to the outside world, through Trade Liberalisation (TL). The governments of these countries hoped that increasing exports would boost economic growth in their respective countries; as had been seen earlier, in various Asian countries that adopted trade liberalisation. (World Bank 2005: 132).

Trade liberalisation, however, did not meet the expectations of all the developing countries that had implemented it, with envisioned increases in growth failing to materialise in many of the countries (McCulloch, Winters and Cirera 2001: 18). However, Trade Liberalisation is said, by some academics, to have laid foundation for Foreign Direct Investment (FDI) as the main form of globalisation. This is, in the author's view, because TL allows for the opening up of economies to allow for ease of trade and communication with other economies. A lot of developing and developed countries have opened up their economies to attract FDI in the hope of fuelling economic growth and

development in their countries, as mentioned in chapter one- this will be discussed in this chapter.

Developing countries have gone to great lengths in attracting FDI into their economies. This is so that, as the governments believe, a positive link exists between FDI and the economic and social development of their countries. FDI has been one of the main drivers of globalisation in recent years. (Arango 2007: 3).

The main aim of this chapter is to discuss globalisation, Trade Liberalisation (TL) and Foreign Direct Investment. Foreign Direct Investment (FDI) is discussed in greater detail as it is of great importance to this study. Focus will be in the main forms, drivers, characteristics and trends of Foreign Direct Investment on a global level as well as, specifically, to the South African context.

This chapter first looks at globalisation from a theoretical perspective, focusing on its definition, main forces and its advantages and disadvantages for developing nations. The next section looks at TL in the 1980s and 1990s; the expectations country leaders had of it as well as the results of opening up their economies. The sections that will follow discuss the forms of FDI, which are Mergers and Acquisitions (M&As) and Greenfield Investments (GI). The determinants of FDI (motives for the investor and location factors) will be discussed in the section that follows.

The remainder of the chapter focuses on two sections: global FDI, and FDI in South Africa. Section 4.5 discusses global FDI trends for the periods from 2000 to 2010 as well as the impact of the 2008/09 global financial and economic crisis on FDI and how this affected the dynamics of global FDI. Section 4.6 looks at FDI in South Africa; a brief discussion on government policy aimed at attracting FDI into the country; and an analysis of FDI trends in South Africa between 1995 and 2010, the significance of which will assist the researcher in the analysis of the impact that FDI inflows into South Africa have on its socio-economic development.

4.2 GLOBALISATION

Globalisation is a concept that has been defined in many ways over time, with some countries referring to it as progress, development and stability, integration and cooperation, while others referring to it as regression, colonialism and destabilisation (Al-Rodhan and Stoudman 2006: 3). By its nature, globalisation spans a multitude of disciplines, communities, and cultures. As a result, a variety of viewpoints with regard to globalisation exist, from social, economic to political. (Al-Rodhan and Stoudman 2006: 3).

Therefore, globalisation consists of the following aspects (Al-Rodhan and Stoudman 2006: 3):

- economic integration;
- the transfer of policies across borders;
- the transmission of knowledge, and cultural stability;
- the reproduction, relations and discourses of power; it is a global process, a concept , a revolution and the 'establishment of the global market free from socio-political control.

According to the Organization for Economic Co-operation and Development (OECD) (2005: 16), there are three main forces that have contributed significantly to the process of globalisation:

- the liberalisation of capital movements and deregulation, of financial services in particular;
- the further opening of markets to trade and investment, spurring the growth of international competition; and
- the pivotal role played by information and communication technologies (ICTs) in the economy.

In each of these cases, market forces and specific public policies have played important roles as determinants of these changes.

Globalisation takes place in four ways: globalisation of trade in goods and services, globalisation of financial markets, the globalisation of competition, the globalisation of technology and, lastly, the globalisation of corporations and industries (Organization for Economic Co-operation and Development 2005: 16).

Since the mid-2000s, globalisation of trade in goods and services opened up new and increasingly vast markets. The globalisation of financial markets prompted rapid growth in investment portfolios and big movements of short-term capital, with borrowers and investors communicating through an increasingly joint market.

The globalisation of competition called for the development of fresh strategic ideas for companies (OECD 2005: 16). Globalisation has created an environment that promotes new and increasing competition, calls for increased levels of efficiency and expertise in the optimisation of the supply chain. New competition arises from companies from regions around the world with flexible supply chains. Companies from China and India are taking over and competing successfully on a global scale as they have supply chain advantages and cost advantages over a lot of their competitors. (Britt 2007: 1).

Globalisation has been driven by the development in information and communications technologies (ICT) (OECD 2005: 16). Friedman (2006) asserts that this ICT revolution, deregulation of markets by countries and increasing economic integration have played a key role to a 'marked time-space compression of economic processes'. Put in other words, this ICT revolution has made it easier for information to be disseminated around the globe, with minimal time required. This, according to Friedman (2006) reduces the 'friction of distance' in the various economic relationships that exist.

Finally, the globalisation of corporations and industries was led by the rapid growth in FDI and enterprises relocation mainly due to Joint Ventures, Co-operation Agreements

and Strategic Alliances as well as Mergers and Acquisitions (M&As). An important result of these changes is the breakdown of production processes, where different stages of production for a given product are carried out in different countries. (Organization for Economic Co-operation and Development 2005: 16).

With the above discussion, it appears that globalisation leads to economic growth and prosperity for some countries adopting it. However, there have been some opposing voices to the benefits of globalisation. Various groups opposed to globalisation have been initiated in an effort to curb the extent of globalisation, and its impact on developing countries, on issues such as:

- the risk of failure for smaller companies that cannot compete on a global level (Maino: 2003);
- the working conditions of workers as well as job security (Miano: 2003);
- production and labour costs (Pologeorgis: 2012);.
- the sustainability of domestic industries in some countries in the light of comparative or absolute advantage of other countries in specific industries (Pologeorgis: 2012);
- the use of natural resources to meet the new higher demands in the production of goods (Pologeorgis: 2012); and
- whether or not foreign earnings are reinvested in the developing countries where manufacturing is taking place (Maino: 2003);

Pro-globalisation advocates push for global social and economic development, and they believe that the advent of a global market economy will carry with it significant improvements to the quality of life of millions in need. Anti-globalisation advocates argue that without proper rules and restraints, economic globalization will have a negative impact on democracy, human welfare, local economies and the natural world (Dabbah 2010: 94). Table 4.1 summarises the main arguments for and against globalisation:

Table 4.1: Summary of arguments for and against globalisation

Advocates for globalization say	Advocates against globalization say
TRADE Globalization promotes free trade, which ultimately benefits everyone. Because free trade opens access to goods, services, capital, people, information, and technology, it provides countries with their best opportunity to advance.	TRADE Trading systems are not as free as globalisation advocates say. Globalization is based on a system of trade that favours wealthy, industrialized countries. These countries control both the rules and the rule-making machinery, and they selectively impose trade barriers when it suits them.
GOODS AND SERVICES As markets become global, more goods and services are made available at lower cost to a wider group of people. More access leads to rising consumer demand and improved standards of living. In addition, global competition and cheap Imports keep a lid on prices, so that inflation is less likely to derail economic growth.	GOODS AND SERVICES While globalization may make less expensive goods available to a wider consumer base, it is at the expense of the workers themselves. Globalization fuels resentment among people who cannot afford the luxuries available to the rich. It also creates demand through advertising for certain products (e.g., tobacco), affecting the poor around the world and in the United States.
FINANCIAL MARKETS Economic growth requires investment capital. Globalized capital markets attract investors to the most favourable financial markets and “hot growth” economies, thereby allowing investors to maximize their return.	FINANCIAL MARKETS The rapid movement of capital out of countries can have devastating economic, political and social consequences for the people in those countries and around the world (e.g, the Asian financial crisis of 2000

JOBS Globalization creates jobs and fosters economic growth in those developing countries willing to open their economies to foreign investment. Open economies lead to more jobs, higher wages and better standards of living.	JOBS In developing countries, globalization exploits cheap labour and natural resources where laws protecting workers, human rights and the environment are weak or nonexistent. Globalization also leads to job losses in higher-wage countries due to imports or production shifts abroad.
CULTURE Globalization unites people around the world by promoting a common culture and frame of reference. The more people of disparate cultures are able to learn about each other, the faster they can overcome misconceptions they may have harboured.	Globalization undermines the world's rich diversity of traditional cultures, languages and values by imposing some excesses identified with Western societies—consumerism, materialism and secularism.
GOVERMENT By connecting people to the outside world, globalization breaks down isolation. Advocates claim that instant people-to-people communication spreads democracy and leads to the fall of dictatorships (e.g., Milosevic in Serbia).	GOVERMENT Although globalization may threaten dictatorships, it also undermines democratic states. Globalization takes political and economic decisions out of the local and national arena and places them into the hands of an unelected few, such as multinational corporations or organizations like the International Monetary Fund.

(Source: Adapted from EU 2002: 2-4)

The issue of globalisation is one that will always stir controversy as there are heated arguments on whether or not it has the interests of poorest people at heart. Another issue that is closely linked to globalisation is that of Trade Liberalisation (TL). The following section discusses this concept, the reasons for its popularity with many governments in the 1990s as well as the benefits of increased TL.

4.3 TRADE LIBERALISATION (TL)

The theory of Trade Liberalisation (TL) has no conventional definition commonly approved on by academics. Krüger (2010: 2) defines TL as any change in trade policy that will minimise the distortion of trade flows triggered by government involvement.

TL includes the following:

- *Import Liberalisation*: these are changes that minimise protection, making it much easier to import, and decreasing import prices (Kirkpatrick, Clark and Polidano 2002: 61). In addition, this involves the deletion of quantitative restrictions (QRs) (Kirkpatrick, Clark and Polidano 2002: 61); and price instruments such as tariffs, duties, import surcharges, import deposits, exchange rate manipulation and taxes (Krüger 2010: 2). While this promotes great efficiency, it may also expose domestic producers of importables to increased competition from imports (Kirkpatrick, Clark and Polidano 2002: 61). In that case, subsidies to these domestic producers of import-competing goods are crucial to their survival (Krüger 2010: 2).
- *Easing of non-tariff barriers* (NTBs): these comprise import quotas, prohibitions, import licences, special labelling and packaging regulations, health and safety regulations, customs procedures and documentation requirements (Krüger, 2010: 2).
- *Export promotion measures*: This encourages domestic resources to be redirected to the exportable sector (Kirkpatrick, Clark and Polidano 2002: 61).

4.3.1 Trade Liberalisation (TL) in the 1980s- 1990s

The majority of the economic literature has supported the notion that trade liberalization leads to an increase in prosperity consequent on the improved distribution of domestic resources (McCulloch, Winters and Cirera 2001: 17).

Numerous developing countries followed industrialisation strategies of import substitution, in the years that followed the Second World War. By the mid-1980s, however, the majority of these developing nations were looking to decrease their import protection and, in doing so; liberalize trade (World Bank 2005: 134).

According to the World Bank (2005), import protection, which had been favoured by many developing countries before the mid-1980s was thereafter in question as to whether the strategies associated with it were worthwhile in the long run, as a result of three developments:

- Firstly, the Republic of Korea and Taiwan (China) had started, in the 1960s, embracing export-oriented growth policies that both resulted in very good economic performance, and helped both economies to survive the severe interest rate and oil price shocks that occurred in the 1970s.
- Secondly, high tariffs, administrative restrictions, and rationing of foreign exchange and of import licenses created high returns due to rent-seeking, strengthening vested interests and an environment that encouraged corruption and weak national institutions. The consequences, including state capture by vested interests and the abuse of government discretion, raised questions about import substitution strategies, even amongst economists and academics that were in support of the strategic significance of import substitution in the early phases of industrialization.
- Thirdly, growth strategies that were based on import substitution showed that it was difficult to implement in practice, and the practical and political aspects of implementation failed to match the projected gains. High nominal tariffs often offered no protection to emerging activities and protection to those activities

with negative value-add, and played a part in the misallocation and underutilization of capital in economies that were capital-scarce. Overvaluation of the exchange rate subsequent to import restrictions discouraged exports and negatively impacted on agriculture, which further reduced the size of the market for import-competing industries.

As a result of the negativity surrounding the strategies regarding import protection, nearly all developing countries, during the 1980s and 1990s, followed the examples set by Singapore, Hong Kong (China), Korea, and Taiwan (China): encouraging exports and reducing levels of protection. Industrialization based on import protection was gradually shunned and, commencing in the mid-1980s, most developing countries sought to reduce levels of import protection and liberalize trade in an effort to increase growth and to survive global economic crises. (World Bank 2005: 135; McCulloch, Winters and Cirera 2001: 18).

4.3.2 Results of Trade Liberalisation (TL)

TL has not yet been unequivocally and unanimously linked to subsequent economic growth and although there is a vast amount of literature studying this link, numerous empirical studies have not found conclusive evidence (Tussie and Aggio 2006: 89). Even though trade openness has not been clearly linked to increased growth levels, it has definitely not been recognised as a hindrance (Tussie and Aggio 2006: 89). It is important to focus on the detailed pathways through which trade liberalization in each country has an impact on poverty (McCulloch, Winters and Cirera: 2001).

The distributive effects that TL has on a nation are varied and not always at the best interest of the poor. Through TL, countries expected trade reforms to increase the earnings of the unskilled population in countries with a comparative advantage in producing unskilled labour-intensive goods. Openness to the global economy helped efficiency and growth in many countries (for example, East and South Asian countries, Botswana, Chile, Mauritius, and Tunisia), and evidence from the 1990s suggests that

even in instances where trade policy decreased poverty levels, distributive issues still existed in other countries. (World Bank 2005: 134).

The 1990s marked a turning point for South Africa, as the country abolished apartheid and re-entered the global economy after more than ten years of isolation (Thurlow 2006: 1). Similar to many other developing economies, South Africa has undergone an ongoing trade liberalization process over the past few decades with significant trade liberalization occurring in the 1990s (Nyabongo (s.a): 1). As mentioned in Chapter three, the South African government, in its efforts to establish a "fast-growing economy that creates employment and encourages a redistribution of incomes in favour of the poor" (Republic of South Africa, 1995), came up with initiatives in the mid-1990s such as the RDP and GEAR. To achieve the required growth, GEAR called for a "transformation towards a competitive outward-oriented economy" (Thurlow, 2006: 1). Hence, TL has been one of the vital plans of the South African government's development strategy in the 1990s to the mid-2000s (Thurlow 2006: 1), therefore reflecting on government's strong commitment to outward-oriented industrialization. Nevertheless, the country has barely succeeded in generating growth that is sufficient (Hoogeveen and Ozler, 2005). Despite moderate success in job creation during the 1990s, unemployment and poverty levels deteriorated as a result of sharp rises in the workforce and falling real wages (Casale et al., 2004).

As seen in the preceding discussion, TL did not necessarily lead to the expected results of increased growth and development in developing nations. Other factors seem necessary to induce economic growth and development. The next section looks at FDI, one form of globalisation, which as a result of TL has grown rapidly world-wide.

4.4 FOREIGN DIRECT INVESTMENT (FDI)

The Organization for Economic Co-operation and Development (2005: 7-8) defines FDI as follows:

> Foreign direct investment (FDI) is a category of investment that reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor. The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the enterprise. The direct or indirect ownership of 10% or more of the voting power of an enterprise resident in one economy by an investor resident in another economy is evidence of such a relationship. Some compilers may argue that in some cases an ownership of as little as 10% of the voting power may not lead to the exercise of any significant influence while on the other hand, an investor may own less than 10% but have an effective voice in the management. Nevertheless, the recommended methodology does not allow any qualification of the 10% threshold and recommends its strict application to ensure statistical consistency across countries.

As TL allowed for countries to open up their economies, many countries, especially developing countries, see FDI as an important element in their strategy for economic development (Adams 2009: 178). The following section looks at the two main forms of FDI, selected for the purposes of this study, namely Mergers and Acquisitions (M&As) and Greenfield Investments.

4.4.1 Forms of Foreign Direct Investment

The flow of FDI occurs in two ways: M&As and Greenfield Investments (GIs) International M&As take place when two or more firms or organisations join together all, or one part, of their operations (Paul 2011: 232). M&As differ in the following ways (Corporate Finance Mergers and Acquisitions 2000: 2):

- *Merger*: When two companies of similar size combine their resources into a single business. The stockholders or the owners of the companies before the

merger have a share in the ownership of the merged business and the top management remain in the positions held in the pre-merger period.

- *Acquisition/Takeover*: This occurs when one company acquires from another company either a controlling interest in the stocks, or a business operation and its assets.

A GI takes place when completely new operations are established in a foreign country (Paul 2011: 232). This includes setting up infrastructure such as new roads, technology, buildings and the like. Paul (2011: 232) mentions that in comparison to M&As, Greenfield Investments produce cash flows in a much longer time period as M&As do not have to set up new infrastructure from the ground up. Paul goes on to say that M&As are much more attractive than GIs to foreign investors for two reasons: licence acquisitions allow for immediate access to the local firm's resources; also, GI can be a very complex, expensive and long process.

4.4.2 Determinants of FDI

Increasing FDI requires paying attention to the fundamental determinants of international investment decisions and the underlying macro-economic expectations that may be relevant (Mosia 2012: 3). Thomo (2011: 12) mentions that there are two main categories of the attractiveness of a country to foreign investors, namely the motives of the investor and the characteristics of the local economy. The following are determinants, selected by the author that will be discussed: Market Size, Openness of Local Economy, Taxes, Natural Resource Availability, Human Capital and Cost of Labour, Infrastructure Quality and Political Stability.

*Market size***:** Sawkut, Seetanah, Taruna, Vinesh (2009: 7) emphasize that an important element in FDI decision-making is the market size of the host country, which also signifies the economic conditions of the host and the likely demand for investors' input too. Sawkut et al (2009: 9) go on to say that the market size has a positive impact on FDI 'once it reaches a threshold level that is large enough to allow economies of scale

and efficient utilization of resources'. The size of the market may indicate a healthy economic environment and also the magnitude of potential demand which may influence the investment decisions of foreign investors (Moolman, Roos, Le Roux and DuToit 2006: 4).

*Openness of the Local Economy***:** The more open a country is, in terms of international trade transactions and more integration with the rest of the world, the more FDI would be expected to flow to the host country (Rusike 2007: 16). The ability to move capital in and out of a country is of vital concern by foreign investors, and, therefore, less capital controls and liberal trade policies would encourage FDI whilst restrictive policies would discourage it (Rusike 2007: 16; Sawkut et al 2009: 7).

*Taxes***:** Host countries provide a lower tax environment in an effort to attract foreign investment because foreign investors consider the nature of tax laws of host countries, as high levels of taxation would discourage FDI whilst lower levels of taxes would encourage foreign investors. (Sawkut et al 2009: 8).

Natural Resource availability: Moolman et al (2006: 5) mentioned in their paper that many African countries managed to attract FDI because of the accessibility of natural resources, because FDI in these countries is mainly natural resource-seeking. Natural resource-seeking FDI also seeks to make use of the readily available cheap labour. Therefore, the more abundant are natural resources and access to raw materials, the more FDI would flow into a country, signalling a positive correlation (Rusike 2007: 17).

*Human Capital and Cost of Labour***:** Foreign direct investors are very much concerned with the quality of the labour force, as well as its cost. A work force that is more educated can learn and adopt new technology much faster and is normally more productive. Sawkut et al (2009: 8) established that the level of human capital is a very important determinant of the location advantage of a host country and plays a key role in attracting FDI. Foreign firms always consider lower labour costs when they make

decisions to locate production in a host country (Lim: 2001). Not only do foreign firms consider cheap labour, but they also consider the availability of skilled labour. Mainly for efficiency-seeking FDI, the more skilled the labour force available, the more likely FDI will flow to a host country (Rusike 2007: 17).

*Infrastructure quality***:** Countries with high quality infrastructure: developed road network, sea ports, water supply, electricity, and internet networks and telephone would usually attract FDI flows; a positive relationship between infrastructure quality and FDI inflow would be expected. (Rusike 2007:17).

*Political Stability***:** The political climate in any country affects the foreign investors' decision on whether or not to invest in the country, because in less democratic countries there is a possibility of the absence of property rights and the rule of law. Foreign investors need to be assured that in the event that there is a change in government, such changes may not affect their investments and businesses in general (Onyeiwu and Shrestha: 2004).

The determinants of FDI discussed above are important for companies that are interested in investing in a host country. Countries that seek to attract FDI need to consider these determinants so as to make their countries more appealing in that regard. This is particularly important as many of these countries believe that FDI is vital to their economic development and are constantly implementing programmes to attract foreign investment into their countries. Some determinants such as natural resource seeking are unique to the host country. However, other determinants such as political stability, taxes, openness, infrastructure quality and human capital are characteristics of the local economy that the government can influence through implementing policies to attract FDI.

4.5 GLOBAL FOREIGN DIRECT INVESTMENT

Globalization and the interdependence and exchanges of international markets have simplified the free movement of foreign capital flows. FDI is considered a key factor in the global flow of capital, and to be the modernising process of the host country's economy (Joong–Wan: 2003).

FDI has been previously more prevalent in developed countries; mainly the USA, the European Union countries and Japan. In 2002, for example, approximately 64% of the total FDI stock was in developed countries, while developing countries held 32.9% of the stock. (Mosia 2012: 2).

The next section looks at the global FDI trends between 2000 and 2010.

4.5.1 Global FDI Trends (2000-2010)

Table 4.2 shows FDI trends between 2000 and 2010. The approximate values of FDI inflows to developing and developed economies are illustrated.

Table 4.2: Global FDI between 2000 and 2010 (% of total)

Year	World (millions US$)	Developing Economies (% of total)	Transition Economies (% of total)	Developed Economies (% of total)
2000	1 400 541	18.24	0.50	81.26
2001	827 617	26.20	1.15	72.65
2002	627 974	27.59	1.80	70.61
2003	586 956	32.39	3.41	64.20
2004	744 329	39.21	4.07	56.72
2005	980 727	33.37	3.13	63.50

2006	1 463 351	29.20	3.70	67.10
2007	1 975 537	29.07	4.60	66.33
2008	1 790 706	36.30	6.76	56.94
2009	1 197 824	43.35	6.04	50.61
2010	1 309 001	47.11	5.63	47.26

(Source: Adapted from UNCTAD 2010:7; 2011: 3; Carp 2012: 37-39)

The main highlights of the trends are as follows:

- After a strong decrease at the beginning of 2000, FDI recorded a continued increase from 2004, reaching an approximate value of US$1976 billion dollars in 2007. The rise in FDI volume was sustained by the increased development of multinationals; of interrelations between economies that encouraged technological transfers and the liberalization of international exchanges.
- There was a decrease in FDI inflow values between 2008 and 2009, as the result of the global financial crisis. Developing economies were somewhat not affected as terribly as the developed nations, with a 34 per cent decline from 2008 to 2009 as opposed 47 per cent for developed countries.
- As the global financial crisis worsened, global FDI inflows are estimated to have fallen in 2008 to an estimated US$1.9 trillion, and were expected to fall even more in 2009, according to UNCTAD estimates.
- Developing countries on the other hand, had, in 2007, FDI inflows reaching their highest level ever since 2000 (more than $500 billion, 29.07 per cent, of total FDI inflows), which was a 21% increase over the 2006 value.
- Global FDI flows rose moderately to $1.24 trillion in 2010, a small increase from 2009's level of $1.185 trillion, and were still 15 per cent below their pre-crisis average.

- In previous times, developed countries had the majority of the FDI inflow figures, but for the first time, 2010 saw developing and transition economies together attracting more than half of global FDI flows, with approximately 47. 11 and 5.63 per cent of total FDI inflows, respectively. Outward FDI from those economies also reached record highs, with most of their investment directed towards other countries in the South.
- Furthermore, interregional FDI amongst developing nations and transition economies has been growing at a fast rate. In contrast, FDI inflows to developed countries have continued to drop.

In 2009, only seven countries from developing and transition countries were in the top 20 host economies; 2010 saw ten countries from these regions in the top 20 host economies. In addition, three developing economies -China, Hong Kong, and Brazil- ranked among the five largest FDI recipients in the world. While the United States and China maintained their top two positions, respectively, a lot of European countries ranked lower than in previous years. Although there has been a rise in FDI to developing countries, collectively, there are major regional differences as some of the poorest regions continued to see declines in FDI inflows. Flows to Africa continued to fall as they did in least developed countries (LDCs), landlocked developing countries (LLDCs) and Small Island developing States (SIDS), as well as South Asia. In contrast, major emerging regions, such as East and Southeast Asia and Latin America experienced strong growth in FDI inflows. FDI flows are expected to continue increasing, after reaching US$1 400 – US$1600 billion dollars in 2010, followed by US$1,700 and US$1900 billion dollars in 2011 and 2012, respectively (UNCTAD 2011: 3).

The above discussion shows that although a region might have grown in terms of FDI inflows at a point in time, a country in the same region might have an opposite experience. Section 4.5.2 discusses the global financial crisis of 2008/09, and FDI: how the crisis affected FDI flows globally, as well as how it changed the dynamics of FDI.

4.5.2 The 2008/09 Financial Crisis and FDI

According to Carp (2012: 36), the global recession left its mark on the dynamic of foreign inflows and the multinationals activity on international markets which encountered difficulties in obtaining the financial resources for performing the operations or extending them internally or externally.

Carp goes on to say that the instability of the international financial markets and the constraints of the financing possibilities drove foreign investors to restrain their plans to expand because the recovery forecasts showed a bleak future. The consequences of the crisis on FDI flows varied with countries as well as with sectors; foreign inflows to developed countries being the most negatively affected ones (UNCTAD 2011: 2).

FDI dynamics and trends were heavily affected by the global financial and economic crisis, and the following fundamental aspects were emphasized, by Carp (2012: 35), as a result:

- the descendant trend foreign capital flows recorded during the recession; and
- unexpected changes considering the destination of FDI inflows, raising the importance of developing and transition countries.

The domino and the transmittable effect of the international financial markets played a very important part in spreading the effects of the crisis. 2010 saw a contraction of nearly 1 per cent of FDI inflows into developed countries. However, inflows in less developed countries recorded an increase of approximately 12%, reaching about US$574 billion dollars (Carp 2012: 38).

The 2008-2009 global financial and economic crisis played a part in the creation of new investment opportunities; resulting to the decrease of active prices, restructuring a number of industries and developing new areas of business activity (UNCTAD 2011: 2). Furthermore, governments of a number of countries have made plans on combating the effects on foreign capital flows, by pulling international investment through the use of

suitable policies, and creating conducive conditions for attracting fresh FDI flows and foreign investors, as well as boosting the lost confidence in international business (Carp 2012: 39). International operations and economic activity recovery is a rather complex process, as it is affected by risks (Carp 2012: 41-42).

South Africa, like most developing nations values FDI, and implements strategies in an effort to attract FDI into the country. Section 4.6 is a discussion on FDI in the South African context: its prevalence and trends.

4.6 FDI IN SOUTH AFRICA

Generally, the South African government has come up with ways to attract FDI into the country, although the FDI flows remain generally low in the country. This section discusses FDI in South Africa.

4.6.1 South Africa and FDI attraction

The South African government has always supported FDI, and this is evident in the following programmes launched in an effort to boost FDI inflows into the country:

- Investment South Africa by the Department of Trade and Industry (DTI) in February 1997. Annexure D shows the specifications and duties of the Trade and Investment Division within the DTI. Its first strategic goal is to 'increase the quality and quantum of foreign and domestic direct investment';
- Foreign Investment Grant (FIG): In order to induce more foreign companies, the DTI further launched the FIG, which offered a cash incentive scheme for foreign investors who invested in new manufacturing businesses in South Africa;
- GEAR: was discussed in Chapter three, was a macro-economic policy after the country's move to democracy, and it stressed the importance of FDI in South Africa. The macro-economic strategy also emphasised the enhancement of non-gold export performance, increased private sector investment, job creation,

infrastructure development and improved service delivery (Akinboade, Siebrits and Roussot 2006: 178; Department of Trade: 2012).

As South Africa was freed from apartheid in 1994, the new government implemented policies necessary in attracting FDI, however expected results have not yet been met, predominantly with regard to GI (Mosia 2012: 1). The main form of FDI that has taken place in South Africa is M&As although these have seen a decline in recent years (UNCTAD 2012: 2).

South Africa has generally attracted very little FDI, especially from the mid-1970s to 1993, mainly due to the political factors: with financial and trade sanctions, 'the tightening of capital controls, and the declaration of a moratorium on payments to external creditors', all of which cut off South Africa from the international capital markets (Arvanitis 2006: 65).

Political changes which included the unbanning of forbidden organisations and constitutional negotiations in 1990 - that all led to the first South African democratic election in 1994 – ended the disinvestment pressures, and thus caused direct and portfolio investment inflows to resume. The 1990s saw South Africa having a 'new dawn' of foreign investment. Simultaneously, the large stock of existing FDI and the very highly developed domestic capital market had a great influence on the level and composition of inflows during the 1990s, and the mode of entry of FDI. (Gelb and Black 2007: 178).

On average, FDI inflows into South Africa between 1980 and 1993 amounted to a little over $US0.3 billion. After 1993, FDI began to rise, with four main FDI transactions dominating the period:

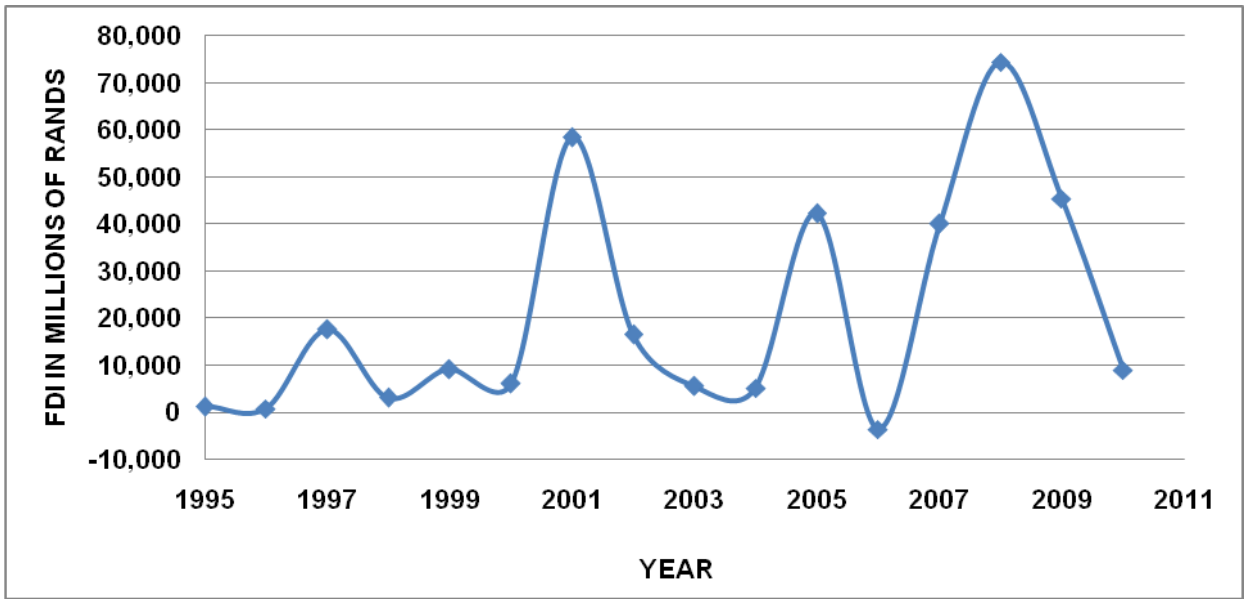
- the partial sale of government shares in Telkom in 1997
- the takeover of De Beers by Anglo American in 2001
- The takeover of ABSA bank by Barclays Bank in 2005 (ABSA: 2005)

- The purchase of a 20 per cent stake of Standard Bank South Africa by the Commercial Bank of China 2007. (South AfricaInfo: 2007).

4.6.2 FDI Inflow Trends in South Africa (1995-2010)

FDI inflows to South Africa have fluctuated over the period under review. The global financial crisis of 2008/09 negatively impacted on FDI, and a downward trend since 2009 has been recorded. Figure 2.1 illustrated these FDI trends in South Africa between 1995 and 2010.

Figure 4.1: FDI Trends in South Africa (1995-2010)



(Source: Adapted from UNCTAD 2012: 4)

FDI inflows for the period saw 1997 peaking to R17, 587 billion, with the main transaction being the partial privatisation of Telkom. The following three years saw FDI levels of lower than R10 billion, though positive. FDI in 2001 was recorded as R58,404 billion, as R42,270 billion in 2005, and R40,120 billion in 2007. The main FDI activities, with the highest volumes in those years were the takeover of De Beers by Anglo American, the takeover of ABSA bank by Barclays Bank in 2005 (ABSA: 2005), and the

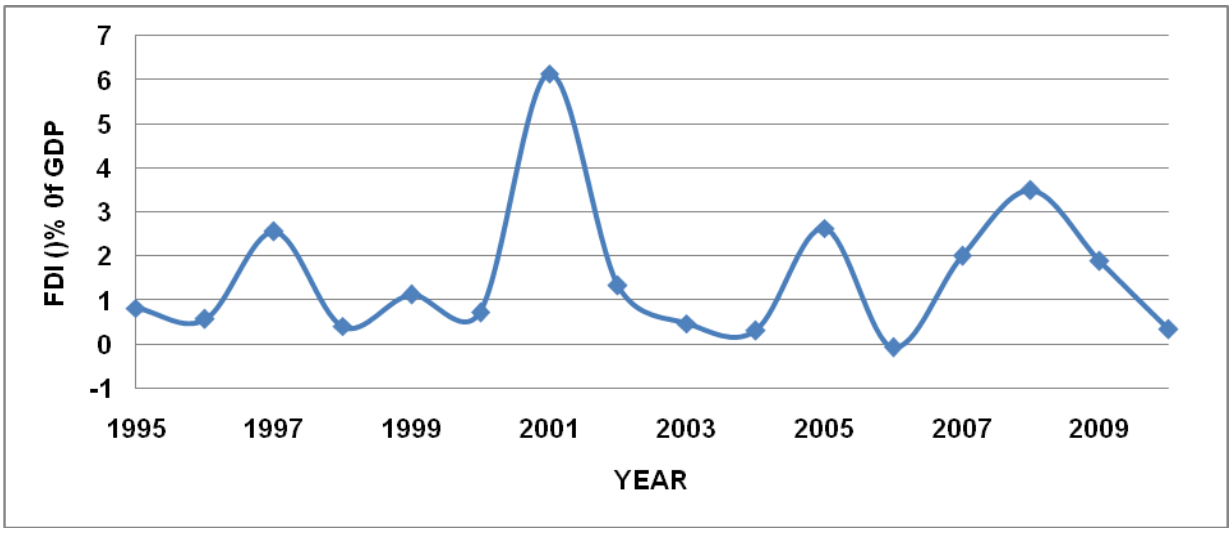
purchase of a 20 per cent stake of Standard Bank South Africa by the Commercial Bank of China, consequently.

As with the global recession, South Africa did not escape the effects of a sharp pullback in global foreign direct investment (FDI) flows during 2009, with reports showing that FDI inflows to South Africa slumped by 24.6 per cent, to R45 billion, in 2009, from R74 billion in 2008, when the resource boom was the main driver (Engineering News: 09 January 2010; UNCTAD 2012: 4). South Africa saw its first recession in 17years, as a result of the global economic crisis, and results were far worse than initial FDI forecasts for South Africa (Engineering News: 09 January 2010).

In 2010, inflows declined further to R8.993 billion and although this is a particularly low level, considering that the inflows averaged R42 billion over the period 2007–2010, inflows to South Africa have traditionally been volatile. This is due to the high share of M&As in FDI inflows, which often include mega deals. (Arvanitis 2006: 65).

According to data by IndexMundi (2012), even though a decrease in FDI flows into South Africa in 2010 compared with 2009 was recorded, the economy generally grew faster in 2010 than in 2009. The real output in the economy increased by 2.8% in 2010, in contrast to the decrease of 1.7% in 2009. The unemployment rate in the fourth quarter of 2010 was 24%, a decrease of 2.1% when compared with the fourth quarter of 2009. The ratio of FDI net inflows as a percentage of GDP is illustrated in Figure 4.2 below.

Figure 4.2: South African FDI net inflows as % of GDP (1995-2010)



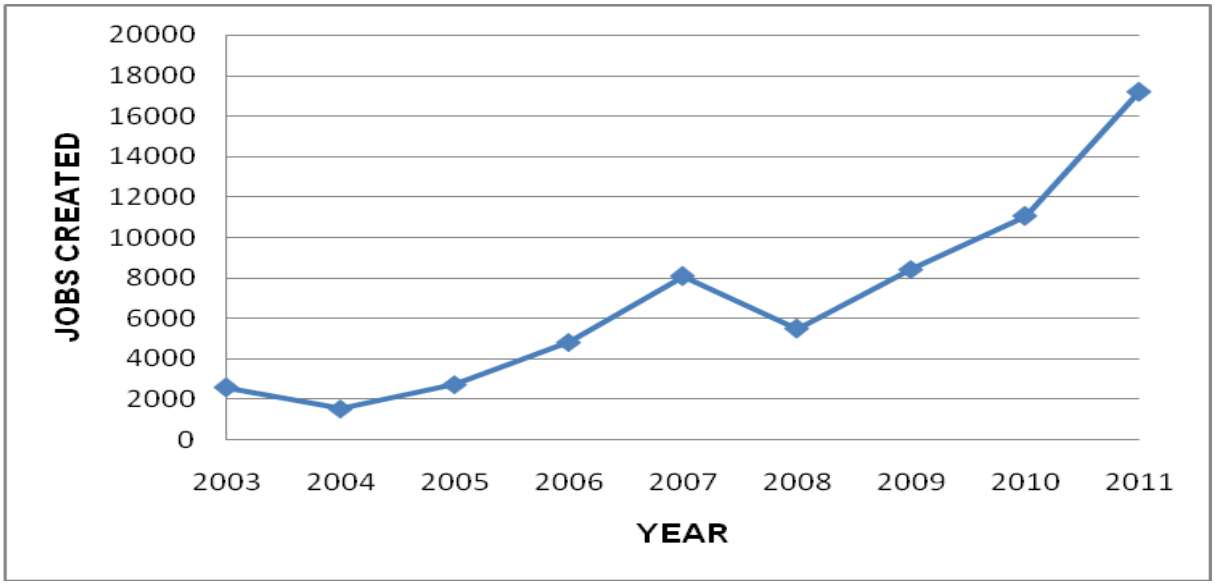
(Source: Adapted from IndexMundi: 2012)

Figure 4.2 reveals that the FDI net inflows (% of GDP) in South Africa were 0.34 as of 2010. Its highest value over the past 40 years was 6.14 in 2001, while the lowest value in this period was -0.07 in 2006. The figure illustrates that FDI, over the years, has contributed minimally to the GDP of South Africa.

4.6.3 Jobs Created by Foreign Investment in South Africa

According to IBM-PLI GILD (2013: 19-20), there has been a general increase in the number of jobs created by FDI into South Africa between 2003 and 2011. In essence, most of the jobs were created in the Transport and equipment (30%), Mining and Extraction (12%) and ICT industries (11%).Figure 4.3 illustrates the trends in FDI influenced job creation between 2003 and 2011.

Figure 4.3: Job-creating FDI in South Africa (2003-2011)



(Source: Adapted from IBM-PLI GILD 2013: 19)

As seen in the above figure 4.3, there has been a general upward trend of job creating FDI in South Africa, with the exception of 2004 and 2008. This is very interesting as FDI attraction per value shows a different picture. Although FDI per value attracted into South Africa has been volatile, this investment has generated a continuously increasing number of jobs. Table 4.3 illustrates the top five African countries with the most job-creating FDI for the year 2011.

From table 4.3: Job-creating FDI by Country (2011)

COUNTRY	JOBS CREATED
South Africa	17 198
Morocco	9 377
Tunisia	5 622
Egypt	4 290
Kenya	3 020

(Source: Adapted from IBM-PLI GUILD 2013: 14)

As seen in table 4.3, South Africa ranked first in 2011 in terms of the number of jobs created by FDI. The figure of 17 198 was nearly double that of Morocco which ranked second with 9 377 jobs created by FDI. The number of jobs created by FDI in South Africa is both welcome and encouraged. However, this opens a debate as to whether the number is enough in a country with such a high level of unemployment as South Africa.

In spite of South Africa's attempts to attract FDI, it has mostly attracted portfolio investment. The majority of FDI has not been GI, but M&As; and the only time when the FDI inflows were momentous was during the privatisation of companies owned by the state (Mosia 2012: 4).

4.7 CONCLUSION

This chapter examined globalisation which has played a big role in the global economy, in various ways. Although globalisation has had a positive impact on the socio-economic aspects of various countries worldwide, the concept has been met with fierce criticism from various anti-globalisation groups. Anti-globalisation groups argue that with a lack of apt rules and restraints, economic globalization will have a negative influence on democracy, human welfare, local economies and the nature. In contrast, pro-globalisation groups argue that globalisation fuels social and economic development worldwide, bringing wealth to millions globally. Even with fierce arguments as these, globalisation is on the increase. Trade Liberalisation, which was highly encouraged in the 1990s, did not necessarily yield the desired results in all countries: to increase the earnings of the unskilled population in countries with a comparative advantage in producing unskilled labour-intensive goods. However, openness to the global economy helped efficiency and growth in many countries and, even in instances where trade policy decreased poverty levels, distributive issues still existed in other countries.

The forms of FDI were discussed, and the main differences and the advantages of each were mentioned. The following section focused on the determinants of FDI which were

listed as: Market Size, Openness of Local Economy, Taxes, Natural Resource Availability, Human Capital and Cost of Labour, Infrastructure Quality and Political Stability. These are factors foreign investors need to consider when making a decision on whether or not to invest in a foreign country. Governments that believe that FDI is crucial to the socio-economic development of their countries need to align country foreign investment policies with these determinants so as to make their countries more attractive to FDI.

The last two sections of this chapter focused on the global FDI trends (2000-2010) and FDI trends in South Africa (1995-2010). The main highlights of the global FDI trends showed that there was a major decrease in global FDI volumes as a result of the global financial crisis between 2008 and 2009. Developing economies were not as severely affected as developed nations, with a 34 per cent decline from 2008 to 2009 as opposed to 47 per cent for developed countries. 2010 saw developing and transition economies together attracting more than half of global FDI, which was previously held by developed countries. Generally, the global economy is steadily picking up, with various companies beginning to invest in other countries again.

South Africa has attracted little FDI compared to its BRICS counterparts as well as other developing countries similar to it. FDI in South Africa has generally fluctuated between 1995 and 2010, with the lowest of -R3 billion rand recorded in 2006 and the highest of R74 billion recorded in 2008. South Africa did not escape the effects of a sharp pullback in global foreign direct investment (FDI) flows during 2009, which was a result of the global financial crisis of 2008. Reports showed that FDI inflows to South Africa dropped by 24.6 per cent, to R45 billion, in 2009, and further decreased to R8.993 billion in 2010. However, it is difficult to say that this was a very low figure as inflows to South Africa have been known to be volatile. This is attributed to the high share of M&As in FDI inflows, which often include over R15 billion per transaction. Although FDI attracted into South Africa has been volatile, jobs created by these FDIs have been trending upward. With an unemployment rate revolving around 25 per cent, job creation is a very

important issue in the country. It could be argued that 17 198 employed as a result of FDI is still a far cry from the number needed to absorb the significant portion of the 11.3 million unemployed.

Chapter 4 provided an analysis of the FDI trends in South Africa, which are important to consider when studying the role of FDI on the socio-economic development of a country. Chapter five, which follows, considers the role of FDI on the socio-economic development of South Africa.

CHAPTER 5

METHODOLOGY AND CASE STUDIES

5.1 INTRODUCTION

The previous chapters focused on two main areas of this study: FDI and socio-economic development, both theoretically and in the South African context. Chapter two analysed past research related to this study, the chapter also discussed the concept of development; development taxonomies-how international organisations such as IMF, World Bank define developing and developed countries differently; and a measure for development, the Millennium Development Goals (MDGs). Chapter three focused on the socio-economic trends in South Africa. Chapter four discussed FDI in detail as well as the global and South African trends. This chapter focuses on the research design and methodology used in this study. As indicated in chapter 1, the purpose of this study is to investigate how FDI impacts on the socio-economic development of South Africa. Therefore, chapter five is constructed to explain the methodology and analyses the results from the case study conducted.

5.2 RESEARCH DESIGN

According to Collis & Hussey (2003: 113), a research design is regarded as the plan and structure according to which researchers obtain research participants and collect data from them. It provides the procedures for collection, analysis and interpretation of data so that the research problem can be resolved. A research design describes a flexible set of guidelines that connect theoretical paradigms to strategies of enquiry and methods for collecting empirical material, in other words, it guides the focus of the research (Collis & Hussey 2003:113). The purpose of research design is thus to make sure that evidence is gathered so as to answer the research questions, test theories as well as accurately describing phenomena (De Vaus 2001: 8-9).

Curtis and Curtis (2011) in classified five different types of research designs, namely:

- experimental;
- cross-sectional or social survey;
- longitudinal;
- case study; and
- comparative.

Research design is either experimental or descriptive. In experimental research, independent and dependent variables are chosen by the researcher and their relationship is analysed. Descriptive research considers what the researcher observes and sees: in essence, what can be described in words and what can be derived from those words. Data from descriptive research is qualitative while that from experimental research designs is quantitative (Denzin and Lincoln 2003: 2; Van Gruenen 2010: 96).

5.3 RESEARCH METHODOLOGY

Two main research methodologies exist: qualitative and quantitative methodology. Table 5.1 shows the differences between the two research paradigms.

Table 5.1: Key elements of qualitative and quantitative research

QUALITATIVE RESEARCH	QUANTITATIVE RESEARCH
Uses writing.	Uses numbers
Data takes the form of words, texts, images, material traces, narratives of all kinds; almost anything	Data takes the form of counts, correlations and other statistical formulae.
Is used to study the multiple characteristics of a few (or singular) examples of something. Usually (n<50).	Is used to study the limited characteristics of many examples of something. (Usually n>50).
Emphasises the richness of accounts (using as many characteristics as	Emphasises on parsimony of accounts (using as few characteristics as possible

possible in the description).	in the analysis).
The researcher adopts a subjective stance. The aim is to interpret or reinterpret events	The researcher adopts an objective stance. The aim is to control for and discount

(Source: adapted from Curtis and Curtis: 2011).

The next section briefly discusses the two methodologies.

5.3.1 Qualitative Methodology

According to Denzin and Lincoln (1994), qualitative research mainly focuses on interpreting phenomena in their natural settings in an effort to make sense in terms of the meanings people bring to these settings. Denzin and Lincoln further mention that collecting information about personal experiences, introspection, life story, interviews, observations, historical, interactions and visual text which are significant moments and meaningful in peoples' lives, are all methods of collecting data in qualitative methodology. Patton (2002) described qualitative research as an effort to unique interactions that take place in a particular situation. Patton goes on further to say that the reason for understanding is not to predict what may happen, but instead to gain a greater more in-depth understanding of the situation as well as the meaning brought by participants and what is happening to them at the moment or the time period.

Arguments in favour of qualitative research are based on claims that this type of research makes broader and richer descriptions possible, while ideas and meanings of individuals are better understood.

5.3.2 Quantitative Research

The quantitative approach to research is described by Collis and Hussey (2003:18) as research that encompasses data collection and analyses of numerical data by means of statistical tests. Quantitative research is the precise count of some behaviour, knowledge, opinion or attitude. Stated differently by Fox and Bayat (2007: 7),

quantitative research concerns things that can be counted. In addition, one of the common disciplines in quantitative research is the use of statistical methods to summarise findings.

5.4 METHODOLOGY ADOPTED FOR THIS STUDY

This study adopts a case study approach. Yin (1984: 23) defines a case study as:

> …an empirical enquiry that: investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used.

Mitchell (2000:169) states that

> ...a case study refers to an observer's data: that is, the documentation of some particular phenomenon or set of events which has been assembled with the explicit end in view of drawing theoretical conclusions from it.

The reason for utilizing the case study methodology is that it allows for an in-depth, understanding of a specific phenomenon within a bounded system. Case studies can adopt a quantitative or a qualitative nature (Guba & Lincoln 1994). The approach used by this study is qualitative in nature, with the use of interviews and analysing historical data relating to the companies and sector selected. The companies that will be analysed are ABSA Bank, General Motors South Africa (GMSA); and the South African mining sector.

5.5 THE AMALGAMATED BANKS OF SOUTH AFRICA LIMITED (ABSA)

The Amalgamated Banks of South Africa Limited (ABSA) Group Limited, listed on the JSE Limited is one of South Africa's largest financial services groups. ABSA Group's main operations are conducted mainly in South Africa, with equity holdings in various

banks in Mozambique and Tanzania, offices in Namibia and Nigeria and other business activities in Botswana and Mozambique (ABSA: 2010).

ABSA was formed in 1991 after a merger of UBS Holdings, the Allied and Volkskas Groups, and some interests of the Sage Group. Over the years ABSA acquired more banks, comprising three main banks-further increasing their asset base. By 1998, the United, Volkskas, Allied and TrustBank brands were amalgamated into one brand, and ABSA assumed a new corporate identity. In 2005, Barclays acquired a majority stake in ABSA as part of its drive to expand its global product and international retail and commercial banking businesses in markets outside the UK. (ABSA: 2010).

5.5.1 Barclays/ABSA 2005 Transaction

In 2005, Barclays Bank acquired 56.6% of ABSA, for R29.7 billion, which was R84.50 per share. Investors accepted an offer of R82.50 per share, as well as a dividend of R2.00 per share. This was the biggest FDI in the history of South Africa, as well as the Barclays bank's biggest foreign investment out of the United Kingdom. (De Villiers 2008: 49).

Before the acquisition, ABSA (2005) mentioned that the transaction with Barclays would present the following advantages:

- would enable ABSA to accelerate its growth strategy;
- would release and enhance value for ABSA's current shareholders;
- would be a positive development for South Africa; and
- the acquisition would be a tangible vote of confidence in the future and the potential of South Africa and the greater Africa, reflecting South Africa's significant political, economic and social progress over the past 11 years.

ABSA and its shareholders gained from the acquisition as is seen by the Bank's performance soon after the acquisition. The acquisition is said to have increased, during 2007, the attributable earnings of ABSA Capital by 45.9% to R1.1 billion (De Villiers 2008: 50).However, since 2009 ABSA delivered the lowest returns on the six-member JSE banking index between March 2009 and the end of the second quarter 2012 (Bloomberg: 2012).

5.5.2 ABSA CSR and Employee Enrichment Programmes

ABSA bank, like most banks is involved in Corporate Social Investment (CSI) programmes aimed at improving South African communities. ABSA group has a CSI division which partners with various Non-Governmental Organisations (NGOs) in an effort to develop programmes which encourage social and economic upliftment of the communities in need, throughout South Africa. The initiatives by ABSA's CSI are, "strengthened by the need to make measurable impact through funding that empowers the non-profit sector." (ABSA: 2010).

The following, adapted from ABSA (2010), are the themes or goals of the ABSA CSI:

- **Banking on brighter futures**. Helping disadvantaged people to work towards financial independence and security. This includes projects such as financial literacy, entrepreneurship, job creation and skills development initiatives.
- **Looking after local communities**. Local support in South African neighbourhoods for orphaned and vulnerable children, people living with disabilities, health and welfare and local education, including training educators.
- **Charity begins at work**. A distinctive approach that allows ABSA staff to get involved in social projects of their own choice.

The following table 5.2illustrates the amount of money that ABSA invested for its CSI between 2006 and 2010

Table 5.2: Amounts invested by ABSA into its CSI activities (2006-2010)

YEAR	AMOUNT (MILLIONS OF RANDS)
2006	53
2007	60.9
2008	76.8
2009	102
2010	83

(Source: Adapted from ABSA 2007, 2009, 2010).

Table 5.2 shows that ABSA as a company has invested a lot of money for the various CSI activities. This amount has increased from 2006, with a decrease from between 2009 and 2010, mainly due to the global financial crisis.

The ABSA group adopted four crucial focus areas within CSI to meet the company's goal of improving the lives of underprivileged South Africans, namely education, entrepreneurship, health and disability, as well as the environment. These are summarised in Table 5.3 below.

Table 5.3: Summary of ABSA employee and CSR projects

Corporate Social Responsibility Projects	Skills development programmes (Employees and community)
• BeyersNaude schools development programme • THRASS ABSA TalkTogether project	• Learnerships • Graduate programme • Leadership programmes for employees • Programmes for lifelong learning for employees.

(Source: Adapted from ABSA: 2010).

a) Education

Although South Africa has undergone various reforms regarding education since 1994, with a rise in participation in education, the quality of education still lacks, especially in the poor areas.

ABSA, in an effort to enhance its business, improve the quality of education in South Africa as well as to penetrate rural and disadvantaged communities, supports various educational initiatives with one of them being the BeyersNaudé Schools Development Programme.

b) BeyersNaudé Schools Development Programme

South Africa has a shortage of skilled workers mainly in the engineering, technology and IT fields which has translated to a huge number of matriculants not writing maths and science in their finals, hence fail to enrol for university programmes that include Engineering and the Built Environment, Commerce and Health Sciences (Community Team: 2012).

The Kagiso Trust established the BeyersNaude Schools Development Programme (BNSDP), in response to these challenges of the South African national education system. The main area of focus was re-establishing the culture of learning and teaching in South African schools. This programme was under the premise that with basic literacy skills an opportunity to break free from the clutches of poverty arises. The BNSDP has worked with rural high schools since 2005, accumulating a wealth of knowledge and understanding on some of the issues that affect a school's performance negatively. (Mola: 2011).

The programme was first introduced in Thohoyandou, Limpopo and has expanded to other provinces namely, Free State, Eastern Cape, KwaZulu-Natal and Mpumulanga (Community Team: 2012). ABSA has played a huge part in helping to develop a holistic progression model in the 59 schools currently part of the programme (Kagiso Trust:

2011). In 2007, ABSA spent R2,5 million towards the project, which helped with its expansion into other provinces (ABSA 2007: 7).

Other programmes include THRASS Talk together Project and Big Fish School of digital filmmaking. The THRASS Talk Together project focuses on primary school literacy as literacy at that stage is especially important as it forms a foundation for future academic and life skills.

c) THRASS ABSA TalkTogether Project

A draft report produced for Higher Education South Africa (HESA), by the National Benchmark Tests Project, showed that low literacy levels contribute to high dropout rates in schools and universities in South Africa. Literacy at primary school level is especially important because it is the foundation for future academic and life skills (ABSA 2010).

Since 2007, the ABSA group sponsored the programme THRASS (Teaching Handwriting Reading And Spelling Skills). THRASS is in runs in six primary schools in the Western Cape, Gauteng, Eastern Cape and KwaZulu-Natal.

The TalkTogether schools benefit from the project through:

- Training foundation phase teachers;
- Installing resources for Teaching Handwriting Reading and Spelling Skills (THRASS) for up to 500 students;
- Training student teachers from the associated university.(ABSA: 2010)

Training student teachers is imperative as it allows for a stable flow of THRASS-qualified teachers graduating yearly. The teachers then graduate with theoretical and practical THRASS teaching experience. TalkTogether schools also have access to student teachers. The TalkTogether Project has, so far managed to produce more than

1 100 teachers and student teachers, which is in the region of 20% of the total THRASS teachers trained in South Africa. (ABSA: 2010).

The Group contributes to the development of entrepreneurship in South Africa by offering young entrepreneurs start-up capital, mentorship and skills training. ABSA's Small Business programme supported approximately 500 000 SMEs through both financial and non-financial plans and between 2008 and 2011, R300 million has been granted to fund SMEs starting up (ITInews: 2011). In March 2011, ABSA's Small Business launched a new initiative called Opening Doors. The initiative does not only endow SMMEs with funding, but also offers help and advice to business owners who want grow and expand their businesses. (South African Institute of Entrepreneurship: 2012).

d) ABSA Employees

Being a subsidiary of Barclays meant that ABSA enjoyed some of the benefits as well as some of the losses that came along with the relationship between the two banks. As a result of Barclays bank being downgraded by rating agencies, in 2012, ABSA bank-South Africa's largest retail bank was also downgraded to A3 from A2 by Moody's. Barclays was one of the world's top 15 largest banking institutions that were downgraded by Moody's. This had a knock-on effect on ABSA, which has lost the advantage it had over its South African rivals when raising capital thanks to its UK parent's strong credit rating. (Coats: 2012).

From mid-2010, ABSA underwent a cost-cutting exercise, dubbed 'lifestyle change' by ABSA executives, which led to tensions between ABSA and unions. In this context job losses are "unavoidable", ABSA says, but "there is no mass retrenchment being undertaken". In 2010 ABSA bank had a little over 43,000 employees and now it has fewer than 40,000. Although the bank's executive stated that they are trying to manage the bank's turnover and headcount prudently, staff numbers will not increase to 43,000 again because the bank had collapsed departments. (Innocenti: 2012).

Barclays bank has been accused of ordering the ‘retrenchments” though ABSA groups’ CEO, Maria Ramos vehemently denies (Coats: 2012). Hence, although not immediately related to the merger, job numbers in absolute value have not increased as a result of the takeover (Innocenti: 2012).

e) Skills Development

According to its Human Resources report (2010), ABSA stated its, “commitment to promoting a learning culture which enables employees to develop and grow to reach their full potential.” The following are the programmes initiated by ABSA in skills development of its employees as well as disadvantaged groups:

- *Learnerships*: Learnership programmes are aimed at South African citizens who are unemployed. The main purpose of the learnership programmes is to provide opportunities to gain skills through obtaining an NQF level 5 qualification and an opportunity to work in the banking sector. In 2010, of the 1850 graduates, 115 were employed on a permanent basis by ABSA. ABSA has also joined with the BankingSector Education and Training Authority (BankSeta) to offer learnerships to previously disadvantaged school leavers and unemployed graduates. During 2010, 621 learnerships in ABSA were made available through these BankSeta programmes. (Milpark Business School: 2012; ABSA: 2010).
- *ABSA graduate programme:* ABSA runs an annual graduate programme which caters for developing the skills of university graduates across all fields at ABSA, with a retention rate of approximately 70 percent (ABSA: 2010).
- *Leadership development:* The ABSA Development Initiative (ADI) and Accelerated Leadership Development (ALD) programmes offer young people with potential a series of growth opportunities to enhance their leadership abilities. Of the 158 employees who took part in these programmes during the 2010, 37 employees completed their final year. (ABSA: 2010).

- *Programmes for lifelong learning:* More than R20 million was invested by ABSA to assist 1 767 employees to further their education during 2010, which is a significant number.

f) Socio Economic Impact Summary

Going Back to chapter one, as CSR activity is deemed as making a positive impact on socio-economic development if it is sustainable in nature. From the above analysis of ABSA bank, one can see that the bank does have an impact on its community as well as its employees. The South African Institute of Entrepreneurship (2012) mentioned the following, in response to ABSA bank's community projects:

> ABSA bank is one of South Africa's largest financial institutions and is fast becoming a regional and global player in the financial services industry.....whose market position calls for the company to support the government in its efforts to achieve the fulfilment of the United Nation's Millennium Development Goals. ABSA is determined to contribute by: ·Aligning its social development programmes with targets set by the S.A. Government, countries around the globe and the United Nations, Partner with local government in a more vigorous way in pursuit of local development goals. It is with this development agenda in mind that ABSA concentrates its CSI activities on education, health (in particular the fight against HIV/Aids) and entrepreneurial development. (South African Institute of Entrepreneurship: 2012).

The two educational programmes sponsored by ABSA, since 2007- The BayersNaude Schools Development Programme and the THRASS have both contributed to the educational needs in the country in that they have been transferred into more than one province in the country.

The link between ABSA's takeover by Barclays and improved socio-economic development of South Africa is weak although the takeover saw a R29.7 billion rand injection into the South African economy in 2005. It is difficult to ascertain whether the

takeover resulted in changes in the manner in which employee development programmes and community projects are handled, chosen or funded. In early 2007 the Barclays Bank acquisition of ABSA came under criticism from the then governor of the South African Reserve Bank, Tito Mboweni who said South Africa "had yet to see" the benefits of Barclays' management of ABSA in terms of development of the South African economy (Coats: 2012).

Although ABSA has played a positive role on socio-economic development, through keeping in line with its CSI goals, this could be seen as a continuation from before the 2005 ABSA-Barclays deal came into place.

5.6 GENERAL MOTORS South Africa (GMSA)

General Motors South Africa, a fully owned subsidiary of General Motors Corporation was established in South Africa in 1913, first distributing Chevrolet vehicles and as the years progressed, began producing other brands (GMSA 2011: 2). Due to political pressure, GM disinvested from South Africa and in 1987 Delta Corporation was formed. After apartheid was abolished, General Motors Corporation purchased a 49 percent stake in Delta Motor Corporation; and in 2004 purchased the remaining 51 percent. (GMSA: 2011).

5.6.1 GMSA CSR and Employee Enrichment programmes

As seen, General Motors Corporation invested through a Greenfield Investment in 1913. The question on whether or not this investment has led to improvements to the lives of the community in which the company operates will be analysed by looking at various programmes used by GMSA to enrich the lives of its workers and their dependants (through skills training, education programmes and the like), as well as community projects.

A semi-structured interview was conducted with a staff member from GMSA, regarding the various programmes. The interviewee, as GMSA employee has been with GMSA since 2002, when it was still known as Delta Corporation. The questions mainly focused

on the manner in which, if at all GMSA has 'more than just paid a salary' to its employees by creating employment and sustainability of its supply chain and uplifting the communities in which GMSA operates.

GMSA employs approximately 1900 employees and the majority of which are in Port Elizabeth, where the head office and assembly operations are located (GMSA 2012: 4). There are various programmes that have been implemented by GMSA for the purposes of benefiting its current employees and its employees' dependants as well GMSA retirees. Various Corporate Social Responsibility (CSR) activities have been put into action and a GMSA Foundation has been in existence for a number of years-since 1994, having been formally known as Delta Foundation. (GMSA 2012: 5)

The following table (Table 5.4) is a summary of the programmes by GMSA for its employees (both current and retired), skills development programmes available for its employees and the community, previously disadvantaged groups (PDGs) and new graduates as well as their corporate social responsibility initiatives.

Table 5.4: Summary of GMSA employee and community life enriching programmes

GMSA Education assisted programmes	**Retirees programme**
• Educational programmes for employees and their dependants • Assist employees with tertiary qualifications • Scholarships for employee dependants • Employee dependants assisted on Siyawela programme (Maths for grades 7 to 12).	• This programme is to keep the more than 2000 retirees economically, physically and socially active. • Free medical services for the retirees (valued at R4 million). • Social workers are available to tend to their social needs.
GMSA Corporate Social responsibility	**Skills Development**

• Sustainable educational projects aimed at eliminating unemployment, poverty and crime. • The establishment of GMSA child life foundation. **GMSA Foundation** • Education and Housing projects in the Eastern Cape.	• Graduate in Training Programmes • Employee skills development programmes • Skills development for PDGs

(Source: Adapted from GMSA 2011:6-10)

a) GMSA Education assisted programmes

GMSA has a fixed support education fund for its full-time employees' dependants and each one of its full-time employees' children is covered in terms of education fees from grade 1 up to grade 12. The Siyawela programme was implemented, where extra maths classes are available for GMSA's full time employees' dependants from grades seven to twelve. The classes are run on Saturday mornings during the term so as not to interfere with the school week. Experienced tutors are used for this programme to teach the school children maths. In addition to these maths classes offered, the Siyawela programme offers high school students acquire entrepreneurial skills. This also allows the students to shadow someone in industry so as to be exposed to the 'real world' in terms of various careers that intrigue the learners. (GMSA 2011: 4; Ndhlovu: 2012)

Full university scholarships are offered to GMSA full-time employees' dependants who pass their Matric exams and qualify for degree programmes or diplomas that can later lead to attainment of degrees in the future. Between 2005 and 2011, GMSA spent R26 million on bursaries to employee dependants, R15.5 million on scholarships to employees' school-going dependants. On average the company supports 220 children of employees every year with their studies at a tertiary institution. (GMSA 2011: 6; Ndhlovu: 2012)

As mentioned in chapter 3, Apartheid played a big role in there being severe inequalities and substandard education quality for the majority population. GMSA has a programme called Adult Basic Education (ABE) aimed at teaching employees' basic maths and business administration in an effort to equip them with the knowledge which they could not get as a result of Apartheid and other factors. Employees of GMSA, in response to identifying gaps in their career paths are offered tuition refunds to further their education. This programme applies refunds only if employees pass the education programme they enrol for. GMSA spends an average of approximately R10 million per year on Tuition Refund of employees. (Ndhlovu: 2012).

b) GMSA and Skills Development

Skills development is a very crucial topic in South Africa where companies participating in programmes that develop skills of employees as well as people in the community are provided with tax rebates. With regards to GMSA employees, training programmes vary and are designed and implemented according to the need of the skills. Consultations between employees, managers as well as the industry specific SETA allow for communication on the need in skills. (GMSA: 2012).

GMSA invites individuals from Previously Disadvantaged Groups (PDGs) to apply to be trained in specific automotive skills that are relevant to the industry. The individuals are not all immediately employed by GMSA but rather their details as well as the skills acquired are kept in a database. The potential employer in this case is not only limited to GMSA, as the skills are transferable to other companies in the automotive industry; thus, the individuals who successfully acquire the skills can look for employment at other companies or even start a small business.

Other programmes are available for individuals working towards obtaining a qualification as well as individuals who have graduated and are in need of skills. There an in-service training programme where a number of students receive on the job training in order to qualify for graduation. The Graduate-in-Training (GIT) programme is a programme

where a number of university graduates are trained in their field to gain experience for the working world. The different fields include, but are not limited to Logistics and Purchasing, Engineering, Human Resources, Marketing and Communication and Sales. The graduates receive two years of intensive training and although employment after is not guaranteed, the graduates are equipped with experience and makes them more marketable in terms of looking for employment. An average of sixty graduates per annum, have been trained by the company since 2002, which translates to approximately 540 university graduates gaining skills between 2002 and 2011, resulting in them becoming more employable. (Ndhlovu: 2012).

c) GMSA Health Wellness Programmes

In terms of Health, GMSA has a broad HIV/Aids awareness programme which is not only limited to GMSA employees. It extends to beyond awareness and reaches out to learners at high school level who are trained as peer counsellors and are encouraged to become involved in their communities.

A comprehensive workplace programme was introduced in 2001, targeting GMSA employees, their families, communities as well as retirees who have worked at the company in the past (GetNews: 2011). This programme has grown into a Holistic Wellness Programme integrating HIV/Aids. GMSA's strategy entails three key focus areas:

- Prevention - awareness, education and training
- Detection - Voluntary Counselling and Testing (VCT)
- Treatment - medication and nutritional supplements (GMSA 2011: 29).

This is a way that GMSA aims at curbing the spread of HIV/AIDS, and also a way that the company 'takes care of its employees'. The health awareness programmes are not only limited to HIV/AIDS prevention, detection and treatment. The programme also offers talks to employees and members of the community on diseases such as cancer, TB as well as other lifestyle diseases such as diabetes. The health challenges in South

Africa are broad, as mentioned in chapter 3. HIV/AIDS and lifestyle diseases are also some of the diseases that have led to a lot of deaths in South Africa.

GMSA has branched out into the community raising awareness on the diseases. In 2011 alone, 11 572 visits on site clinics were recorded with 81 percent of employees having participated in the VCT programme. (GetNews: 2011).

As part of the health and awareness programme, a peer educator programme was piloted in 2002 and due to success, the programme has continued to grow. The peer educators are trained as well as support various national health and wellness activities such as CANSA relay for life, TB awareness, anti-tobacco and weight conscious programmes. In an effort to reach many people in the community, peer educators set up mobile clinics that are equipped with medical care. The wellness programmes has also been extended to retirees who formerly worked at GMSA who are able to make use of an onsite clinic as well as medical assistance. The wellness programme has also been extended to GMSA supplier companies. (GetNews: 2011).

With regard to the above mentioned health and awareness programme, GMSA received an award in 2011,from the South African business coalition on HIV/AIDS (Sabcoha). This award, a first of its kind, is given to a company that showcases health awareness programmes in the workplace that actually benefit the intended targets. In accepting the award and emphasizing the need for sustainable wellness and awareness programmes, GMSA vice president of Human Resources, Chris Thexton stated: “GMSA is fully aware that people are facing a myriad of challenges in their personal and work lives which may impact on productivity and performance and therefore pose a risk to individual and business alike.” (GetNews: 2011). This is an indicator that GMSA realises the importance of employee’s wellbeing to the productivity of the company.

The above discussion showed the various programmes that GMSA implements to improve the lives of its employees as well as their dependants. Various educational,

skills development and health wellness programmes have been implemented as a result. The next section discusses the GMSA CSR programmes as well as the GMSA Foundations initiative.

d) Corporate Social Responsibility and General Motors South Africa Foundation (GMSAF) Activities

In response to the non-delivery in terms of socio-economic development especially in education, GMSA has undertaken various educational activities in an effort to be “a proactive role player in helping South Africa solve its challenges.” The aim for GMSA is to eventually eliminate unemployment, poverty and eventually crime. (GMSA 2012: 19).

The GM South Africa Foundation - formerly known as the Delta Foundation - focuses on project management with focus on education and housing projects in the Eastern Cape, as well as writing up all the lessons learnt in the form of practical implementation guidelines. These lessons learnt are then shared to interested organisations countrywide in an effort to replicate the successful development models as well as to influence the government in creating practical policies. The projects that the Foundation undertakes focus on poverty alleviation through education and housing, and each is structured as a pilot project to test out a totally new 'out of the box' way of addressing a crucial social problem. Project partners are actively sought to form up project management teams, and public sector involvement is a non-negotiable. (Matlock: 2011).

Then GMSAF focuses its learning experiences into the South African government’s various policy making tools. Focus has also been on helping motivate development institutions, for example the government, in changing out-dated approaches that have failed to work in the past. GMSAF has implemented numerous low income housing models that have been replicated in national housing process and are receiving a positive response. (Matlock: 2011)

The GMSAF has actively encouraged the national replication of the Missionvale and Sakhasonke Village models. Various councils have dedicated themselves to building fully subsidised houses for the poor in their areas. Table 5.5 illustrates for the various replicated housing initiatives, the number of houses built as well as the costs incurred by the various councils.

Table 5.5: General Motors South Africa Foundation replicated housing initiatives

PROJECT	IMPLEMENTING COUNCIL	NUMBER OF HOUSES	CONSTRUCTION COST (R MILLIONS)
Samora Michel	Cape TownBay	619	R11.4
Zosa Street, Korsten	Port Elizabeth	49	R2.0
Silver Town, New Brighton	Port Elizabeth	289	R11.7
Walmer Area Q & G West	Port Elizabeth	2 108	R179.2
Walmer Airport Valley	Port Elizabeth	1 028	R96.6
Motherwell 12, 19, 30, 31	Port Elizabeth	13 500	R1 147.5
Oceanview	Jeffreys Bay	1 500	R139.7
Bossiesgif	Plettenberg	1 060	R101.5

(Source: Adapted from GMSA 2012: 42)

GMSAF managed to commit authorities to releasing some R1 708.5 million in housing subsidies by 2011, consisting of R18.9 million for Missionvale plus Sakhasonke Village plus R1,69 billion for the replication projects in the above table.

In the field of education, the Foundation's Ready for Business model serves as a good example to illustrate the impact in the community. Ready for Business was in 2003 as a skills development project aimed at helping disadvantaged learners. Over 800 teenagers have graduated by 2011 and 25 other agencies have been trained to replicate the model (Matlock: 2011).

e) Socio Economic Impact Analysis

The aim for GMSA is to eliminate unemployment, poverty and eventually crime, through the various CSR activities. In line with this aim, the company has invested large sums in various educational, skills development and CSR programmes.

GMSA has played a role in the economy as well as in the social development. The company has put into practice various educational as well as health awareness programmes for the community as a whole. A large amount of money has been invested in various projects, implemented by the GMSAF, which has managed to replicate its housing and educational programmes. This replication of models into other areas and provinces is a sign of sustainability of the programmes, having reached an excess of 15 000 people in need of homes. By virtue of having invested in the country, GMSA has benefited; and South Africa has also profited in that employment was created for its citizens. It is difficult to say if GMSA has exhausted all that it could to increase socio-economic development in South Africa, but the evidence from the interview as well as the other secondary sources of information used, shows that the company has played a role on improving the quality of life of its employees and the communities they operate in, although mainly in the Nelson Mandela Bay.

GMSA plays an important role in the economy of the Eastern Cape; and is one of Port Elizabeth's largest private employers. It is estimated that 22,500 other jobs have been created or are impacted on by GMSA through supplier, dealer and other related industries in the province and surrounding areas. In other words, General Motors South Africa has created approximately 22 500 jobs indirectly and over 1900 jobs directly and over 1800 have retired. Of all the components purchased by GMSA, 72% of these are sourced from South African suppliers mainly from the Nelson Mandela Bay area, which includes Port Elizabeth, Uitenhage and Despatch. GMSA is an important role player in the Eastern Cape economy as many jobs rely on the existence company. (Community Involvement: 2012).

The next section discusses the contribution of mining to socio-economic development-particularly companies that have had FDI. Mining plays a key role in the economy of South Africa and employs a large number of people in the country.

5.7 MINING SECTOR

Mining is a key sector in the South African economy, with the country well known for its large quantity of mineral resources –considerable quantity of global production and reserves. The mining industry immensely contributes to the economic activity, job creation and foreign exchange earnings of South Africa; and together with its related industries, are vital to socio economic development of the country. Mining sector constitutes approximately 33.3 percent market capitalisation of the JSE and continually attracts foreign investment into the country. (Kearney*:* 2012).

Since 1994, there has been slow mining FDI movement in to South Africa as a result of reasons including minerals legislation, uncertainty about the economic situation as well as high crime rates in the country (MBendi: 2012).Nevertheless, there has been a shift in the mining dynamics as quite a number of junior exploration companies have become involved various several small to medium scale processes, for the most part in diamonds, gold and platinum mining (MBendi: 2012).

Table 5.6 illustrates the composition of mining in the economy. The table shows contribution to GDP, exports as well as employment figures in mining.

Table 5.6: Mining contribution to the economy of South Africa

	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Mining Contribution as % of GDP	7.2	7.2	7	6.7	6.4	6	5.5	5.3	5.4	5.2
Mining industrial primary exports	176 812	132 719	135 295	149 714	193 921	211 318	259 158	191 790	234 795	282 013
Primary mineral exports as a % of South African sales	26.8	23.1	22.7	22.3	24.3	23.7	25.9	25.5	29.5	31.6
Mining Industry direct employment (numbers)	415 988	435 628	448 909	444 132	456 337	495 150	518 727	491 794	498 906	513 211
Total South African formal non-agricultural employment (numbers)	5 575 000	6 395 848	6 660 960	7 110 705	7 910 778	8 322 650	8 469 409	8 218 498	8 156 954	8 332 118
Mining as a % of total non-agricultural formal employment	7.5	6.8	6.7	6.2	5.8	5.9	6.1	6	6.1	6.2

(Source: Adapted from Chamber of Mines 2012: 6-7)

As seen from the table above, in 2011, mining contributed well above 5% to the GDP, down from 7.5 percent in 2002.The sector employs a large number of people in the country. As directly employing more than 500 000 people, the mining sector plays a crucial role in the livelihoods of a further 13 million people. According to research

conducted on behalf of the Bafokeng community, for every one person who works in a mine in South Africa, 26 people benefit in various ways including job creation. (Engineering News: 2012).

The mining sector has a great impact on the South African economy and as such, mining companies need to play a role in uplifting the communities in which they operate as well as the country's socio-economic development as a whole. The next section discusses activities in the mining sector with particular focus on mining companies' (that are a result of FDI into South Africa) CSR activities as well as programmes to improve the lives of their employees and their dependants.

5.7.1 Socio-Economic Impact Analysis

Mining is a finite activity, therefore it is important to ensure that the social environment needs are looked into during the life of the mines as well as after the mines have run out of minerals (Chamber of Mines 2012: 70). When issues of socio-economic aspects of sustainability arise, it is imperative for mining companies to prioritise on improving the lives of people in the communities in which they operate as well as the communities in which they source the majority of their labour (Mabuza, Msezane and Kwata 2010: 1). Post 1994, various legislation and policy documents were implemented in an effort to improve local economic development. The following were legislation, according to Mabuza, Msezane and Kwata (2010: 2), put into place by the new South African government:

- Social Labour Plans and balanced Black Economic Empowerment (BEE) scorecards to motivate mining companies to participate actively in CSR partnerships. Other legislation aimed at transforming different sectors (mining included) are
- the Preferential Procurement Framework Act (Act No. 5 of 2000), which calls on industry to procure materials and services from companies owned and managed by previously disadvantaged individuals (PDI);

- the Employment Equity Act (Act no. 35 of 1998), which calls on the sectors to employ previously disadvantaged individuals (PDIs) across the company spectrum, in particular in job categories where they were not previously employed in large numbers (e.g. technical and managerial jobs); and
- the Skills Development Act (Act 97 of 1998), which is geared towards advancing skills training among PDIs. In the mining sector, skills development is facilitated by the Mining Qualification Authority, a mining sector based education and training authority (SETA).

Faurie (2011), in his article mentioned that the South African Chamber of Commerce and stakeholders including the government developed the Mining Charter in an effort to ensure the industry progresses in line with international best practice principle, in line with including the local communities in this progression. This Charter which has scorecards to measure its performance consists of main objectives that mainly emphasise on development of communities in which the mining companies operate and improved housing and living conditions of mine workers.

Wessel Badenhorst, director of Werksman Attorney (2011), mentioned the following regarding the Mining Charter in an interview:

> The Mining Charter is not merely a document containing the goals to be achieved by the mining industry; in many circles, the Charter is accepted as law and non compliance with its provisions is considered a breach of the Mineral and Petroleum resources Development Act....if breaching occurs, the Act or any condition of its economic empowerment guidelines, the Mineral Resources Minister may revoke mining rights after due process has been followed.

In line with these requirements, the next section will discuss some initiatives that have been implemented by various companies in the mining sector. Corporate Social

Responsibility (CSR) is playing an increasingly significant role in companies particularly in the case of mining.

As a result of a high number of mining employees with very low literacy and numeracy kills, the mining industry is obligated, by law(Skills Development Act) to provide its employees with various resources for basic educational programmes. Adult Basic Education and Training (ABET) programmes have been implemented over the years. In 2011, a total of 18 545 mining employees completed ABET programmes. The ABET programmes have significantly reduced the number of uneducated employees by 17.8 percent and increased the percentage of those with basic literacy and numeracy skills to 36 percent. (Chamber of Mines 2012: 70).

Various partnerships exist between mining houses and its stakeholders, namely local government, local community structures and labour organisations. Numerous mining companies, the majority of which are Multinational Corporations (MNCs), partake in various CSI initiatives. Examples of these MNCs include Anglo American, De Beers, BHP Billiton, Kumba Resources and Implats. The main investment areas are in health and welfare, education, skills development, sports, crime prevention, to name but a few. (Chamber of Mines 2012: 70).

The TEBA Development is a non-profit NGO established in 2001 by the mining industry and its stakeholders in an effort to foster development in rural areas where mines are located, or in that have supplied the most labour to mines. Other activities of the TEBA Development are various employment creating projects by former miners who were laid off as a result of retrenchments or have retired. (Mabuza, Msezane and Kwata 2010: 2).

Generally, interpretation of CSR by most mining companies has been in terms of so-called corporate social investment: philanthropic initiatives in communities surrounding the mines or via national programmes in education, health, welfare, or small business development. While these various projects have translated to development

contributions, they have had a slight impact on the core causes of social problems surrounding the mines. Many of these root causes relate to core business practices of the mining companies, especially employee recruitment, wages and housing (Mabuza, Msezane and Kwata 2010: 2; Hamann and Kapelus 2004: 87).

The Lonmin Mine tragedy which took place on 18 August 2012 saw 34 miners shot dead during a strike by miners, over living conditions and wage increments. The strike revealed the South African mining sector in a new light; it painted a picture of a South Africa that has deep rooted problems. A mining employee at Lonmin earned R5 500 a month with a R1700 housing allowance. One would argue that for the employees who are semi to illiterate and do not possess many skills, the amount paid for their services is sufficient. However, it might be argued that these mines are exploiting the employees yet the top management earns millions. The COSATU president S'dumo Dlamini, in response to the Marikana issue said, "…the central issue is that workers in mines are rising against their continued exploitation by employers." (Hill: 2012).

Research conducted by the Bench Marks Foundation, a foundation that studies CSR programmes, before the tragedy revealed that misery, death, poverty, illness as well as environment damage was quite rife in platinum mines, including Lonmin Mine. The Human Research Council (HRSC), representative mentioned about the mining sector in South Africa:

> The state of mining has not improved since apartheid….The Mining Charter requires companies to do more than they do but the follow up is just not there which is a failing of the department of Mineral resources…Residential living conditions under which Lonmin employees live are appalling. (Smith: 2012).

The mining strikes over pay and working conditions started at Lonmin mine, and spread across the mining sector and had mining operations at a halt at Anglo American Ltd, Impala Platinum Holdings Ltd and Goldfield Ltd, all foreign owned. The extent to which

the mining sector, which has a high incidence of foreign owned companies has an impact on the economy can be shown by the cost of these strikes alone on the economy. As recorded on 17 September 2012, the impact of the strikes on the economy was R4.5 billion rand and the Rand fell as much as 2.9 percent against the US$. (Hill: 2012).

5.7.2 Summary

The mining sector contributes significantly to the economy of the country. The amount of exports by the mining sector alone has been over 25 percent of the total between 2002 and 2012. The sector employs approximately 500 000 employees directly and 13.5 million indirectly. Another very important fact about the sector is that the majority of the mines are foreign owned, as a result of FDI (Ghosh: 2012).

The question is whether FDI in the mining sector has played a role on the improvement of socio-economic development of South Africa. This analysis shows that the sector has played an important role on the socio-economic development of South Africa. Various mining companies have implemented projects that have created employment, improved health and education of employees as well as the communities within the reach of the mining companies. However, the strikes across the sector in 2012 revealed two major issues about the sector:

- the economy of the country is dependent on the mining sector as seen by the weakening of the rand as well as the R4.5 billion rand cost to the economy that followed the strikes; and
- mining companies need to be accountable and fair in terms of improving the lives of the miners who works for them as well as the communities in which the mining companies operate by adhering goals of the Mining Charter. The department of Mineral Resources needs to implement plans and measures to ensure that the basic needs of the miners are catered for.

The government, labour unions and mining companies need to come together to enhance a policy framework that enables the country to realise the economic benefits of the resources that the country has an abundance of(Grue: 2011). The existing Black Empowerment laws which call for approximately 25 percent of mining equity to be given to black South Africans has seen about 20 percent been transferred. However, this has made a small number of people very wealthy and the majority of the poor have not benefited (Ghosh: 2012). This, in a way defeats the purpose of Governments goals of reducing inequality gaps, discussed in chapter 3. A few benefit while the majority remain in the same dire situations.

5.8 CONCLUSION

This chapter focused on two aspects; first it discussed the research design and methodology used in this chapter and secondly conducted three mini case studies to find whether or not a FDI impacts on the socio economic development of South Africa.

The methodology chosen for this study is the case study approach which will analyse two companies ABSA (involved in a takeover by Barclays bank in 2005), General Motors South Africa (which came into South Africa as a result of a Greenfield investment in 1913) and the mining sector as a whole (which is a sector that has traditionally seen a high FDI activity).

The methodology used was that of a case study approach. Three case studies were carried out with a few interviews conducted with a GMSA employee. Results showed that although ABSA has considerable CSR projects implemented as well as invested millions of Rands in these projects its employee programmes; there is hardly any evidence to suggest that Barclays Bank's takeover of the bank has positively impacted on these programmes. Instead, Barclays has been blamed for the recent retrenchments that took place in 2010, although ABSA explained it was as a result of 'restructuring'.

GMSA, which came into South Africa through a Greenfield Investment, has played a role in the economy of the Eastern Cape Province as well as that of South Africa, having created jobs directly and indirectly. The company has also designed and implemented various educational, health and awareness for its employees and their dependants; and for the communities in need. GMSA continues to play an important role in the community as its educational and housing programmes have been adopted by the Department of Education as well as other municipalities, respectively.

The case study highlighted that the South African mining sector (which has a majority of foreign owned firms) has played a role on the socio-economic development of South Africa, as well as employs a large number of people in the country. The various mining houses and mining companies, which operate in South Africa as a result of FDI, have formed partnerships in the communities in which they operate in an effort to improve the lives of people in those communities in which they operate. However, the Lonmin strike as well as the strikes which followed in the sector revealed that the state of mining in South Africa is still far off and that mining companies need to consider goals of the Mining Charter; and the government needs to actively follow up to ensure better working and living conditions for the mining employees; as well as implementation of community development projects.

The following chapter concludes the study and offers recommendations for future research.

CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

6.1 INTRODUCTION

The main objective of this study was to examine whether FDI has an impact on the economic development in South Africa, as a developing nation through conducting selected case studies of South African companies involved with FDI:

- General Motors South Africa, which came into South Africa in 1913 as a result of a Greenfield Investment (GMSA 2011: 1);
- ABSA bank which was taken over by Barclays Bank, plc in 2005-this being the biggest FDI inflow recorded in South African history (De Villiers 2008: 49); and
- the South African mining sector as it has a heavy presence of foreign-owned companies (MBendi: 2012).

This chapter summarises the main findings of the study as well as give recommendations to the South African government based on these results and conclusions. A summary of the study will be provided first, from where conclusions will be drawn. Recommendations will follow, and these are mainly directed at the South African government on how to make the best of FDI in terms of its impact on the socio-economic development of the country. In conclusion, the limitations of the study as well as the proposed future research will be discussed.

6.2 SUMMARY

A summary of the study is discussed in this section. The main areas which will be discussed are as follows:

- the purpose and objective of this study;
- summary of the literature review (chapters 2-4);
- research design and methodology chosen; and

- the findings of the methodology selected.

6.2.1 The Purpose and Objective of the Study

The purpose of this study was to investigate the impact of FDI on the socio-economic development of South Africa. As mentioned in chapter one, the objectives of the study as follows:

- Conduct a literature overview on developing nations, economic development and FDI;
- Discuss FDI trends and characteristics in South Africa;
- Examine the impact that FDI has on the economic development in South Africa, as a developing nation through conducting selected case studies of South African companies involved with FDI- General Motors South Africa (Greenfield), ABSA bank (Take over by Barclays bank)- and the mining sectors as it has a heavy presence of foreign-owned companies.

6.2.2 Summary of Literature Review (Chapters 2-4)

Chapter two reviewed past literature with regard to socio-economic development and FDI. The general consensus from this past research shows a positive link between FDI and economic growth in various developing regions and countries. With regard to socio-economic development there has not been much research in that regard. The chapter further explored the concept of development by looking at its three definitions as well as discussing issues such as sustainable development. International organisations' (WB, IMF and UNDP) classifications of developing and developed nations were analysed. Other areas discussed in the chapter are characteristics of developing nations, sustainable development as well as the various stages of economic growth and development as well as the MDG trends and progress globally.

The third chapter discussed the socio-economic trends in South Africa post 1994. A brief history of Apartheid, which is a main cause of the major socio-economic troubles

faced by South Africa, followed. The main government programmes discussed in chapter three included the RDP, GEAR and ASGISA which were implemented to alleviate the legacy of Apartheid – poverty, wide inequality, unemployment and poor quality of education. The NGP and the NPC provide an analysis of the current situation in South Africa, policy options and a visionary plan to 2030. Socio economic indicator trends were presented in the chapter. These socio-economic indicators include economic growth rates, poverty, inequality measured by the gini coefficient, unemployment rates, trade volumes and HDI trends.

Chapter four discussed Globalisation, Trade Liberalisation and FDI. FDI was discussed on a global scale as well as in the South African context. The theoretical perspective of globalisation was analysed, focusing on the definition, the main forces as well as its advantages and disadvantages. Trade liberalisation, which became popular with many developing country governments in the late 1980s and early 1990s, was also discussed. With regard to FDI, the two main forms, Greenfield Investments and Mergers and Acquisitions as well as the main determinants of FDI were looked at. The chapter further looked at the global FDI trends as well as South African trends post 1994. Government policies implemented in attracting FDI into the country were briefly examined.

6.2.3 Research Design and Methodology

Chapter five discussed the research methodology of the study. This study is qualitative in nature with both primary and secondary data sources. Interviews with a GMSA employee were conducted. Secondary data was collected from academic journals, textbooks and the internet for both the literature review section and the collection of historical data relating to the companies and sector selected for the case studies. The case study methodology was used as it allows for an in-depth, understanding of a specific phenomenon within a bounded system. Case studies can adopt a quantitative or a qualitative nature (Guba and Lincoln: 1994).

6.2.4 Findings

As mentioned in earlier chapters of this study, many developing nations view FDI as a means of fostering socio-economic development. As a result many of these countries' governments have implemented policies and programmes in an effort to attract FDI into their countries.

As revealed by the case studies conducted in this research, the benefits of FDI on South Africa are mixed. Although ABSA has CSR educational programmes such as the BayersNaude and THRASS that have significantly contributed to improving education to the country , there has been no evidence to suggest that Barclays' takeover of ABSA has influenced any of those activities either positively or negatively.

GMSA has played a role in the socio-economic development of the Eastern Cape Province and surrounding areas especially through education programmes, health and building houses in the poorest areas in Eastern Cape and Western Cape. The company has put into practice numerous educational as well as health awareness programmes for its employees and their dependants; and the community as a whole. GMSA has invested in its employees their dependant's education and wellness thereby improving their lives. A large amount of money has been invested in various projects, implemented by the GMSAF, which has managed to replicate its housing and educational programmes to other provinces. This replication of models into other areas and provinces is a sign of sustainability of the programmes, having reached an excess of 15 000 people in need of homes. The numbers reached are significant enough to have the intended impact. GMSA has, and continues to play a positive role in South Africa through CSR activities; and programmes for their employees and their dependants. Directly, GMSA has created employment for over 1900 people; and has indirectly been linked to more than twenty thousand jobs through its suppliers and business partners.

The mining sector, which has a majority of foreign owned companies, plays a role in the socio-economic development of the country. The amount of exports contributed by the

mining sector alone has been over 25 percent between 2002 and 2012. The sector employs approximately 500 000 employees directly and 13.5 million indirectly. In terms of FDI role on socio-economic development, various mining companies have implemented projects that have created employment, improved health and education of employees as well as the communities within the reach of the mining companies. However, the strikes across the sector in 2012 revealed that although mining companies have developed programmes to improve the lives of the employees as well as CSR projects for the communities in which they operate, it has not been enough and there are deep seated problems in the sector. Workers are disgruntled by their salaries as well as living conditions. These strikes also showed the extent to which the South African economy is dependent on the mining sector as a whole, as well as the need for improved accountability and fairness on the part of the mining companies in improving the lives of the miners as well as the communities in which these companies operate. The department of Mineral Resources needs a solid follow up plan to ensure that the Mining Charter goals are adhered to by mining companies so that the miners and community benefit as a result.

The study shows that generally FDI does play a role in the socio-economic development of South Africa; however the study also did not find conclusive evidence on M&As contribution to the socio-economic development of South Africa.

6.3 RECOMMENDATIONS

As seen revealed by the case studies, Greenfield Investments, through GMSA analysis, plays an important role on the socio-economic development of South Africa. In that way, the South African government has an opportunity to attract such investment into the country as this leads to job creation, building infrastructure, skills development and in that way alleviating poverty, inequality and the high crime rates in the country. An example that South Africa can adopt is that of China, which targets and restricts FDI inflows in line with its strategic goals as a country (Thomo 2011: 68).

The South African government, in attracting other forms of FDI should consider incorporating laws that specify that the company in question, regardless of the nature of business, needs to improve the communities in which they operate significantly by focusing on the most pressing issues in the country, for example skills development, improvement in education and health. Implementation could be in a similar way, though not exactly as the Broad Based Black Economic Empowerment (BBBEE) is designed. The companies, according to the impact they have made, can then report on this and the impact measured by independent agencies.

6.4 CONTRIBUTION OF THE STUDY, LIMITATIONS OF THE STUDY AND PROPOSED FUTURE RESEARCH

This study, although modest made a contribution to research with in the field of Development Studies, most especially with regard to FDI in South Africa. This study raised some questions on the economic and social benefits that FDI can bring to a host country and the role that the government can play in making sure that FDI benefits the majority of host country citizens.

The study focused on three case studies: two companies and one sector in the South African economy. Not all companies with FDI activity were analysed for the purposes of this study due to funding and time constraints. Thus, there is need for future research with a larger sample. A second limitation was that of finding willing company representatives to interview in the case studies, which slightly hampered the research as well as prolonged its duration. Due to the academic background of the researcher econometric analysis was not possible to test the impact or role the FDI plays on the socio-economic development of South Africa. A second study could be conducted, on a much wider level, to compare results.

More possible areas for future research include:

- FDI has been said to have some ‘crowding effects’ on local activities, it would be important to conduct research on whether these ‘crowding’ effects of the

presence of FDI on the local/domestic economic activities particularly in SMMEs in the same sector/industry exist.

- Governments, especially in developing nations have implemented policies to attract FDI in an effort to fuel development in their countries. A proposed study is on the various policies implemented by the South African government post 1994 in an effort to attract FDI and whether or not these policies have been successful.
- A comparative study on South Africa and other countries in the region or the continent can be done to investigate the impact of FDI on socio-economic development.

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6.5 CONCLUDING REMARKS

FDI is a possible way of fostering economic growth and development in developing countries. The study revealed that although FDI does play a role in the socio-economic development of South Africa, especially Greenfield Investment, the same argument could not be made on Mergers and acquisitions (M&As).

In conclusion, it is imperative for the South African government play a proactive role in ensuring that foreign companies that invest in the country need to be well aware of the socio-economic needs of South African, and be willing to play a positive role in that regard.

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ANNEXURE A: Millennium Development Goals

MDG1: Eradicate Extreme Poverty and Hunger Target 1A: Halve, between 1990 and 2015, the proportion of people whose income is less than $1.25 a day. Target 1B: Achieve full and productive employment and decent work for all, including women and young people Target 1C: Halve, between 1990 and 2015, the proportion of people who suffer from hunger
MDG2: Achieve Universal Primary Education Target 2A: Ensure that by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling
MDG3: Promote Gender Equality and Empower Women Target 3A: Eliminate gender disparity in primary and secondary education, preferably by 2005, and at all levels of education no later than 2015
MDG 4: Reduce Child Mortality Target 4A: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate
MDG5: Improve Maternal Health Target 5A: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio Target 5B: Achieve by 2015 universal access to reproductive health
MDG6: Combat HIV/AIDS, Malaria and Other Diseases Target 6A: Have halted by 2015 and begun to reverse the spread of HIV/AIDS

Target 6B: Achieve by 2010 universal access to treatment for HIV/AIDS for all those who need it Target 6C: Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases
MDG7: Ensure Environmental Sustainability Target 7.A: Integrate the principles of sustainable development into country policies and programs, and reverse the loss of environmental resources Target 7.B: Reduce biodiversity loss, achieving, by 2010, a significant reduction in the rate loss. Target 7.C: Halve by 2015 the proportion of people without sustainable access to safe drinking water and basic sanitation Target 7.D: Have achieved a significant improvement by 2020 in the lives of at least 100 million slum dwellers
MDG8: Develop a Global Partnership for Development Target 8A: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system (including a commitment to good governance, development, and poverty reduction, nationally and internationally) Target 8B: Address the special needs of the least-developed countries (including tariff- and quota-free access for exports of the least-developed countries; enhanced debt relief for heavily indebted poor countries, and cancellation of official bilateral debt; and more

generous official development assistance for countries committed to reducing poverty)

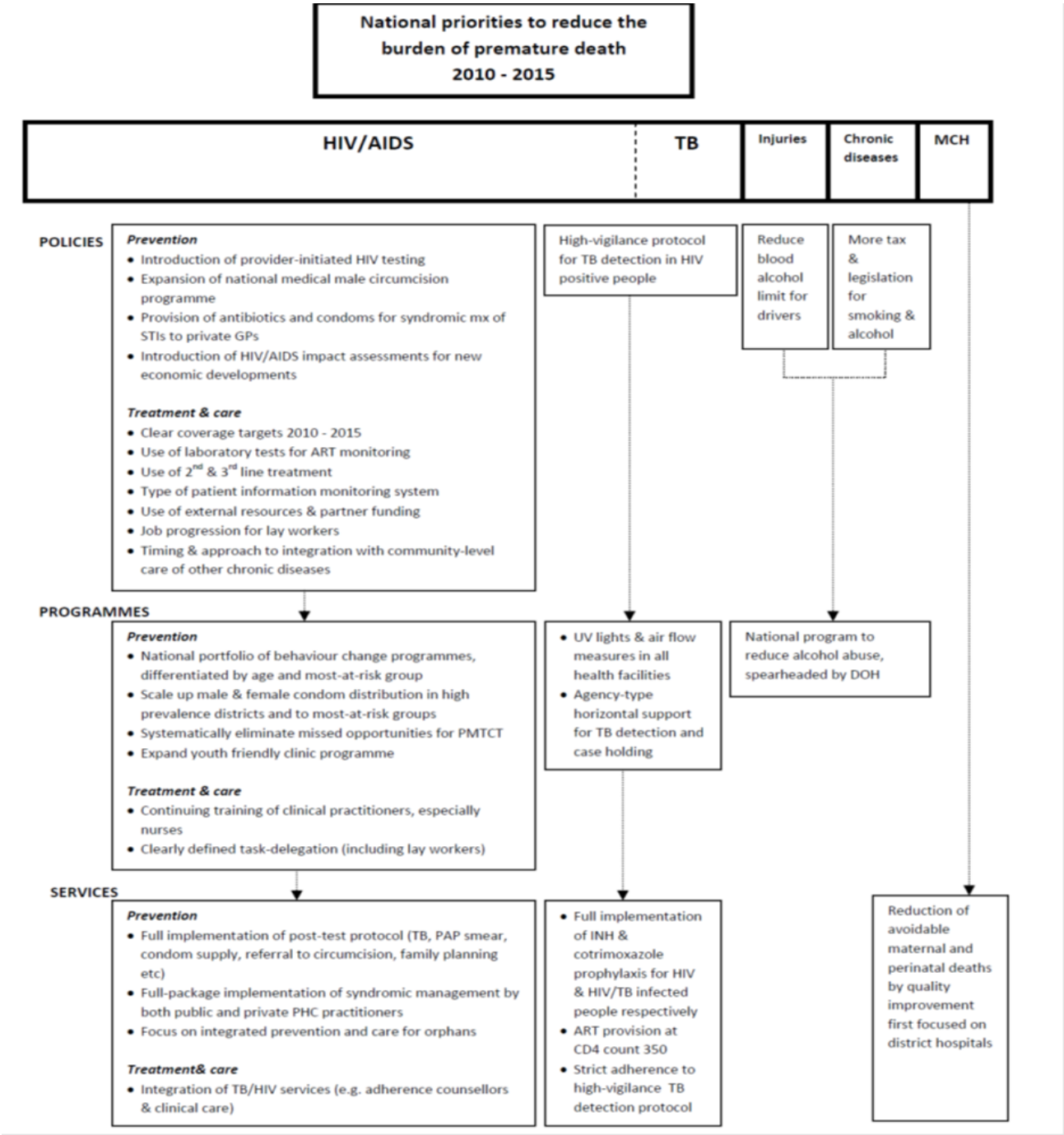
Target 8C: Address the special needs of landlocked countries and small island developing states (through the programme of action for the Sustainable Development of Small Island Developing States and the outcome of the 22nd special session of the General Assembly)

Target 8D: Deal comprehensively with the debt problems of developing countries through national and international measures to make debt sustainable in the long term

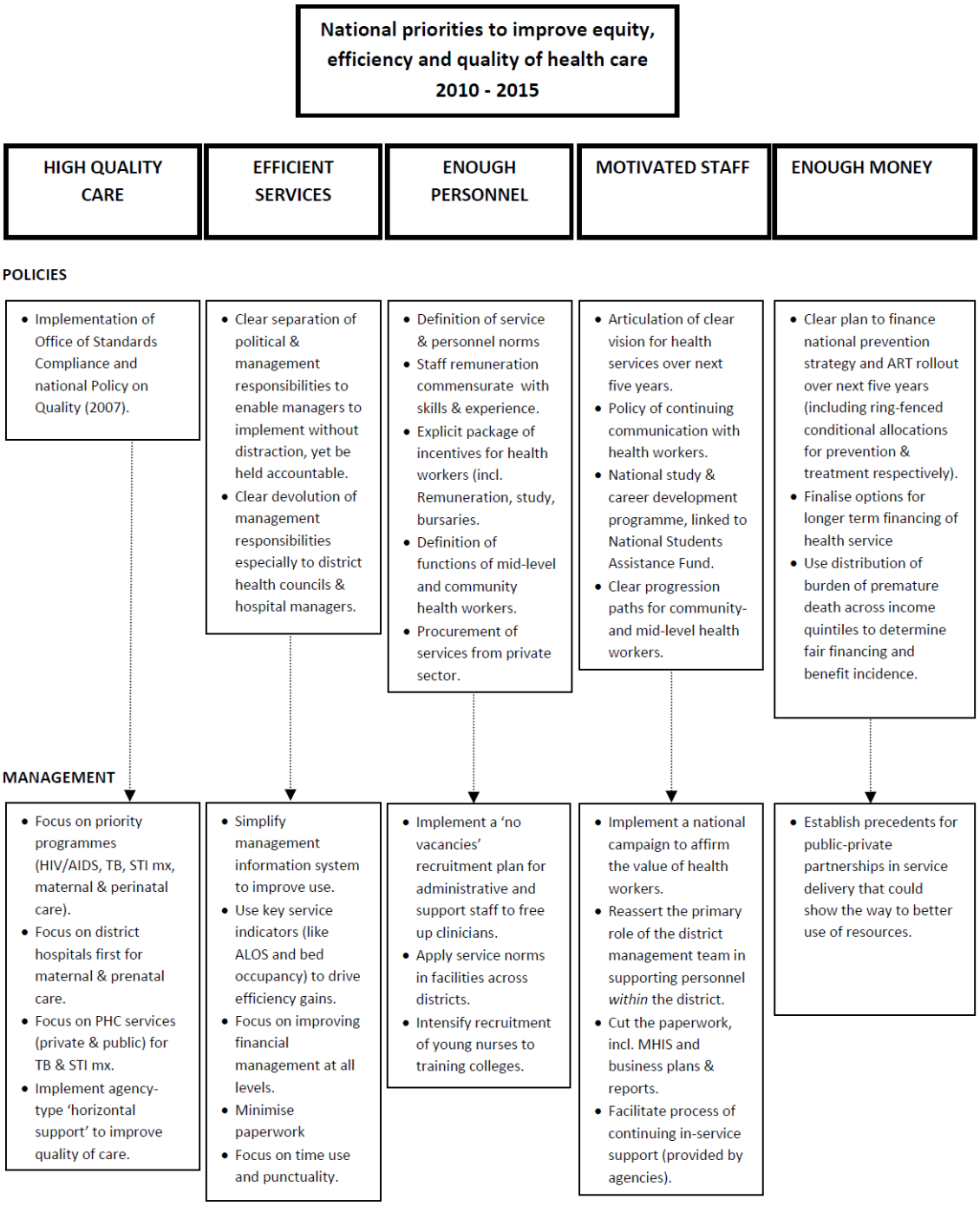
Target 8E: In co-operation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries

Target 8F: In cooperation with the private sector, make available the benefits of new technologies, especially information and communication technologies

Annexure B: National health priorities to reduce the burden of premature death 2010-2015



Annexure C: National priorities to improve equity, efficiency and quality of health care 2010-2015



Annexure D: Trade and Investment South Africa

Trade and Investment South Africa

Purpose

Trade and Investment South Africa (TISA) aims to increase export capacity and support direct investment flows via the implementation of strategies directed at targeted markets, and effectively manage **the dti**'s network of foreign trade offices.

Strategic Goals

- Increase the quality and quantum of foreign and domestic direct investment;
- Undertake effective investment recruitment campaigns;
- Provide an efficient facilitation and information service in order to retain and expand investment into South Africa and Africa, thereby serving as a one-stop shop initiative;
- Develop new and existing South African exporters' capabilities, in order to grow exports globally (goods, services and capital);
- Provide appropriate information, financial support and practical assistance to sustain organic growth in traditional markets and penetrate new high growth markets; and
- Effectively manage and administer **the dti**'s Foreign Office network.

Composition

TISA comprises four business units, namely:

- Investment Promotion and Facilitation;
- Export Promotion;
- Export Development; and
- Foreign Service Management.

Investment Promotion and Facilitation

The unit is responsible for attracting foreign direct investment, as well as developing and promoting local direct investment. This is achieved via the identification, packaging and marketing of potential investment opportunities, and the identification of potential investors. The unit facilitates investment in South Africa, provides general information on the investment and domestic business climate, and offers dedicated aftercare services to investors. The unit organises inward/outward trade missions, and facilitates funding and Government support for trade- and investment-related activities.

Export Promotion

The unit is responsible for developing and implementing regional export promotion strategies based on market research and identification of export opportunities; reviewing the National Export Strategy by assimilating inputs from relevant stakeholders to ensure a targeted and focused approach; and rendering export support services such as providing export information and advice as well as administering an incentive scheme (EMIA) that partially compensates exporters for certain costs incurred in marketing their products and services in foreign markets.

Export Development

The unit is designed to contribute to the positioning of South Africa as a reliable trade partner by expanding the exporter base of the country, thereby increasing the export supply and sales of South Africa. The focus is on the creation of an export culture towards global participation, provision of assistance, extensive capacity-building as well as the creation of opportunities and serving as an industry interface for **the dti**. South African companies are assisted at all levels to ensure retention, expansion and diversification by company, product and market.

Foreign Service Management

The unit aims to render a full suite of corporate services to foreign economic offices to enhance the promotion of exports and investment in targeted countries. **thedti** has a network of 46 foreign economic offices abroad to facilitate business on behalf of South African companies. This network is spread over 36 countries and provides a substantial footprint for South African business to access markets globally.