University of Fort Hare
Together in Excellence

Foreign Direct Investment in South Africa: The Case of the East London Industrial Development Zone

Name	:	Sithembele Marawu
Student Number	:	200703182
Supervisor	:	Professor Wilson Akpan
Department	:	Sociology
Faculty	:	Social Sciences and Humanities
Date of Dissertation	:	31 January 2012

A dissertation submitted in partial fulfillment of the requirements for the Degree of Master of Social Science in Rural Development at the University of Fort Hare, South Africa

Declaration

I, Sithembele Marawu, hereby declare that the work contained in this dissertation is my own and that where I have used ideas and words of other scholars, analysts, commentators or material from government or other documents, I have referenced these correctly and completely. I also declare that this dissertation is original and has not been submitted elsewhere.

……………………………………………………………………………………………………
Sithembele Marawu Date

Supervisor's Statement

I confirm that the dissertation of the following candidate has been submitted with my approval:

Name of Candidate : Sithembele Marawu
Student Number : 200703182

……………………………………………………………………………………………………
Professor Wilson Akpan (Supervisor)

Abstract

Foreign Direct Investment (FDI) has been perceived by most developing countries, emerging economies and countries in transition as a major vehicle for development that would not only boost a host country's economic development but also enhance its integration into the global economy. The common assumption is that presence of foreign companies in a host country, particularly a developing country, would lead to economic benefits; among them, transfer of technology, and skills and human capacity development. The establishment of special "development zones" and the roll-out of incentives to attract FDI are often predicated on the expectation by host countries that these benefits would be achieved.

It is against this background that this study sought to find out the character of FDI in the East London Industrial Development Zone (ELIDZ), located in the Eastern Cape. The study focused on the institutional preconditions and incentives used by the ELIDZ to attract FDI into the zone, and on whether these had any bearing on labour and environmental standards as well as on local skills development.

Empirical data for the study were collected using in-depth interview with senior management staff of both the ELIDZ as an organisation, and one of the foreign companies located in the zone (a "tenant" of ELIDZ). In addition, a mini survey was conducted with a random sample of employees of the selected ELIDZ company.

Among the key findings of the study was that the ELIDZ had in place a range of incentives and preconditions for the attraction of FDI, and that there were concerted efforts on the part of ELIDZ management to compel companies operating in the zone to adhere to specific

standards – especially on the environmental front. From the mini survey results, however, the study established that achievements on the labour front were mixed. While most of the responses indicated that ELIDZ was playing a positive role in terms of employment creation, a high number of responses (from surveyed employees in the selected ELIDZ company) pointed out that employment standards were in question. For example, 41% of respondents reported "unhappiness" with their conditions of employment, while 50% deplored the fact that they were not allowed to belong to unions. Furthermore, responses were nearly evenly split (53%/47%) between those who reported that their employment had resulted in the acquisition of new skills and those who reported that it had not.

From these and other findings, the study concluded that ELIDZ was facing a "balancing act" by expecting foreign companies to create jobs, transfer technology and contribute to local skills development while at the same time adhering to strict environmental and labour standards. The study thus confirmed a major consensus in the FDI literature, while FDI could bring about important socio-economic achievements in a host country, foreign companies and host governments are not necessarily motivated by the same set of factors. Indeed, at least a small facet of the study's findings seemed to confirm the well-documented anti-FDI sentiment that the faith placed in FDI by host governments (especially in developing countries) does not always have a sound basis.

Dedication

This dissertation is dedicated to my late parents, Victor Fuma and Nobantu Vuyelwa Marawu

Acknowledgements

This dissertation would have not been successful without the guidance and assistance of Professor Wilson Akpan, my supervisor as well as the professional support from Landela Mdangayi. Also, a word of appreciation goes to my wife Lindiwe and my children; Thembelihle, Msimelelo, Abongile and Yolanda for being patient with me and for encouraging me to complete this course of study. A word of gratitude also goes to ELDIZ managers, the plant manager and his workers who were willing to participate in this study and share information with me.

List of Abbreviations

AIDS	Acquired Immune Deficiency Syndrome
COSATU	Congress of South African Trade Unions
DTI	Department of Trade and Industry
ELIDZ	East London Industrial Development Zone
EPZ	Export Processing Zone
FDI	Foreign Direct Investment
FSA	Firm Specific Advantages
GEAR	Growth, Employment and Redistribution
HIV	Human Immunodeficiency Virus
HRDF	Human Resource Development Fund
IDZ	Industrial Development Zone
IMF	International Monetary Fund
LED	Local Economic Development
LRED	Local Regional Economic Development
MNC	Multinational Corporation
OECD	Organisation for Economic Co-operation and Development
SADC	Southern African Development Community
SMME	Small and Medium Enterprises
TISA	Trade and Investment South Africa

CONTENTS

List of figures

List of Tables

Plates

CHAPTER ONE

Introduction

Foreign Direct Investment (FDI) has been perceived as a vehicle for driving economic growth and sustainable industrial development, particularly in developing countries. This perception was originally based on the view that FDI, with multinational corporations (MNCs) at the forefront, would promote domestic investment and growth, and lead to a transfer of specialised skills in the area of management and technology, as well as link industries in developing countries with global markets (Ngowi, 2001). Also, there was hope that FDI would improve the environmental performance of industry and uplift the living conditions of the underprivileged. This implied that developing countries had to devise economic development strategies and policies to attract FDIs to their countries and, thus, with the surge of FDI flows in the 1990s this became their focal point (Gallagher and Zarsky, 2005).

In the 1990's it became a trend for countries, especially developing countries, to strive to integrate their economic development into the global market. According to the International Finance Corporation (1997:16), concentration of FDI has been in East Asia, with a very low flow of FDI to other developing countries, especially those in sub-Saharan Africa. The International Finance Corporation (1997) goes on to state that Brazil, Indonesia, Malaysia, Mexico and Thailand rated among the top 12 recipients of FDI flows in the two successive 10 year periods from 1970 to 1990, and up until 1996. Furthermore, China, after administering changes in economic policy in 1979, experienced a rise in FDI, notably in the past fifteen years. Some of the reasons for the low flow of FDI to sub-Saharan Africa were restrictive policies, as well as political and economic instability (International Finance Corporation, 1997).

The optimistic perception of FDI as a major driving force of economic growth and industrial development has not been without challenges. These challenges were based on concerns that FDI flows would not materialise. According to Gallagher and Zarsky (2005) countries that attracted FDI flows at a higher rate were developed countries, while developing countries had to cope with a trickle of FDI flows. Furthermore, the highly expected benefit of technology transfer has not yielded good results, after shifting the focus of small scale farmers from agriculture to urban areas. Another issue is that of environmental degradation which results in soil erosion, air and water pollution, toxic contamination, and biodiversity loss, as well as health risks to workers and surrounding areas (Gallagher and Zarsky 2005:4).

In spite of the challenges of FDI, the Department of Trade and Industry (DTI) in South Africa has embarked on an industrial development zone programme so as to attract FDI and thus enhance the country's global competitiveness. As part of this programme, two premier industrial development zones were established in the Eastern Cape Province, namely, Coega Industrial Development Zone in Nelson Mandela Metropolitan Municipality, and the East London Industrial Development Zone in Buffalo City Municipality. There is also Richards Bay Industrial Development Zone, as well as Johannesburg International Airport Industrial Development Zone. In KwaZulu Natal there is the proposed Dube Trade Port IDZ. This is in spite of the low flow of FDI to developing countries and the negative implications on the environment, and deprivation of socio-economic rights.

The East London Industrial Development Zone, the focal point of this study, was established to bring about sustainable economic development, create jobs and to make South Africa globally competitive (ELIDZ Annual Report 2006/07). The purpose of this study, therefore, was to explore the strategies used by ELIDZ to attract foreign direct investment. It also looked at the extent to which the multinational corporations (MNCs) in the ELIDZ contribute to the transfer of technology, skills development and global linkages, as well as the extent to which it dealt with the issue of the environment and socio-economic rights.

1.1 Research Problem

While foreign direct investment has the potential to boost economic development, it can also lead to disastrous consequences in host countries. Foreign companies in developing countries, for example, can engage in production practices that could result in environmental degradation as well as unfair labour practices instead of bringing about sustainable economic development. The specific problem, therefore, which this study grappled with, was whether the institutional preconditions and incentives that were put in place to attract FDI in the ELIDZ had any direct bearing on labour practices and environmental standards.

1.2 Research Questions

This study explored the following research questions:

- What institutional preconditions and incentives underpin the attraction of foreign direct investment to the East London Industrial Development Zone?
- How does ELIDZ management ensure that foreign investment companies adhere to the institutional preconditions, especially environmental standards?
- To what extent have the foreign companies complied with the preconditions especially with regard to labour practices and skills development?

1.3 Objectives

The following were the objectives of this study:

- It sought to find out the institutional preconditions and incentives that underpin the attraction of foreign direct investment to the East London Industrial Development Zone.
- It examined how the ELIDZ management ensured that the MNCs adhered to the institutional preconditions, particularly issues of environmental standards.
- It determined the extent to which foreign companies complied with the preconditions especially with regard to labour practices and skills development.

1.4 The significance of the study

The research questions outlined above are significant in at least two ways, namely the practical and theoretical. At the practical level, this study would ensure that South Africa (when attracting foreign investors) safeguards the country from negative practices by foreign companies. Secondly, this study through the literature reviewed on FDI reveals that the phenomenon of FDI, if not practised cautiously, could have serious negative implications for developing countries like South Africa.

1.5 Delimitations and limitations of this study

This study was a case study focusing on foreign direct investment in South Africa with specific reference to the ELIDZ; therefore, its findings are not generalisable to the other industrial development zones in South Africa. This stems from the fact that case study research findings are not generalisable. According to Yin (1984:39) critics of single case studies argue that single cases offer a poor basis for generalising. However, in case study research, the researcher does not undertake research with preconceived ideas, as they are not concerned with proving or disproving a general hypothesis.

With case study research, the researcher nevertheless attempts to generalise the findings to the level of theory. Taft agrees with Yin (1988:62) when he asserts that the researcher must not come with preconceived ideas aimed at testing the hypotheses, but that theory must be "grounded in the research process itself".

1.6 Theoretical Framework

This section deals with the theoretical framework of foreign direct investment. It focuses on the monopolistic advantage theory. This theory is relevant to this study as it explains clearly why multinational corporations decide to invest in foreign countries.

According to Hymer, cited in Barclay (2000), one of the reasons for MNCs to invest in foreign countries is imperfect competitive markets in host countries. These are markets in foreign countries which cannot compete with MNCs. This assertion is based on the fact that an MNC operating in a foreign country is bound to incur greater costs than a local competitor.

Barclay (2000) goes on to argue that an MNC investing in a foreign country could encounter problems arising from linguistic, cultural, legal and institutional differences which might exist between the MNC and the host country. In addition to this, an MNC operating in a foreign country would lack knowledge about local market conditions. The question, therefore, is what prompts an MNC to invest in a foreign country in spite of the costs the MNC is likely to incur? The conclusion is that there are advantages which the MNCs have over the local markets, and these advantages outweigh the costs of operating in a foreign country.

Barclay (2000) citing Hymer, explains that a multinational corporation might have advantages that are specific to it and are not shared by its competitors in the foreign country. These advantages are known as ownership or firm-specific advantages (FSAs) or core competencies. Firm specific advantages mean that the firm owns them, has monopoly over them and can exploit them in a foreign country without any competition from local firms. These advantages make it possible for the MNC to get higher marginal returns and thus earn more profit. There are three basic types of FSAs and these are knowledge/technology, economies of large size and monopolistic advantages (Barclay, 2000).

Barclay (2000) further states that in addition to ownership advantages there are also location advantages. These are external to the enterprise but specific to a country, in terms of how they make it attractive for foreign investment. Country specific advantages can be divided into three categories, namely economic, social and political. Economic advantages include issues that pertain to the quantities and qualities of factors of production, size and scope of the market. Social/cultural advantages refer to conditions within the host country, in terms of social and cultural readiness to receive foreign investment. These include factors like the attitude of locals towards foreigners, as well as language and cultural differences. Political advantages for an MNC would pertain to the size of the market in the foreign country, the incentives set by the host country for foreign investment, and political stability.

If we scrutinise ownership advantages, we will be able to explore, for example, why the MNCs in the ELIDZ decided to invest there. We would also be able to examine the location advantages created for the ELIDZ to attract foreign direct investment.

CHAPTER TWO

Literature Review

2.1 Introduction

The surge in Foreign Direct Investment in the 1990s enhanced the view that FDI was the mechanism for integrating developing countries into the globalisation process that characterised the world economy. It was perceived as a crucial global economic system that could act as a catalyst to sustainable economic growth, especially in developing countries. The fundamental issue is: to what extent have developing countries managed to attract FDI? Furthermore, what is the impact of FDI in developing countries on economic growth, technology spillovers and environmental performance? The main concern of this chapter is to review literature that deals with foreign direct investment. While there is a school of thought that believes that FDI brings economic growth and development, there is another one which argues that FDI does not bring about growth and development to developing countries. It is, therefore, imperative to review literature that deals with these different perspectives on FDI.

2.2 Factors Affecting Foreign Direct Investment

The United Nations Centre on Multinational Corporations technical paper (1985) gives an analysis of the major factors affecting foreign direct investment. It highlights the fact that FDI by MNCs responds to "a variety of forces working at the level of the corporations themselves, and of the environment in which they operate" (UNCTC, 1985:1). This is what the eclectic approach to FDI refers to as "ownership advantages" and "locational advantages". In other words, "the variety of forces working at the level of the corporations" are the ownership advantages which are specific to the MNC, and a determinant for investing in a foreign country. On the other hand, “the environment in which they operate” refers to locational advantages. Locational advantages are advantages which are external to the enterprise but specific to a country in terms of how it entices foreign investment. These are some of the determinants for MNCs to invest in foreign countries as they afford them “monopolistic advantages” which are not possessed by their domestic competitors (Barclays, 2000:19). In other words, when MNCs invest in a foreign country they are not necessarily prompted by the need to bring economic development and growth in the host country but are attracted by advantages which are beneficial to them. Lack of global competitiveness, for example, by domestic companies serves as an advantage to the MNCs. What is an advantage to the MNC could be a disadvantage to the domestic company which can be forced to close down due to its inability to compete with the more advanced MNC.

The United Nations Technical Paper goes on to argue that the policies of the host country, as well as those of the home countries, play a significant role in attracting FDI. It is through policies that host countries can attract FDI, but at the same time host countries can use policies to restrict FDI. Proponents of FDI argue that host countries have the responsibility of creating policies that will result in a political atmosphere which is conducive to investment as accruement of FDI benefits is not automatic. This, of course, applies to countries which strongly believe that they would benefit from FDI.

It is crucial to look at examples of countries that have created enabling policy environments to precipitate investment as well as scrutinise how these countries fared in attracting foreign direct investment. Developing countries like the SADC countries have, for example, formulated policies that aimed at attracting foreign investors. According to Ntwala Mwilima (2003:34-35) these SADC governments relaxed regulations for foreign investors:

- By granting investors easy entry,
- By relaxing the ability to borrow locally although it implies a constraint on a country's foreign currency reserves,
- Relaxation of land and mining concession ownership,
- By forming new kinds of partnerships with the private sector (public private partnerships) in areas which were previously the responsibility of the government e.g. water distribution.

The critical question is whether these incentives have led to any increase of FDI inflows to these developing countries. Mwilima (2003) says that Namibia is one of the examples of SADC countries that relaxed regulations and formulated FDI friendly policies but still experienced a low inflow of FDI. Furthermore, these countries experienced drawbacks such as failure by investors in Export Processing Zones (EPZ) to create the much anticipated jobs, poor labour conditions and poor working conditions. According to Mwilima Namibia hoped to create 25 000 jobs by the end of 1999, instead only 400 jobs were created (2003:34). In other words, host countries can manage to establish an enabling policy environment for investment but still remain unable to reap the full benefits of FDI due to circumstances beyond their control. According to an overview of the Organisation for Economic Co-operation and Development (OECD) developing countries, to realise the full benefits of FDI, need to have "reached a certain level of development in education, technology, infrastructure and health" (2002:10). This could, perhaps, be among the reasons for the low inflow of FDI to developing countries. Table 1 below shows inward foreign direct investment stock in five Southern African countries.

Table 1: Inward foreign direct investment stock in five Southern African countries, annual, 2001-2010

Other: MEASURE (US Dollars at current prices and current exchange rates in millions)

YEAR ECONOMY	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Botswana	1,388	854	1,167	982	806	805	1,046	885	1,405	1,299
Lesotho	358	385	427	480	537	629	735	934	1,075	1,129
Namibia	715	1,822	2,952	4,120	2,453	2,786	3,854	3,472	3,132	5,290
South Africa	30,569	30,604	46,869	64,451	78,986	87,765	110,415	67,987	117,434	132,396
Swaziland	355	607	721	930	786	831	889	542	809	902

Source: UNCTAD (2010), UNCTADstat 2010

The above table shows that developing countries, especially in Africa experience only a trickle of foreign direct investment compared to Asian countries. The year 2010, compared to the other years, seems to have been better in terms of FDI inflows to the countries cited in the table. One of the factors that have boosted FDI inflows in the Southern African countries and in the whole of the SADC region are inflows from China which is currently a leader of FDI inflows into the SADC countries.

It is also imperative to have a broader picture of how FDI inflows in the Southern African countries, as cited in table 1, compare to other African regions. This will eventually give a clear illustration of how the whole African continent is performing in its endeavours to attract FD1.Table 2 below illustrates FDI inflows to other African regions:

Table 2: Inward foreign direct investment stock to other African regions, annual, 2001-2010

Other: MEASURE (US Dollars at current prices and current exchange rates in millions)

YEAR **ECONOMY**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Eastern Africa	15,255	16,795	19,387	21,751	23,114	27,403	34,138	38,712	42,648	48,152
Middle Africa	17,300	22,577	23,804	27,254	28,534	31,153	34,956	40,152	47,502	63,343
Northern Africa	50,677	56,069	65,620	74,909	84,573	116,146	149,547	171,627	190,744	206,067
Southern Africa	33,385	34,273	52,135	70,963	83,569	92,816	116,940	73,819	123,856	141,015
Western Africa	34,569	34,945	42,069	45,915	41,962	49,521	59,659	71,416	84,073	95,396

Source: UNCTAD (2010), UNCTADstat 2010

As stated before, countries could use policies to either restrict or open the inflow of FDI. In this regard, PRC (the Peoples' Republic of China), India, Korea, Malaysia, Thailand and Vietnam were considered. The analysis of FDI regimes in these countries by Brooks and Hill (2004) illustrates how restrictive FDI policies as well as relaxing such policies could affect the flow of FDI. Before 1991 India, for example, had very restrictive policies as a result, there were no FDI inflows to that country. The same applied to countries like Vietnam which had restrictive policies until the late 1980s. On the other hand, countries like Thailand and Malaysia which had consistently open policies experienced a good inflow of FDI. Table 3, as cited in Brooks and Hill (2004:15, 16), gives a good illustration of how policies affected the flow of FDI to PRC, India, Korea, Malaysia, Thailand and Vietnam.

Table 3: FDI Regimes, Some Stylized Facts

	PRC	INDIA	KOREA	MALAYSIA	THAILAND	VIET NAM
Ownership structures	Dominant but declining SOEs, rapidly rising private and foreign firms	Large SOE sector, reservations schemes for small firms	Predominantly private; *chaebol* important; high concentration, small SME presence	Always large foreign presence; active *bumiputra* promotion	Predominantly private; Sino-Thai dominance	Dominant SOEs, actually rising post reform
FDI History	Closed to 1978; rapid increase from 1980s, especially in south	Very restrictive pre-1991, then gradual opening	Restrictive until 1990s; then gradual opening; major 1998 reforms	Consistently open	Consistently fairly open	Closed to late 1980s; rapid rise from early 1990s
FDI Presence	Modest but rising	Modest, no clear trend	Low, rising gradually	Very high	Substantial, and rising	Low, but rising quickly
Trade Regime	Closed to 1978; then progressive opening, especially for exports; 2002 WTO accession	Very restrictive pre-1991, then gradual opening	From 1960s open for exports, otherwise restrictive; major 1990s reforms	Consistently open	Consistently fairly open	Closed to late 1980s; then major opening especially for exports
International Connections	Hong Kong, China important, large diaspora	Large and active diaspora	Large US diaspora; reverse brain drain in 1990s	Singapore ties historically strong	No special features	Large diaspora, still regarded with suspicion
FDI Regime in Practice	Continuing though declining SOE preference; rapid decentralization; much corruption	Reforming, in context of dirigiste history; states are powerful; much corruption	Business climate becoming more predictable and open; powerful nationalist sentiment	Predictable commercial environment	Reasonably predictable commercial environment	Continuing SOE preference; north-south difference; private firms insecure
Institutional Quality	Uneven, though improving	Well developed, though cumbersome	Generally high, though legal system still evolving	Generally high	Generally quite high	Weak, very limited investor protection
Human Capital	Pockets of excellence; uneven, rapid catch-up	Pockets of excellence; continuing high illiteracy	Extremely strong education; R&D base, though not very international	Generally quite good; major affirmative action program; continuing non-*bumitra* brain drain	Historic under-investment in post-primary education	High literacy, though limited international commercial know-how and entrepreneurship

Source: Brooks and Hill (2004:15, 16)

Seen from the perspective of the UNTC argument, South Africa has made policies that aim at attracting foreign direct investment. It has, for example, developed a comprehensive industrial strategy to boost investment. Attempts are being made to deal with skills' shortages, and free trade agreements are being implemented with the European Union and other South African Development Community members (Arvanitis, 2006:74). It may be argued that South Africa makes FDI friendly policies to enhance her competitive advantage since she is competing with various emerging and developing countries that also require foreign direct investment. Moolman and others (2006:1) concur with this view when they argue that South African policy makers must focus on factors such as market size, openness, infrastructure and nominal exchange rates, in their endeavours to attract FDI.

Although South Africa has developed economic policies that aim at promoting investment and economic development, there has been a low inflow of foreign direct investment. According to Arvanitis (2006) South Africa before 1994 attracted very little FDI because of the imposition of trade and economic sanctions which cut her off from the international capital markets. Arvanitis (2002:64) states that during the years 1994 – 2002, South Africa received an average of annual FDI inflows which were less than one and a half percent of GDP. The increase which South Africa experienced in 1993 was due to the partial sale of government shares in Telkom and the takeover of De Beers by Anglo American in 2001 (Arvanitis, 2006:65).

While most of South Africa's FDI has been through mergers and acquisitions, there is a perception that the benefits of mergers and acquisitions to host countries are lower compared to the risk of negative effects. Bond (2002:7) argues that the mergers and acquisitions that took place in South Africa had negative consequences:

> "….the bulk of FDI into South Africa was based on mergers and acquisitions. Many thousands of jobs were lost in the process, and inappropriate technology transfers made South Africa all the more dependent and vulnerable. In all these regards, FDI exacerbated South Africa's and Africa's vulnerabilities."

Mwilima (2003) also argues that investment through mergers and acquisitions does not necessarily improve the economy of host countries. Citing the UNCTAD for the World Investment Report 2000, Mwilima states that there are concerns regarding mergers and acquisitions in developing countries:

- FDI through M&As correspond to a smaller productive investment than Greenfield as the final resources do not necessarily go into increasing the capital stock,
- FDI through M&As is less likely to transfer new or better technologies than Greenfield investment,
- FDI through M&As do not generate employment at the time of entry into the host economy, and may lead to lay-offs as the acquired firm is restructured,
- FDI through M&As can reduce competition, and may be used deliberately to reduce or eliminate competition (Mwilima, 2003:32).

When developing countries like South Africa attract foreign investment, they do so in order to build a strong capital base, to create employment, to bring in new technology and to develop a competitive business environment which does not lead to the crowding out of domestic industries. As developing countries continue to attract FDI, they need to put in place effective competition policies so that the host economy would not be adversely affected by the foreign companies (Mwilima, 2003). The need to attract foreign investment by developing countries is driven by the desire to ensure that not only the foreign company benefits from the investment process but also the host country.

Moolman and others (2006:2) also assert that during 2002 and 2003 there was a significant decrease of FDI to developing countries. In 2003 only 31 percent of FDI went to developing countries, and 4 per cent of that was received in Africa. The Global Policy Forum (2002) gives similar information, when it states that 2002 was a bad year for FDI for the five African least-developed countries. These countries are Angola, Burkina Faso, Burundi, Botswana and the Central African Republic.

According to Arvanitis (2002:73) South Africa experienced a low flow of FDI during 1994 – 2001 because of “lower rates of growth, less trade openness, weaker labour skills, and slightly less competitive tax rates.” Hume (2004) also argues that South Africa has obstacles that prevent a high flow of FDI. He mentions, among others, HIV/AIDS, poverty, income inequality and job creation. Hume, however, does not specifically explain how these factors relate to the low inflow of FDI to South Africa.

The flow of FDI to South Africa has been diversified. South Africa has large mineral resources, but these do not seem to be a major attraction for FDI. Instead, it is non-mining activities which are a major FDI attraction in South Africa. Arvanitis (2002:66) concludes this by saying that the main aim of FDI in South Africa has been to capture domestic and regional markets.

The main investors in South Africa are from the European Union, the United Kingdom, the United States and Asian countries. The main forms of investment are existing assets, cross-border mergers and acquisitions (Arvanitis, 2002).

2.3 Determinants of FDI to developing countries

This section deals with determinants of FDI to developing countries with specific reference to South Africa. Arvanitis (2002) argues that developing countries like South Africa, to attract investment, must focus on the development of infrastructure. Hume (2002:4) further argues that South Africa will attract investment if the role of the private sector in infrastructural development is taken into consideration. Donaldson and others (1997:7) also assert that most developing countries are struggling with attracting FDI because of poor infrastructural development. They also put emphasis on the involvement of the private sector in infrastructural development, arguing that "the involvement of the private sector offers the advantages of much better service at lower prices, and helps free up scarce governmental budgetary resources for other social investments."

Another determinant of investment which is important for South Africa as a developing country is economic growth. Moolman (2006); Arvanitis (2002); and Hume (2004) all agree that economic growth is an important factor in attracting foreign direct investment. They also mention the importance of market size. The market size of the host country may be an indication of the country's economic conditions. Also important in determining FDI is the degree of political, economic and social stability of a host country. A good example of this is South Africa during the apartheid era when she received a poor flow of FDI due to the political situation. If South Africa wants to attract FDI she must ensure that there is economic and political stability. The other factors which are determinants of FDI are incentives, trade liberalisation, and natural resource availability.

It is also imperative to examine major investment attractions in South Africa. According to *SouthAfrica Info.* (2005), foreign investor confidence in South Africa is taking off. This is based on the number of deals that have been concluded in the country. These investment deals include, among others, deals by General Motors, Barclays, and Belgian-owned Sander International Textiles in Coega, Port Elizabeth.

South Africa needing to enlarge her investment profile, and to be part of the global market world, is establishing industrial development zones (IDZ). The major industrial development zones that have been established in South Africa are Coega, in Port Elizabeth, and the East London Industrial Development Zone (the focal point of this study).

The Congress of South African Trade Unions (COSATU), in its submission on the IDZ programme Draft Regulation (1999:15-16) outlines the key import/export incentives offered to IDZ operators and enterprises, as follows:

- Exemption from customs duties, levies, fees, or similar financial obligations for imports from outside South Africa into a customs secured area of an IDZ
- Exemption from customs duties, levies, fees, or similar financial obligations for exports from a customs secured area of an IDZ out of South Africa
- Exemption from VAT and sales tax for all sales within a customs secured area, between customs secured areas, and between a customs secured area and other countries
- Exemption from VAT for all sales from the rest of South Africa to a customs secured area.

COSATU, however, gives a critical analysis of the incentives for attracting FDI in South Africa. They argue that these incentives will tend "to encourage capital intensive production at the expense of job creation" (COSATU, 1999:12). They go on to argue that IDZs will promote capital intensive production methods which do not auger well for South Africa's developmental approach to local economic development, and the high unemployment crisis she is experiencing.

Bond (2002) looks at the notion of FDI from a Local Economic Development (LED) perspective. He discusses in detail the orthodox approach to local economic development. The orthodox approach to LED focuses on the conditions and prescriptions of investors and institutions, like the International Monetary Fund (IMF) and World Bank. These conditions and prescriptions are based on the assertion that economic prosperity can be brought about by promoting and attracting investment. This requires countries to create an economic atmosphere that is conducive to promoting investment. These prescriptions include incentives like tax breaks, cheap land, developed infrastructure and reduced rates. Municipalities were expected to adopt an entrepreneurial approach to LED as a way of reacting to globalisation pressures. This period was referred to as the "Washington Consensus" because of its promotion of the dictates of a free market. Industrial Development Zones fall within the orthodox approach to LED.

According to Bond (2002:8-9), the three main strategies of the orthodox approach to LED are "entrepreneurial-competitive", "urban efficiency" and "progressive-competitive". The entrepreneurial competitive strategy hinges on the top-down approach, as local municipalities have the responsibility of identifying areas for development and then providing the necessary support. In urban efficiency there is also the top-down approach to LED, because local authorities have the task of ensuring urban productivity. This has to be done by bringing down the cost of living and by promoting local business. With the entrepreneurial competitive strategy, focus is on the investors. It promotes, among other things, skills development so that the investors do not get a workforce with a low level of skills. These strategies, however, do not focus on the development of the poor. If poor people, for example, lack skills, they are unlikely to benefit from development initiatives. This is one of the problems that are created by the top-down approach to LED.

This traditional approach to local development has not been without challenges. One of these challenges has been a decline in “smokestack chasing”, as the ambitious attempts to market municipalities were called (Bond, 2002). In other words, there is a paradigm shift from the traditional approaches to LED, to approaches that focus on the mobilisation of internal resources, capacities and skills. The purpose of these approaches is to embark on local economic development that is pro-poor. Bond (2002) acknowledges the contribution of Joseph Stiglitz in bringing about the new approach to LED. He goes on to say that the World Bank and the IMF introduced the Poverty Reduction Strategy Programme because of the influence of Stiglitz. What also necessitated a change in approach was the failure of the orthodox approach to attract investment to Africa.

One of the reasons why the orthodox approach is not working in Africa is because there is no upsurge of Foreign Direct Investment in Africa, as is the case across the world. According to Mbeki, cited in Bond (2002:5), some African countries have tried to meet the dictates of the free market by “liberalising their trade, privatising state-owned enterprises, reforming their tax systems and generally adhering to the prescribed injunctions - all done in an attempt to attract the necessary investments.” All these economic adjustments and attempts to attract investments have been in vain because, according to Mbeki, developed countries have the tendency to perceive and treat the African continent as one country.

It is clear that despite, an upsurge in FDI flows across the world, there have been no substantive investment flows to Africa. John Mugabe (2005), in his assessment of investment flows to Sub Saharan Africa (SSA) concurs with this assertion when he argues that FDI flows to SSA are still at a level far below those of other developing countries. He goes on to say that in 1999, the region accounted for only 0.7 per cent of total FDI global flows (2005:75). As pointed out earlier on, Moolman and others (2006) also state that the distribution of FDI is skewed, as a high percentage of this goes to developed countries while developing countries share a meagre percentage of FDI inflows.

The view expressed by Bond, Mugabe, Moolman and others about FDI flows to developing countries is also shared by Rucker and Trah (2006:5), when they explain the rationale for the development of innovative Local Regional Economic Development (LRED). They argue that existing industrial policies in developing countries have failed to create “competitive and dynamic industries” and this has contributed to the development of innovative LRED concepts. They go on to say that the Structural Adjustment Programmes, and the macro-economic reforms introduced in the 90s, have, in most cases, failed to cause the majority of the population to benefit from economic growth. In other words, foreign direct investment has not worked for developing countries. The market failures are particularly prevalent in rural areas.

The South African government, in contrast to the orthodox approach to LED, and in response to the failure of FDI in attracting the expected investment flows to Africa, has adopted a developmental approach to LED. The South African National Framework on LED, for example, goes off at a tangent from the traditional approach to LED. In expressing his frustration with the slow flow of FDI to Africa, and specifically to South Africa, President Mbeki, cited in Bond (2000:5), underpins what might be considered the crux of the matter here:

> In our own country, we have been assured that our economic fundamentals are correct and sound. We have developed a stable and effective financial and fiscal system. We have reduced tariffs to levels that are comparable to the advanced industrial countries. We have reformed agriculture to make it the least subsidised of all the major trading nations. We structured our public sector through privatisation, strategic partners and regulation. We have an equitable and sophisticated system of labour relations that is continually adjusting to new developments. We play an active role in all multilateral agencies in the world. Yet, the flow of investment into South Africa has not met our expectations, while the levels of poverty and unemployment remain high.

The developmental approach to LED aims at working directly with the poor to bring about local economic development. One of the cornerstones of this approach is that the poor will benefit from investments while they are also active participants in LED initiatives.

According to Rucker and Trah (2006) LRED is not a new concept. It has developed in stages. The first stage was "smokestack-chasing" focusing on marketing locations to external investors. The second stage was about strategies, such as promotion of entrepreneurships, support of existing industries to be competitive, and access to finance, as well as skills and rural development. The third stage is much more focused on the development of a competitive local business environment, and the establishment of public/private and community partnerships. This stage is a modification of both the first and second stages of local and regional economic development. In other words, LRED is a holistic approach to economic development that encompasses all the good aspects of the other approaches to economic development. Rucker and Trah (2006:8) sum up LRED by saying "it's about anything that one can think of to make a place a good place to do business, and thus create jobs and reduce poverty.”

For LRED to be successful requires the co-operation of many actors and stakeholders. This is not always easy to implement, but does set the ground for a good approach to economic development. Some of the major challenges to LRED are the following:

- the relationship between fighting poverty and promoting economic growth
- the ushering in of economic development
- a sustainable maintenance of natural resources
- the relationship between the top-down and the bottom-up approaches (Rucker and Trah, 2006).

Although South Africa has adopted a developmental approach to local economic development, she has not completely done away with some of the economic strategies of the orthodox approach to LED. Industrial development zones are still established in South Africa, and yet these belong to the orthodox approach to LED. It has been stated before that one of the failures of the orthodox approach to LED is the low flow of FDI which is needed for the orthodox approach to succeed. The argument that is advanced for retaining IDZs is that South Africa, to be part of the global economy and to boost economic growth, needs these industrial development zones.

2.4 The benefits of FDI to developing countries

Developing countries are expected to attract foreign direct investment because of the benefits which FDI could yield to them. Ngowi (2001) mentions that developing countries can benefit from the following aspects of FDI:

- Financial source
- Job creation
- Transfer of technology
- Assistance with capital formation
- Increased access to foreign markets

.

According to Weigel and others (1997:10), who share similar views with Ngowi, developing countries can benefit from FDI in various ways: through the involvement of the enterprise owner in management of the enterprise; access to technology; access to marketing expertise and market links; financial flow; investment expertise and market access not available in the host country; and the host country enjoying additional economic activity, tax revenue and job creation. They go on to say that FDI stimulates economic growth, and has a much larger effect than domestic investment.

In the sphere of job creation, developing countries can benefit from foreign direct investment as investors have a tendency of investing in countries where there is a surplus of low-cost labour. Investors are also attracted to countries that have a highly skilled and literate labour force. It is worth noting, however, that in most developing countries especially in sub-Saharan Africa there is still a lack or woefully inadequate number of highly skilled and literate labour force. South Africa, in spite of her better level of economic development compared to other developing countries in the SADC region still lags behind when it comes to the issue of an educated and skilled labour force.

Another aspect of FDI which could be of benefit to developing countries is the transfer of more sophisticated and efficient technology. Through transfer of technology productivity may be increased in the host country as well as improvement in management. It has been noted, however, that it is not a foregone conclusion that FDI will lead to technology transfer and give the expected results. Cited in Jenkins and Thomas (2002) Cockcroft and Riddell (1991) argue that FDI made a "negligible contribution to productivity in most African countries during the 1980s" (Jenkins and Thomas, 2002:13).

While Ngowi, Weigner and others are optimistic about the benefits of FDI to developing countries, there are scholars who have different views. Devarajan, Easterly and Pack (2003) argue that there is no correlation between the growth rates of African countries and levels of investment. Furthermore, Akinlo (2004) and Durham (2002), in different research studies, conclude that the effect of FDI on output growth is not always positive.

Furthermore, Jenkins and Thomas (2002:14) also argue that even if FDI can succeed in creating jobs, inequality in income and distribution of wealth can be exacerbated. This occurs in situations where employment is received by the educated and the wealthy elite. Developing countries like South Africa have experienced a situation where dual economies have emerged because it is the educated and the wealthy elite who enjoy the benefits of development while the rest of the population in townships and rural areas is experiencing unemployment, poverty and underdevelopment.

2.5 Criticisms of Foreign Direct Investment

It is important to state that not everyone is optimistic about the benefits of FDI in developing countries. In examining the criticism levelled against FDI, the researcher will consider the impact of FDI on the following three critical issues.

- Economic growth
- Transfer of technology
- Environmental performance

One of the reasons for pursuing FDI in developing countries is to boost economic growth. However, the question is whether or not this is achieved. Mainstream economic theory, the IMF, and other global development organisations, have documented well the overall benefits of FDI for developing countries. Foreign direct investment is said to trigger technology spillovers, human capital development and a more competitive business environment which in turn lead to economic growth (Gallagher and Gallagher and Zarsky, 2005). In other words, if FDI does not trigger economic factors like technological transfer, human capital formation and international trade integration, economic growth will not be promoted.

The reality of the situation, however, is that in most developing countries FDI flows have been very low. According to Chudnovsky and Lopez (2005) the majority of developing countries, especially in Africa, have received small, if any, amounts of FDI. Chudnovsky and Lopez also raise the issue of competition among countries to attract foreign investment. They argue that this has grown as countries have attempted to attract foreign investment. This competition among developing countries is based on the notion that foreign investment is a key factor to foster growth. They, however, argue that it must not be a foregone conclusion that FDI contributes to the economic growth of host countries. This is based on the fact that the multinational enterprises (MNCs) might have goals that are different from the goals of the host country. While MNCs may be interested in a limited number of private economic goals, host countries may be interested in a broad range of economic and non-economic objectives (Chudnovsky and Lopez: 47).

Chudnovsky and Lopez further state that while FDI may lead to economic growth, it may also have a negative impact on host countries. This happens when MNCs fail to pay heed to issues of environmental devastation, or exploitation of natural resources, or when they crowd out local competitors. Mwilima (2003:32) supports Chudnovsky and Lopez when he argues that “...in some cases, foreign investors enter a market solely with the purpose of closing down domestic competitors and establishing a monopoly in the economy.” However, Chudnovsky and Lopez also state that FDI can make a positive contribution to economic growth, competitiveness and sustainable human development in host developing countries.

Bond (2002:7) concurs with Chudnovsky and Lopez when he argues that there is no upsurge of FDI in Africa, as is the case across the world. Mbeki, cited in Bond (2005:5), points out that there is a low flow of FDI to Africa because developed countries have a tendency to perceive and treat the African continent as one country. In other words, if there is a problem in one African country, then that problem would be perceived as a problem of the entire African continent.

John Mugabe (2005), in his analysis of FDI in sub-Saharan Africa (SSA), argues that FDI flows to SSA countries are still at levels far below those of other developing countries. Mugabe goes on to say that SSA countries accounted for only 0.7 per cent of total FDI global inflows (2005:75). This is the situation, though these countries made efforts to improve their investment climate for purposes of attracting FDI inflows. He also states, however, that low FDI inflows to SSA countries stem from factors such as hostile policies and political instability, as well as poor and deteriorating infrastructure.

Donaldson (1992) agrees with the view that poor and deteriorating infrastructure has a negative impact on FDI. He argues that many countries have realised that one of the ways of developing infrastructure is by involving the private sector, as it offers a much better service at lower prices. He states, however, that the involvement of the private sector in infrastructure development in Africa has been minimal. He goes on to argue "of the sixty-four projects recorded for sub-Saharan Africa as a whole, only seventeen are located in Southern and Eastern Africa, and these projects are concentrated in only six countries" (1992:7).

Although there have been efforts to attract FDI in developing countries, there are concerns from activists and policy makers about the impact of FDI on the environment and sustainable human development. One of these concerns pertains to the impact FDI might have on infant domestic industry in host countries. In other words, FDI can thwart economic development of infant domestic industry in host countries as these will not be able to compete with the advanced multinational corporations (MNCs). This assertion is supported by Brooks and others (2004:8) who posit that multinational enterprises can eliminate competition by "crowding out domestic producers". Furthermore, the implication of undermining domestic infant industry will lead to underemployment.

The other concern is about the overexploitation of natural resources as well as the issue of protection of human and economic rights (Mugabe, 2005). Overexploitation of natural resources occurs when foreign investors choose to invest in countries with abundant natural resources, but low-quality institutions. This leads to the extraction of natural resources at a fast pace, thus resulting in environmental degradation (Brooks, Fan and Sumulong, 2004). Overexploitation of natural resources has adverse effects on local communities. Destruction of the environment for local communities implies destruction of their source of livelihood.

The other crucial issue on the impact of FDI in developing countries is the critical issue of technological effects. According to Araya (2005:53), technological effects relate to the arrival of advanced environmental technology, the diffusion of environmental technology to the local industry and productivity spillovers. Foreign direct investment is expected to bring advanced environmental technology to host countries. This would be in the form of, among other things, machinery, equipment and technicians. This technological transfer is expected to include human sustainable development which would entail on-the-job training, seminars and educational advancement of employees. Any FDI initiative would be considered successful if it managed to transfer technology to the local industry.

Furthermore, Araya, citing other researchers like Eskeland and Harrison (1997); Blackman and Wu (1998), gives empirical evidence of technology transfer from foreign companies to local industry in developing countries. According to Araya, Eskeland and Harrison (1997), state that foreign companies in Mexico, Venezuela and Cote d’Ivoire were cleaner and used lower levels of energy. Furthermore, Araya goes on to argue that foreign investment in electricity generation in China led to an increase in energy efficiency, as well as a reduction in emissions (Araya, 2005:54).

Araya (2005), however, asserts that, in spite of the positive effects that environmental technology might have in developing countries, there is also evidence that foreign investors engage in poor environmental practices. She supports her assertion with evidence from the work of Guoming et al (1999), who argue that, in the past, investors producing toys, leather, footwear and plastics in China did not manage well natural resources. Araya also cites Rasiah (1999) who argues that in Malaysia there are some multinational enterprises (MNC) that engaged in destructive environmental practices. Simon and others (2005) support this assertion when they argue that there are MNCs in some developing countries which are exploitative and embark on unsustainable practices. Furthermore, they go on to say that these MNCs shift substandard industrial plants to developing countries and use hazardous production processes. Brooks and others (2004:8) concur with Araya when they state that not all investments by MNCs lead to technology transfer and positive spillovers, because of protectionism in the industrialised countries.

Araya (2005), in spite of destructive environmental tendencies by some MNCs operating in developing countries, states that there is empirical evidence of environmental technology transfer from foreign enterprises to developing countries. She goes on to say that in some countries, like China, there is empirical evidence of technology transfer where MNCs helped domestic industry to manufacture products using less energy, and causing less pollution. Furthermore, Araya, citing Warhurst (1999), mentions that collaboration between suppliers and recipients has the potential to improve performance of domestic industry, as well as environmental management capacity. Araya, however, states clearly that technology transfer is “far from automatic”. This implies that technology transfer does not occur spontaneously, as there must be willingness of the local recipients to harness the opportunities for transfer.

Araya also gives a critical perspective to the notion of technology transfer. She argues that it may not happen at all, or may be very weak (Araya, 2005:56). Citing a study by Ruud (2002) on environmental technology transfer in India, Araya argues that there was no evidence of technology transfer from MNCs to local Indian firms. One of the reasons for this failure is that MNCs tend to focus on improving environmental performance in their countries and pay little attention to host country’s environmental goals and needs.

In addition to the issue of technology transfer, there is also the issue of policies of both the host countries and the home countries of MNCs which might not be in harmony with each other. Lack of policy harmonisation may result in activities of investing MNCs contradicting the development objectives of host countries. According to Simon and others (2005) some MNCs invest in developing countries so as to escape health and pollution standards in their home countries. This implies that there must be correlation of policies of MNC home countries with those of host countries, and that host countries must strengthen their law implementation and enforcement.

It is obvious that while there is a move by countries towards attracting FDI so as to boost economic growth, especially in developing countries, there is also empirical evidence that proves that FDI cannot be the solution to the socio-economic ills of developing countries if not properly implemented. Proper implementation of FDI in this context implies a consideration by the foreign investors of the socio-economic situation of host countries. As pointed out before, Araya (2005), for example, while acknowledging economic benefits that are brought by FDI, gives ample evidence that FDI can be harmful to host countries. It, therefore, becomes imperative that when host countries attract FDI, especially in developing countries, they must take cognisance of the critical issues such as environmental degradation, technology transfer and sustainable human development.

2.6 Conclusion

What we deduce from this chapter is that while there is abundant literature that supports the phenomenon of FDI as the mechanism for integrating countries, particularly developing countries, into the global market economy; there is also literature that is highly critical of FDI as a vehicle for economic growth and development. Proponents of foreign direct investment argue that countries that succeed in attracting FDI will enjoy the following benefits: job creation; transfer of technology; assistance with capital formation and increased access to foreign markets (Ngowi, 2001).

On the other hand, there are scholars who argue that MNCs might use production methods that cause overexploitation of natural resources and also dump substandard industrial plants in developing countries. The critics of FDI further argue that MNCs sometimes, especially in developing countries, do not pay heed to issues of environmental degredation and that the always much expected technology transfer and job creation never materialize. Critics of FDI also point out that there is no upsurge of FDI to developing countries because of, among other things, restrictive policies, political instability as well as deteriorating infrastructure in developing countries.

It was also noted that some of the main determinants of FDI to countries in Southern Africa are: technology transfer; establishment of a strong capital base; creation of employment; transfer of management skills and increased export competitiveness (Mwilima, 2003:33). Furthermore, it was observed that most FDI to countries like South Africa came through mergers and acquisitions. Scholars like Bond (2000) and Mwilima (2003) argued that mergers and acquisitions do not always bring the desired economic results to host countries as they, sometimes lead to loss of jobs, inappropriate technology transfer and crowding out of domestic industries.

It was on the basis of the aforementioned divergent views on FDI that this study interrogated the notion of FDI in South Africa, specifically the role of the East London Industrial Development Zone in fulfilling South Africa’s goal of becoming an integral part of the global economy, boost economic growth and, thus, eradicate unemployment and poverty. Furthermore, these divergent views enabled me in contextualizing the phenomenon of FDI in South Africa within the global debates on FDI as a springboard for economic growth and development.

CHAPTER THREE

Research Methodology and Methods

3.1 Introduction

The main purpose of this research was to examine the character of FDI in the ELIDZ. To meet the objectives of this study, data were collected using qualitative as well as quantitative research methods. In other words, this study employed a fusion of both qualitative and quantitative research methods so as to utilize the strengths of these two research approaches. It is possible, for example, to use quantitative methods so as to test hypotheses that have been formulated based on qualitative research.

In this study, the researcher used in-depth interview and a mini survey to gather data from some of the executive members of the ELIDZ; some workers of the different enterprises, and some executive members of the foreign companies in the ELIDZ. This chapter discusses in detail how these two methods were employed, as well as the reliability and validity criteria used.

3.2 The rationale for case study design

Stenhouse (1989:49) gives a description of the case study method as involving "the collection and recording of data about a case or cases, and the preparation of a report, or a presentation of the case." In this study, the data collected and recorded concerns one case, the ELIDZ. The study, therefore, employs the strategy of the single-case study rather than that of the multiple-case design.

According to Yin (1984) there are three main rationale for conducting a single-case study. Firstly, the researcher conducts research in order to make a critical test of existing theory. Secondly, the researcher conducts a single-case study because the case represents a unique event, and lastly because the case serves a revelatory purpose.

Stake (2000:437) identifies three types of case studies: the intrinsic case study; the instrumental case study and the collective case study. This researcher focused on the intrinsic case study as it seemed more relevant to the study. Stake argues that an intrinsic case study is undertaken because the researcher seeks to gain a better understanding of a particular case. This was applicable to this study as the main purpose was to get a "better understanding" of the character of FDI in ELIDZ.

Stake (2000:437) goes on to argue that an intrinsic case study is "not undertaken because the case represents other cases or because it illustrates a particular trait or problem, but because, in all its particularity and ordinariness, this case itself is of interest." This study was undertaken not because there was a problem in ELIDZ but because the researcher perceived it as an interesting place for attraction of foreign direct investment. It was "interesting" to examine how this industrial development zone performed in a country that had adopted a developmental approach to local economic development. ELIDZ was an interesting case to the researcher because industrial development zones belong to the orthodox approach to 'local economic development', and not the 'developmental' approach.

3.3 Research methods used in this study

3.3.1 Choice of research site

This study was based on the East London Industrial Development Zone (a detailed description of ELDIZ is given in chapter 5) in East London. There are a number of reasons why the ELIDZ was chosen as the case study. One of the reasons why it was chosen is its close proximity to the University of Fort Hare Campus in East London where the researcher was registered for the Master of Social Science degree in Rural Development and had to do research on ELIDZ in partial fulfillment of requirements for this degree. Furthermore, and very important for this research, is the fact that ELIDZ was the first operational industrial development zone in South Africa, established so as to attract FDI and entrench South Africa's global economic competitiveness. It was, therefore, imperative to undertake this study on ELIDZ and establish whether, for example, the institutional preconditions that were put in place had any direct bearing on labour practices, job creation and maintenance of environmental standards.

3.3.2 Research Instruments

(a) Key Informant Interview

One of the research questions posed in this study related to the institutional preconditions and incentives that underpin the attraction of foreign direct investment to the East London Industrial Development Zone. The question sought to find out what institutional preconditions and incentives are used by the ELIDZ to attract foreign direct investment. To get responses to this question, the researcher conducted in-depth interviews with three key informants namely; a senior ELIDZ manager, another ELIDZ manager, and a manager of a company or tenant that has invested in ELIDZ. The senior ELIDZ manager and the other ELIDZ manager were selected because this study fell within their sections. The manager of the company that invested in ELIDZ was chosen because he was willing to participate in this study. The researcher started by arranging an interview with the senior manager of ELIDZ. The process of setting up the interview with the IDZ manager was not an easy undertaking as he was always busy engaged in his work. At times his secretary was not willing to assist the researcher in securing the interview. However, eventually arrangement was made for the researcher to meet him. He was open and frank with the researcher and more than willing to share information, and this was greatly appreciated by the researcher.

As preparations for the interview with the ELIDZ manager were made, the researcher had to observe a lot of important issues about conducting interviews for research purposes. The interview the researcher had to conduct, for example, was semi-structured interview. This implied that he had to prepare questions in advance. A semi-structured interview was important for the researcher as it was necessary for him to also pose probing questions to the interviewee. As the interview proceeded, he sensed that he had managed to establish a rapport with the interviewee, as a result the interviewee was relaxed and the conversation and responses developed naturally, thus, giving the researcher the assurance that he was getting genuine answers to his questions.

(a) Mini Survey (Using Questionnaire)

A mini survey using questionnaire was conducted with workers in one of the companies on the automotive sector. Workers in the automotive sector were chosen because this sector also happens to be one of the dominant industrial sectors in East London, represented auto manufacturers such as Mercedes Benz South Africa (MBSA). The need to use questionnaire survey was prompted by one of the research questions which focused on the matter of the foreign companies and labour practices in the ELIDZ.

The workers were given questionnaires which they completed in the researcher's presence. This ensured that that the questionnaires were completed in accordance with the instructions, and that clarification was given there and then for questions that were not clear. Furthermore, the researcher's presence also ensured that the workers did not discuss answers to the questions among themselves before completing the questionnaire. The disadvantage of administering questionnaires in the presence of the researcher is that his/her presence might lead to interview bias when the questionnaire is completed (Babbie and others, 2001). This implies that, as in non-participant observation, the interviewer's presence could influence the responses given by the research subjects. In this case, however, the researcher's presence did not influence the response given by the workers as it was observed that they were keen to share information about their employer.

(b) Analysis of company documents

As indicated in the literature review chapter, foreign companies could engage in industrial practices that could have disastrous consequences for the host country's environment. It was, therefore, crucial to determine the extent to which foreign companies operating in ELIDZ adhered to environmental standards and 'acceptable' labour practices. More importantly, the need to elicit information from ELIDZ management about labour practices and adherence to environmental standards was prompted by the research question on how the ELIDZ ensured that foreign companies comply with its preconditions.

To elicit information about how foreign companies in ELIDZ complied with the institution's preconditions on labour practices and environmental practices, documents from the ELIDZ were used. The documents which were used are the annual reports where detailed information about the activities taking place in ELIDZ was given. These documents give detailed annual reports by the following executive managers of the ELIDZ: the chairman; the chief executive officer; technical services general manager; business development general manager; the investor services general manager; finance and support services general manager; tenant overviews and other reports like independent auditors' reports.

3.3.3 Sampling

As indicated before, the research instruments used to elicit information from the respondents were in-depth interview and mini survey using questionnaire. ELIDZ has executive managers who are responsible for various services; however, only one of these was relevant to this study and he was the one with whom an interview was conducted. Secondly, an interview was also conducted with one of the managers of the selected automotive sector company. Also, a mini survey (using questionnaire) was conducted with a random sample of workers of this company. Tables 4 and 5 give a breakdown of the respondents used for the mini survey:

Table 4: A breakdown of the mini survey respondents according to gender

Category	*Sample Size*
Male	22
Female	12
Total	34

Table 5: A breakdown of the mini survey respondents according to employment status

Category	*Sample Size*
Permanent	16
Contract	18
Total	34

For the mini survey a questionnaire was administered to 34 respondents. These respondents were selected because their company is relevant to this study and that they belonged to the company of the manager who agreed to participate in this study. It was feasible and inexpensive to administer the questionnaire to them as a group. There was no need for research assistants and for collecting the questionnaires at a later date. Also the return rate was high, in fact it was 100%, as the researcher was present when the respondents answered the questions and collected the questionnaires immediately.

The process of setting interviews with the plant manager and the workers in his company was not difficult. The manager was very cooperative and always eager to assist the researcher with relevant information. The plant manager also served as a liaison between the researcher and the workers and facilitated the data collection process with the workers. Not only had the plant manager showed willingness to share relevant information with the researcher but also the other ELIDZ manager. The ELIDZ manager who was also important for providing information to the researcher was a keen participant in this study. He shared information willingly and was always prepared to assist the researcher throughout the data collection stage.

Furthermore, during the process of setting up the research and of collecting data as a researcher it was important to ensure that every step of the research was operational and this was done through formulation of a research procedure. The purpose of this was to ensure that this research study is reliable. The researcher had to follow procedure in such a way that even if another researcher could conduct the same study, using the same research procedures, the same findings and conclusions had to be produced.

3.3.4 Ethical Considerations

Ethical considerations are very important in research. In this study ethical standards were maintained. The researcher ensured that he handled with caution all ethical issues that arose.
A good example where the researcher's ethical standards were challenged during the course of this research was when a manager refused to be recorded. He did not refuse to be interviewed but refused to be recorded. The interview was then made with him without a recorder. It would have been unethical if the researcher assumed that to record the interview was fine, only to realise later that the interviewee was not happy with the idea of being recorded. This confirms that it is important to ask for the interviewee's consent first if instruments like tape recorders are going to be used during an interview. This is what Babbie

(2001:528) refers to as “informed consent” in his discussion of codes of ethics. If the researcher in this study had decided to hide the recorder after the interviewee refused to be recorded then he would have committed deception and that is unacceptable in research.

Furthermore, the researcher must not only ensure that they get consent of the research subject but must also pay attention to the critical issue of privacy and confidentiality. One of the concerns when attempts were made to secure appointments with the research subjects in the ELIDZ was the matter of privacy and confidentiality. It was important to explain to them that this study was conducted for academic purposes and that their identities would be protected as they would be only made public in the form of anonymity. Discussing the issue of privacy and confidentiality with the research subjects created a good atmosphere and, thus enabled the respondents to participate freely in the research.

CHAPTER FOUR

The Phenomenon of Industrial Development Zones in Developing Countries

4.1 Introduction

The purpose of this chapter is to explore the phenomenon of industrial development zones in the context of developing countries. It will examine industrial development zones in, for example, Malaysia, and identify positive attributes of these countries, and how these could serve as a learning experience for developing countries like South Africa. It will also specifically scrutinise the phenomenon of industrial development zones in South Africa, as the focus of this study is an industrial development zone in this country. Furthermore, this chapter gives background information about the East London Industrial Development Zone.

It is imperative to look at foreign direct investment from an industrial development zone perspective, because IDZs are designed to attract foreign direct investment. Developing countries have embarked on the process of establishing industrial development zones, with the hope of attracting investors who would in turn not only solve the difficult issue of job creation but also make a meaningful contribution to the host country's path to economic development.

4.2 Industrial Development Zones in Developing Countries: The Case of Malaysia

In examining the notion of industrial development zones in developing countries we need to address the following questions:

- What is the purpose of establishing IDZs in developing countries?
- Do industrial development zones contribute to the economic growth of their countries?
- In which developing countries are IDZs successful, and why?

By exploring the issues that will emanate from these questions, we would be able to make an in-depth analysis of the phenomenon of industrial development zones in developing countries.

Most developing countries perceive foreign direct investment as one of the major driving forces for boosting economic growth and development. As a result, these countries have established industrial development zones and export processing zones (EPZ) as special industrial zones that seek to serve as springboards for attracting foreign direct investment. FDI is enticed by developing countries through IDZs and EPZs, because it is hoped that FDI augments domestic savings as well as injecting new technology and new jobs into host countries. Furthermore, it is believed that FDI integrates developing countries with the global economic market. Industrial development zones, through the attraction of FDI, enable developing countries to attract multinational enterprises that have a global economic standing. Therefore, industrial development zones are established to foster economic growth and to improve the country's global competitiveness.

While developing countries attempt to attract FDI through industrial development zones, it is not clear whether this economic strategy has yielded any positive outcome. The issue about industrial development zones in developing countries is whether they generate any benefits, rather than costs, for host countries. If industrial development zones do not attract FDI, then their establishment could be a costly exercise, instead of a benefit, for the developing countries.

One of the reasons that could be responsible for host countries not enjoying the benefits of FDI is a divergence of interests between host countries and MNCs. Chudnovsky and Lopez agree with this view when they advance this argument:

> While MNCs are interested in a limited number of private economic goals, nation states have a broader range of economic objectives (gross national product (GNP) growth, full employment, etc) and non-economic objectives (distribution of income and wealth, sovereignty in decision-making, political and cultural identity, environmental protection, etc.). Also, whereas MNCs are interested in maximising global profits or sales, states are interested in maximising the welfare of their own citizens (1979:47).

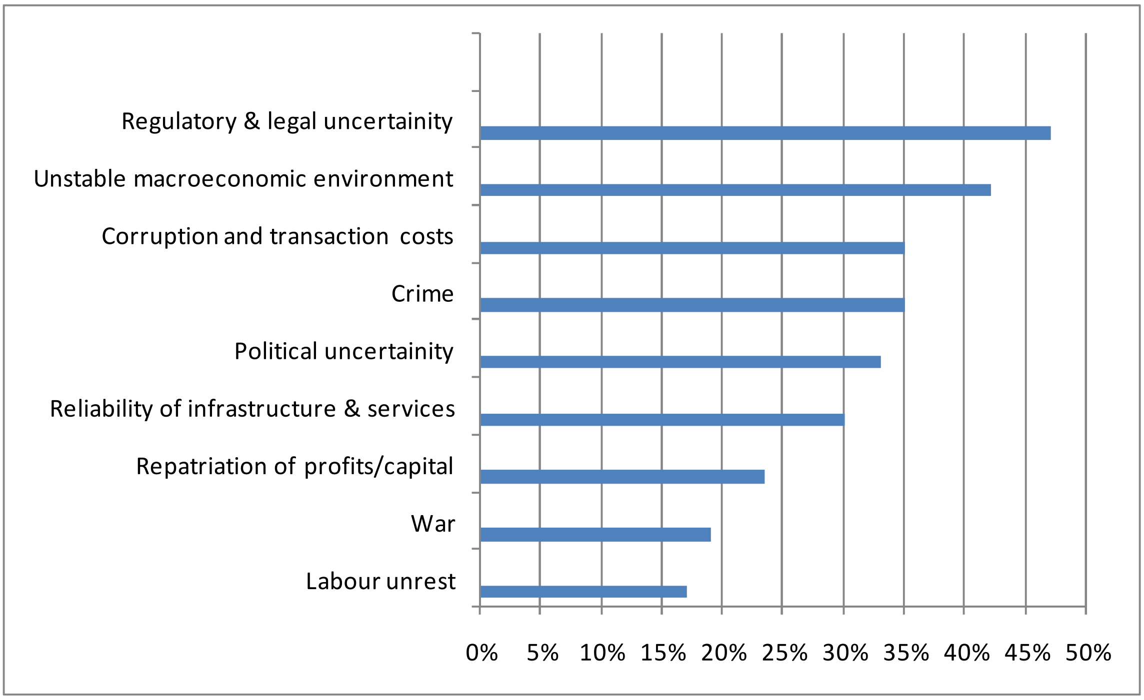
It is apparent from the foregoing argument that, while developing countries look forward to FDI as a means of promoting economic growth and development, MNCs -which are expected to bring this economic change - might have different interests from those of the host country. This implies that the activities of the MNC might leave the host country worse off, as they would not be sharing the same interests and national goals. For example, while the host countries may intend to use the MNC for job creation and poverty alleviation, the MNC might be focusing on availability of cheap labour as a means of maximising global profit. Also, if the MNC realises that it is not making a profit, it would simply close down, or invest elsewhere, without bothering about the workers who are going to lose jobs because their focus, is not job creation and protection, but global profit.

The notion that establishing industrial development zones, or export processing zones, in some developing countries could be a futile exercise is based on the fact that FDI inflows, as pointed out earlier, are not concentrated in all developing countries but a few developing countries in East Asia, like China, Brazil, Indonesia, Malaysia, Mexico and Thailand. On the other hand, sub-Saharan African countries, including South Africa, are experiencing a low flow of FDI. South Africa, in spite of her impressive macroeconomic performance over the past ten years, is not attracting FDI as expected. Cameron Hume (2004:2) concurs with this assertion when he argues that "… as an emerging market, South Africa wants and needs FDI. Yet, so far, South Africa is not pulling in the FDI it needs."

There are various reasons why developing countries are not attracting FDI as expected. According to the International Finance Corporation (1997), some of the reasons for the low FDI inflows in sub-Saharan Africa (SSA) stem from restrictive policies, and economic and political instability. Host countries sometimes develop economic policies that do not assist the process of attracting FDI. These policies may aim at channelling investment flows towards sectors of the economy that the host country considers of paramount importance towards its development. On the other hand, the MNCs might be focusing on completely different sectors from those focussed on by the host country. Furthermore, there is the issue of economic and political stability. One of the reasons why developing countries in sub-Saharan Africa do not fare well in attracting FDI is because of the political and economic instability that prevail in most sub-Saharan African countries.

Jenkins and Thomas (2002:42) give results of a study they conducted relating to risks identified by investors in their host countries, particularly in the SADC region. Some of the risks they identified include political uncertainty, crime and labour unrest and these are risks which can affect FDI in developing countries. The following graph from Jenkins and Thomas (2002:42) summarises some of the risks that might affect FDI in developing countries:

Figure 1: Sources of risk in SADC



Source: Jenkins and Thomas (2002:42)

Developing countries, in spite of the shortfalls associated with industrial development zones and the attraction of FDI, still embark on the establishment of industrial development zones for competitiveness, and integration into global markets. Furthermore, while some developing countries are experiencing difficulties with attracting FDI, others are enjoying economic prosperity because the establishment of industrial development zones, and the attraction of FDI, is proving to be a success for them. In this section, I will explore the phenomenon of FDI and industrial development zones in developing countries, by specifically scrutinising the case of Malaysia, where the notion of Free Industrial Zones is a success.

Malaysia is one of the developing countries that is experiencing economic growth through industrial development zones and, of course, foreign direct investment. According to the Global Competitiveness Index, Malaysia is ranked the “sixth most competitive economy in Asia, after Singapore, Japan, Hong Kong, Taiwan and South Korea”. Out of 125 world countries, Malaysia is ranked number 26 (Malaysian Industrial Development Authority, 2009:2). It is, therefore, imperative to examine the economic building stones which have managed to put Malaysia on the highway to economic success and prosperity.

Various factors have made it possible for Malaysia to achieve economic growth. The following are some of these factors:

- Supportive government policies
- Continuous economic growth
- An educated workforce
- Developed infrastructure (Malaysian Industrial Development Authority, 2009:2).

4.2.1 Supportive Government Policies

In Malaysia government policies created a business environment with opportunities for growth and profit. The business environment which Malaysia has created enables companies to explore opportunities for growth and profit. The government constantly engages companies that have invested in Malaysia, through “government-private sector dialogues”. This interaction enables the government to get feedback from the companies on critical issues that pertain to them, as well as enabling them to be part of the policy formulation process (Malaysian Industrial Development Authority, 2009:1).

One of the policies that are working well for both the companies and the government in Malaysia is the liberal Equity Policy. According to Malaysian Industrial Development Authority (2009), this act allows "100% foreign equity holding for all investments in new projects". This applies to foreign companies in the manufacturing sector. Malaysia has a good policy on the employment of expatriates by foreign companies. Up to 10 expatriates can be hired by companies that have a "foreign paid up-capital of US$2 Million and above". However, it must be noted that expatriates are only hired if the required skill is not available within the country. Furthermore, Companies in Malaysia enjoy a wide range of tax incentives. For example, in 2009 they will have a reduction of 25% in the corporate tax rate. Also, the Promotion of Investments Act of 1986 and the Income Tax Act of 1967 were promulgated to ensure that companies get tax incentives (Malaysian Industrial Development Authority, 2009:1).

4.2.2 Continuous Economic Growth

According to Maylsian Industrial Development Authority (2009) in the past Malaysia depended on agriculture, but today she rates among countries that have a successful export-based economy. Malaysia's economic growth and high level of global competitiveness stem from her pragmatic and flexible management approach. Malaysia, for growth and sustainability, did not only focus on the services sector, but also on manufacturing, agriculture and the agro-based sector. There are also continuous efforts to promote and develop biotechnology, and information and communications technology.

One of the strengths of Malaysia is her ability not to focus on only one area of development and economic growth. Malaysia has managed to develop and strengthen her industrial base, as well as development of the services sector. Malaysia is now focusing on knowledge-based economy. This will be done, among other things, through research, technology development, and human resource development.

If Malaysia's economic strategies could be related to developing countries like South Africa, it would imply that South Africa must also adopt a pragmatic and flexible management approach. This means that sectors, such as agriculture and the agro-based sector must be developed as one of the engines of economic growth. On the other hand there must be striving towards being an export-driven economy - something which is currently being attempted through the establishment of industrial development zones.

If it took developing countries like Malaysia about 40 years to develop and integrate their economies to the global market, then countries like South Africa have a mammoth task to perform. For example, if we consider the issue of a production-based economy and knowledge-based economy, most developing countries are far from achieving either of these. Countries like South Africa, perhaps, could try to work on both developing a production-based economy as well as a knowledge-based economy. There is a need for developing countries to be globally competitive - something that can be partly achieved through a production-based economy – but, most importantly, developing countries need to improve and enhance the development of skilled and informed workers. Workers with skills and knowledge are required in a country that aspires to be part of the global economic market.

The establishment of a knowledge-based economy requires co-operation between the corporate world, the government and universities. Universities must be able to produce graduates that are able to meet the demands of the corporate world. In other words, graduates must have the skills and knowledge that are required by the industries at a particular point in time. On other hand, the government must also have policies that would ensure constant empowerment of workers in relevant skills and knowledge. Developing countries have to ensure that these empowerment measures for workers are in place, in order for them to build a solid knowledge-based economy.

4.2.3 Establishment of an educated workforce

Malaysia realised that one of the cornerstones of its economic development strategy is their striving towards having an enlightened workforce. Malaysia, in realising the dream of an educated workforce, invested in education. She improved the literacy rate to high levels. For example, no school leavers in that country enter the job market without at least 11 years of basic education. Furthermore, the literacy rate in that country stands at more than 94% (Malaysian Industrial Development Authority, 2009:2). This, in return, offers investors a workforce that is not only enlightened, but is able to meet the demands of the corporate world. This is a strategy that is worth emulating by countries such as sub-Saharan African countries, where FDI inflows are low. One of the fundamental issues here is that a country aiming to attract foreign investors must invest in education, so that it would in turn offer investors a workforce that is of high quality, and therefore productive.

The system of education in Malaysia is structured in such a way that it makes a meaningful contribution towards the country's economic growth. Malaysia boasts of more than 17 public and 20 private universities and colleges which offer qualifications that are relevant to the country's economic needs and interests. In addition to the public and private institutions, there are also polytechnics and industrial training institutes which also offer qualifications relevant to the needs of the industries.

Also, institutions of higher learning in Malaysia have established linkages with overseas institutions, while some of these overseas institutions have branches in Malaysia. Collaboration between Malaysia and overseas countries has led to the establishment of institutions like the German-Malaysian Institute, Malaysian-France Institute, Japan-Malaysian Technical Institute, British-Malaysia Institute and Malaysian-Spanish Institute (Malaysian Industrial Development Authority, 2009:2). What can be deduced from the way education is prioritised in Malaysia is that it is crucial for countries, and in particular developing countries, to generate their own pool of professionals, as these are valuable in building a country's economy.

Worth mentioning also about education in Malaysia, is the focus that is given to industrial training. Malaysia acknowledged the importance of training, retraining and upgrading of skills in the private sector, and to meet this empowerment need of workers, a fund known as the Human Resource Development Fund (HRDF) was established. Employers are expected to contribute towards this fund, and those who contribute can apply for a grant in lieu of costs incurred, when they train their workers. Furthermore, the government plays a significant role in the training of workers through the Department of Skills Development. This department does not only coordinate public and private institutions but also ensures that all aspects of training are observed and met.

4.2. 4 Infrastructure

Investors need to operate in a country that has a well-developed infrastructure. Malaysia in this regard has been very successful. Most investors choose to do business in Malaysia because of her well-developed infrastructure. Malaysia has, for example, a well-developed and well-maintained network of highways. To further illustrate Malaysia's commitment to the development of infrastructure, the Asian Rail Express is now being expanded to become the Trans-Asia Rail Link, which will include Singapore, Vietnam, Cambodia, Laos and Myanmar, and end in Kunning, China (Malaysian Industrial Development Authority, 2009).

In addition to the well-developed and well-maintained highways, Malaysia has managed to build efficient seaports. Most of Malaysia's trade is now conducted by sea, and this is done through her seven international ports such as Penang Port, Port Klang and Port of Tanjung Pelepas. The Port of Tanjung Pelepas is not only the biggest port in Malaysia but also one of the very few ports in the world that is linked to a free trade zone. It also boasts state-of-the-art port facilities. Advanced technology is used in these ports. For example, in Port Klang, Penang Port and Johor Port, documentation is transferred electronically. This allows easy and speedy clearance of cargo. This is all made possible by the electronic data interchange which is used in these ports (Malaysian Industrial Development Authority, 2009:1).

Not only well-developed highways and ports contribute to industrial prosperity in Malaysia, but also well-developed international airports.   This infrastructure is needed in order to boost investor confidence in developing countries. Malaysia seems to have done her homework, as she made a point that her airports meet world standards and have state-of-the-art facilities. Malaysia, for example, in all her five international airports, has air cargo facilities that are well-developed. This is one of the main factors in attracting foreign direct investment.

Furthermore, Malaysia, to attract FDI has established industrial parks. According to the Malaysian Industrial Development Authority (2009:2) there are over 200 industrial parks, and 18 Free Industrial Zones, where industries are concentrated. Free Industrial Zones, which are spread throughout Malaysia, are developed so as to cater for the needs of export-oriented industries. Industries that have invested in these parks enjoy incentives like duty-free imports of raw materials. In addition to these parks, there are also specialised parks like the Technology Park Malaysia in Bukit Jali, Kuala Lumpur, and the Kulim High-Tech Park. These are special parks that have been established to meet the specific needs of investors.

4.3 Implications for Other Developing Countries

Malaysia is one of the developing countries that have managed to boost economic development through foreign direct investment. As mentioned earlier on, some developing countries, especially those in sub-Saharan Africa, are only experiencing a trickle of FDI. This implies that countries like Malaysia could serve as a role model for developing countries like South Africa.

Developing countries must ensure that their governments have policies that are not only liberal, but also supportive of the notion of FDI. These policies should include liberal investment policies, attractive tax and other incentives, as well as a liberal exchange control regime. These policies are crucial in creating a pro-business environment in a country, as our close analysis of Malaysia has indicated.

One of the strengths of Malaysia in attracting FDI is her ability to offer to the investors an educated workforce. This implies that developing countries like South Africa must ensure that the literacy rate is improved. Furthermore, this means that developing countries must invest more in education by ensuring that the youth receives quality education which will make them an indispensable part of the drive to boost economic development. Also, developing countries must ensure that there are skills development programmes which will constantly improve, as well as offer the required skills to the workforce. This could be done through linkages between the industries and the universities. It would be through these linkages that universities, when offering training to students, will also respond to the needs of the industries.

Multinational enterprises investing in a developing country must ensure that they improve the skills of local small-and-medium enterprises (SMME) by giving them support. This is imperative for developing countries like South Africa, where economic development encompasses the development of SMMEs. In Malaysia this economic development strategy is working well, as some of the SMMEs that have been supported by the MNCs are so competent and competitive that they are now ready to join the export markets.

Developing countries, in order for them to be part of the global economic market, need to improve their infrastructure. This is particularly true for developing countries in parts of the world such as the sub-Saharan African countries, where infrastructural development is poor because of factors like political instability. One of the strengths of countries like Malaysia and China has been their ability to develop an infrastructure of world standard.

Investors need an environment that is conducive to doing business. Developing countries must therefore ensure that they create an atmosphere that is going to attract the interest of investors. They must ensure that there are financial institutions of world standard. Malaysia, for example, boasts of the Labuan International Offshore Financial Centre which offers services of high quality and standard to investors.

CHAPTER FIVE

Industrial Development Zones in South Africa

5.1 Introduction

The phenomenon of industrial development zones in South Africa is new, although globally industrial development zones are commonplace. They are used in most developed countries, as well as some developing countries, especially in Asia, as vehicles for boosting economic development.

South Africa, since the advent of the new political dispensation, has been striving to assert her position as a player in the global political and economic arena. After adopting neo-liberal economic policies, South Africa has no option but to be an integral part of the global economic market. This happens against her aspirations as a country that has branded itself as a developmental state. In other words, South Africa has decided to retain some orthodox approaches to economic development. These include establishing industrial development zones as vehicles for economic development. However, these are necessary if South Africa wants to be part of the global economic world. Industrial development zones, therefore, are established so as to enable South Africa to be globally competitive and to enjoy any positive spin-offs of this economic development strategy.

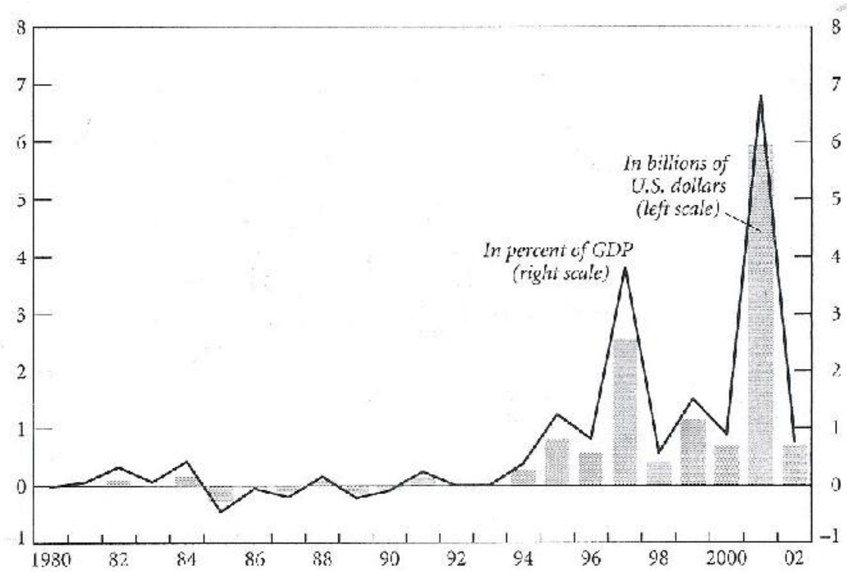
5.2 Industrial Development Zones in South Africa

As indicated in chapter two, South Africa to be economically competitive has established to date four industrial development zones. These include the East London Industrial

Development Zone and Coega. Both are located in the Eastern Cape Province. The East London Industrial Development Zone is located in East London, while Coega is in the Nelson Mandela Metropolitan Municipality. The East London Industrial Development Zone is fully operational with developed infrastructure and operational companies, while Coega is slowly becoming operational. The other industrial development zones are Richards Bay in KwaZulu-Natal, and the Gauteng (OR Tambo International Airport). These last two industrial development zones are not yet operational.

One of the reasons for South Africa to establish industrial development zones is to attract FDI. It is believed that FDI could act as a “catalyst for investment and economic development in South Africa” (Arvanitis, 2002: 64). The Growth, Employment and Redistribution Strategy (GEAR) (1996) also emphasised the importance of attracting FDI as one of the major means of bringing about economic growth in South Africa. As South Africa is characterised by low saving rates, FDI was envisaged as an economic vehicle that would have engendered economic growth. The following graph from Arvanitis (2002:66) shows FDI inflows in South Africa recorded in 2001.

Figure 2 : FDI Inflows in South Africa



Source: South African Reserve Bank.

According to Arvanitis (2002:66) South Africa, despite her mineral resource endowment, has not been able to attract high levels of FDI. As pointed out earlier, the increase of FDI inflows in 1993 was a result of the partial sale of government shares in Telkom in 1997 and the takeover of De Beers by Anglo American in 2001.

There is evidence, however, that in 2001 South Africa experienced an increase in FDI inflows. The following table from the official foreign direct investment and export promotion agency Trade and Investment South Africa (TISA) illustrates this:

Table 6: FDI inflows in South Africa, 2001.

Sector	**Source**	**Value (Rm)**	**Type**	**Region in SA**
Automotive	Italy	71	Brownfield	Port Elizabeth
Automotive	Germany	1,500	Expansion	Pretoria
Automotive	USA	70	Greenfield	Port Elizabeth
Automotive	Germany	12	Expansion	Port Elizabeth
Automotive	USA	12	JV	Cape Town
Metals	Italy	100	JV	Johannesburg
Chemicals	Switzerland	15	To be confirmed	
Chemicals	Netherlands	270	New	Sasolburg, Free State
Chemicals	Algeria	40	New	Bethlehem, Free State
Chemicals	UK	50	New	Cape Town
Chemicals	SA/Japan	1,120	New	Sasolburg, Free Sate
Chemicals	Zimbabwe	8	New	Johannesburg
Chemicals	UK	50	New	Sasolburg, Free State
Chemicals	South Korea	18	New	Port Elizabeth
Clothing &Textiles	USA	50	Expansion (JV)	Western Cape
Clothing &Textiles	UK	150	Expansion (JV)	Western Cape
Clothing & Textiles	UK	169	New	Atlantis, Western Cape
Agro-processing	UK	25	New	Gauteng
Agro-processing	Germany	180	New	KwaZulu Natal
Agro-processing	Germany	165	New	Eastern Cape
		4,075		

Source: TISA, 2001

According to the OECD Global Forum on International Investment (2001:3–5) the following South African government policies have affected the FDI environment:

I. Macroeconomic policy, specifically the macroeconomic framework: GEAR

II. Industrial Strategy, including incentives such as Strategic Investment Programme (SIP), Small and Medium Enterprise Development Programme (SMEDP), Skills Support Programme (SSP), Critical Infrastructure Fund (CIF), and Foreign Investment Grant (FIG).

III. Trade Strategy

IV. Microeconomic Reforms.

It is also important to look at areas of concern which have been identified by investors when doing business in South Africa. According to the OECD Global Forum on International Investment (2001:6) the problem areas are the following:

I. A general burden of bureaucracy at different levels of government with respect to setting up business. This includes issues such as lack of information with respect to the requirements to set up a plant, long lead times for utilities such as electricity and telephones and inadequate bandwidth.

II. Difficulties in securing work permits for managers and professionals, as well as long waiting periods for such documentation.

III. Costs and 'hassle factor' of compliances with labour legislation.

IV. Inadequate investment incentives.

5.3 The East London Industrial Development Zone

This section focuses on the East London Industrial Development Zone. The purpose of this section is to give basic information about ELIDZ, for example, its location. More importantly, it puts the whole notion of the establishment of the ELIDZ within the context of development zones in developing countries.

The East London Industrial Development Zone was established in accordance with the mandate of the Department of Trade and Industry, which entails the following: attraction of export-oriented industry; attraction of foreign direct investment; introduction of new technology into the country, and job creation. The East London IDZ is the first industrial development zone in South Africa to be operational. It focuses on the automotive sector; marine agriculture, agro-processing, pharmaceuticals and ICT and electronics.

The East London Industrial Development Zone is situated in East London, in the Eastern Cape Province, and is strategically positioned to be in close proximity to key transport nodes. It is conveniently located for the investors, about 4km from the East London Airport. It is 1.8 km from the R72 road and 7.8 km from the East London Port. It is 260km from Port Elizabeth where Coega, South Africa's largest industrial development zone, is situated.

5.4 Investment Sectors in ELIDZ

The East London IDZ is mainly focusing on three sectors: the automotive sector, the agro-industry and high-tech manufacturing. ELIDZ is also contemplating diversification of products so as to include among its sectors agro-industries, aquaculture and bio fuels. Table 7 below gives information about the sectors of investment found in ELIDZ.

Table 7: Investment Sectors in ELIDZ

Company	Sector	Product	OEMs Supplied	Head Office	Local Branches
Seatek	Agro industry	Abalone farming		East London	
Feltex Automotive trim	Automotive	Molded carpets, sound insulators, sun visors, wheel house liners, boot packages	BMW, VW, Toyota, Ford, Nissan, MBSA	Durban	East London, Port Elizabeth, Pretoria
Feltex Fehrer	Automotive	Seat pads & head rests	DCSA, VW, Ford & Toyota	Durban	East London, Port Elizabeth, Durban, Rosslyn
Feltex Futuris	Automotive	Tuffed carpet for supply to trim and carvalle carpets	MBSA	Durban	East London
Feltex Caravelle	Automotive	Loose-lay carpet	MBSA, VW, Toyota	Midrand	East London
Johnson Controls	Automotive	Dashboard & overhead liners	DCSA, VW, Ford, Nissan	Germany	East London, Port Elizabeth, Rosslyn, Silverton
Foxtec Ikwezi	Automotive	Forgings & extrusions & castings of components used in the automotive & engineering sectors	MBSA	East London	
Eurofit	Automotive	Assembly of tyres & rims	DCSA	Gent, Belgium	East London
Carcoustics	Automotive	Heat shields	All products are exported	Germany	East London
TI Automotive fuel systems	Automotive	Complete automotive fuel systems	MBSA	England	East London
TI Automotive	Automotive	Assembly of fuel tanks	MBSA	United Kingdom	East London
Molano Pino	Automotive	Polypropylene foam components	MBSA	Spain	East London
Milltrans	Transport & logistics	Transport & logistics		East London	

Source, ELIDZ Annual Report 2007/2008

It is clear from the above table that the automotive sector is the dominant sector in the East London IDZ. The Automotive Supplier Park and the vehicle storage centre are the highlights of ELIDZ's special focus on the automotive sector. By focusing on the automotive sector ELIDZ adds more value to the fact that the Eastern Cape Province serves as the automotive hub of South Africa. That the Eastern Cape Province is the automotive hub of South Africa is further illustrated by the components manufactured and exported from the ELIDZ for the Mercedes-Benz C-Class. These components are as follows:

- Impact dampers
- Wheels and tyres
- Cockpits carpets seat components
- Suspension components
- Boot liner
- Fuel tank
- Parcel tray
- Head liner
- Sun visors
- Fluid pipes

According to the ELIDZ Annual Report 2007/2008, components manufactured per day, in the years under review, were 38 050 and per annum 1 200 000.

These components were exported to the following countries:

- United States of America
- Germany
- Spain
- Middle East and Australia

It is also important to note the value of investment of the companies that have invested in the East London Industrial Development Zone. In 2006/07 the value of investment in ELIDZ was R755m while in 2007/08 the value of investment was R920m. The operational investors in 2006/07 were 10 while in 2007/08 were 14.

Furthermore, diversification, as envisaged by the senior management of IDZ, will enable the IDZ not to focus on one sector. According to a senior manager in ELIDZ, the zone is also going to focus on the agro-industry which could include elements like forestry beneficiation and production of bio fuels as well as aqua-culture (ELIDZ Annual Report, 2006/07:7). It is believed in ELIDZ that diversification of products is important so that an economic crisis like the global financial crisis in 2009, which hit hard the automotive sector, would not affect the entire zone because of its concentration on one sector. ELIDZ's new focus on these subsectors deserves some elaboration.

5.4.1 Agro-industries

The East London Industrial Development Zone seems strategically located for the development of agro-industries. This entails the processing of agricultural products that will be derived from agriculture, forestry and fisheries. It is thought that much of the land in the Eastern Cape that now lies unused or underutilised would be put into better use for the benefit of not only ELIDZ but the communities where these products would be grown. Roads would also be improved in these areas to make transportation of goods easier. It is hoped that all of this will have a positive impact on employment and labour.

5.4.2 Bio-fuels

The climatic condition in the Eastern Cape that is conducive to growing maize, sunflower, sugar cane, soya beans, sorghum and sugar beet. These are agricultural products that can be used as feedstock for production of bio-fuels and bio-diesel. It is felt that if this could be successful then large scale irrigated agricultural production in areas like Ncorha, the Mbashe River and the areas around the Great Kei River can boost economic development.

There is also the thinking that local universities like Fort Hare and Walter Sisulu University can assist local farmers with knowledge and expertise on how to cultivate these for business purposes. This is besides the need to establish partnerships among local communities, the ELIDZ, relevant government departments like the department of rural development, the local universities as well as the local and district municipalities.

5.4.3 Aqua culture

The relevance of aqua farming as a new focus area for ELIDZ is that the Eastern Cape Province has a coastal belt which could be used for aquaculture purposes. ELIDZ envisages that aquaculture can play an important role in the upliftment of the communities that are situated along the coast the Eastern Cape coast. Furthermore, ELIDZ is instrumental in the establishment of East London Science and Technology Park and hopes that aquaculture would be part of this initiative.

Plate 1 shows the Espadon fish farm in ELIDZ.

Plate 1: Espadon Fish Farm (Aquaculture)

Picture: courtesy of ELIDZ

It is, however, worth noting that development initiatives which are situated in poor communities must not operate as islands of economic prosperity in a sea of poverty and underdevelopment. The upliftment of the poor must be a central goal of community based initiatives so that the surrounding communities can also benefit from the positive economic spin offs brought about by development initiatives.

5.5 Conclusion

This chapter focused on foreign direct investment in South Africa. It looked at the dichotomy South Africa is faced with which is poised by the need to be part of the global economy while on the other hand she has to operate as a developmental state. The introduction of industrial development zones is done so as to meet the need for South Africa to be part of the global economy. Also, South Africa hopes that through the industrial development zones she would be able to deal with the critical issue of job creation, skills development and transfer of skills. South Africa had, at the time of writing, introduced four industrial development zones which are: the East London Industrial Development Zone; Coega; Richards Bay in kwaZulu-Natal; and the Gauteng (O.R. Tambo International Airport).

It was also noted in this chapter that South Africa's natural resources have played a less significant role in attracting FDI. The increase in FDI inflows which South Africa experienced in 1993 was a result of the partial sale of government shares in Telkom and the takeover of De Beers by Anglo American in 2001. One of the reasons why the natural resources in South Africa are not helping in attracting FDI is that they are monopolised by big mining companies and, thus, thwart any form of global competition.

This chapter also concerned itself by describing the type of investments found in South Africa. Furthermore, it gave a description of the ELIDZ: its location, the reasons for its establishment as well as the sectors that have invested in it. It also looked at the impact of ELIDZ on rural development, noting how diversification of its products could play a role in achieving this imperative.

CHAPTER SIX

Research Findings

6.1 Introduction

The findings that are presented in this chapter are aligned to the three research questions (outlined in chapter one). The three research questions are the following:

I. What institutional preconditions and incentives underpin the attraction of foreign direct investment to the East London Industrial Development Zone?

II. How does ELIDZ management ensure that foreign companies adhere to the institutional preconditions, especially environmental standards?

III. To what extent have the foreign companies in ELIDZ complied with the preconditions especially with regard to labour practices and skills development?

The first part of the findings gives the profile of the respondents of the mini survey, focusing on the one ELIDZ Company that was included in the study. The profile of the respondents provides information which enables the researcher to gain a better understanding of the responses. The second part is concerned with findings that pertain to the incentives used in the ELIDZ to attract foreign investors. The third part deals with how ELIDZ management ensures that foreign investors comply with its preconditions on environmental standards and labour practices. The focus in the second and third parts is mainly on the in-depth interview responses of the management staff of ELIDZ as an organisation. The fourth part is about compliance with labour practices and environmental standards by investors in ELIDZ. As in the first part, the focus in this fourth part is on the one ELIDZ Company whose employees were surveyed for the study.

6.2 The Profile of the mini survey respondents

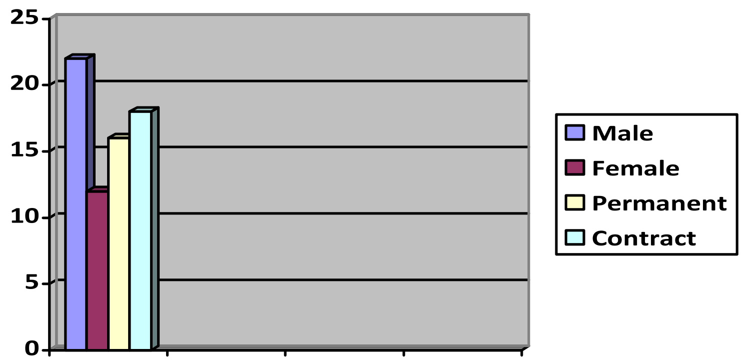
This section gives the profile of the mini survey respondents. Table 8 gives details of the respondents of the mini survey conducted in 2009.

Table 8: Gender and employment status of survey respondents

Male	**22**
Female	**12**
Permanent	**16**
Contract	**18**
Total	**34**

As Table 8 shows, there were 22 male workers and 12 female workers in the surveyed ELIDZ Company at the time of the data collection in 2009. This is presented graphically in figure 3.

Figure 3: Demographics of survey respondents



It may be of interest to mention that when the researcher returned to the field in 2011 to revalidate the empirical data through 'member checking'[i] (see Lincoln and Guba, 1985), he learned that the number of employees in the ELIDZ Company surveyed in 2009 had dropped significantly, from 34 to 16. A key informant in the ELIDZ organisation that was included in the study attributed this to economic recession.

Table 9 provides some insight about respondents' family sizes, types of accommodation, wages, and extent of 'family responsibility'. These data are useful for drawing inference about specific responses, especially those pertaining to respondents' satisfaction with wages and specific labour-related issues in their place of work. In other words, to what extent had their employment in the surveyed ELIDZ Company made a difference in their lives?

Table 9: Responsibility-related information about survey respondents

Category	**Response**
Number of Children	39 (This number is the total number of children for the 16 respondents who reported that they had children)
Number of children attending school	29
Number of respondents with own houses	4
Number of respondents in rental apartments/houses	8
Number of respondents living in informal dwelling (tin shack)	1
Number of respondents living in government-subsidised dwelling (RDP housing)	6
Number of respondents earning R5000 and above monthly	2
Number of respondents earning R3000-R5000 monthly	13
Number of respondents earning R1000 monthly	1
Number of respondents with 'second homes' (in rural areas)	3

As Table 9 shows, while eight (8) respondents were living in rental housing, and others in own-built or government-subsidised RDP (Reconstruction and Development Programme) houses, three (3) did have 'second-home' responsibilities in their rural villages of origin. For this latter category, 'extended family' commitments might well be substantial.

Two (2) of the 16 respondents earned above R5000 a month, 16 earned between R3000 and R5000, while one earned R1000 a month. These data become important when placed against responses presented later about whether employees were 'happy' with their wages –

especially when these are viewed together with the fact that 16 respondents had amongst them 39 children, with 29 of these attending school.

6.3 Incentives

The issue of incentives to attract investors, as reviewed earlier, is one of the better known features of the IDZ concept in developing countries especially. The researcher's interest was to find out what incentives ELIDZ used to attract foreign investors – or what preconditions it spelt out for investors. The key informant interview conducted with a senior manager found that ELIDZ had neither IDZ-specific nor sector-specific incentives. Instead, the organisation used service-based incentives, designed to meet the specific needs of each investor in the ELIDZ. Such incentives were in the form of logistics, shared services and accelerated government services. Even so, the researcher found that ELIDZ aggressively marketed its proximity to a river port and an airport as 'incentives'.

The researcher also found that ELIDZ offers its investors a package of basic services. These are:

- Basic services like water and electricity. Investors in ELIDZ enjoyed a negotiated and discounted rate for purchasing electricity as well as a rebate on rates and taxes. Also, ELIDZ has its own power station.
- State of the art security services. The researcher was informed by a key informant that ELIDZ has the responsibility of providing state of the art security if it wants to compete globally for attraction of investors. This is further necessitated by the fact that South Africa is branded as a country with possible threats to safety and security. Moreover, safety and security is a concern and priority to foreign companies when

they invest in a foreign country. ELIDZ offers its investors well secured premises with cameras, controlled access, proactive patrolling to monitor suspicious vehicles and individuals as well as prompt response action on alarm activation.

- A medical services facility. ELIDZ also offers its investors medical services like a medical clinic within its premises as well as a 24-hour emergency medical assistance.
- A clean and attractive environment. In design, upkeep and atmosphere, The ELIDZ exudes an alluring, first-world feel.

Plate 2 is an example of an automotive supplier park made available to ELIDZ investors in the automotive sector.

Plate 2: Automotive Supplier Plant in ELIDZ

Picture: courtesy of ELIDZ

It was also found that ELIDZ provides its investors with 'good' infrastructure. Investors in ELIDZ are tenants, thus it is of vital importance that ELIDZ offers them world class infrastructure if it wants to be globally competitive. The zone, among other things, offers good and well maintained roads within its premises and ensures that the access road to the zone is of good standard and is well maintained. Buildings and automotive parks, for example, are architecturally striking as they are designed to meet the industrial needs of investors. As indicated earlier, ELIDZ has its own power station in order to offer its tenants good electrical services as well as telecommunication facilities. Development of infrastructure, particularly in developing countries, is of utmost importance as poor and deteriorating infrastructure serves as a deterrent to foreign investors (Donaldson, 1992).

Table 10 shows expenditure on infrastructure provisioning from 2002/03 to 2007/08.

Table 10: ELIDZ Expenditure on Infrastructure from 2002/2003 to 2007/08

Infrastructure expenditure	
2007/08	R162,345,025
2006/07	R378,842,393
2005/06	R103,241,518
2004/05	R121,855,438
2003/04	R32,779,981
2002/03	R20,174,771
TOTAL	R819,232,066

Source: ELIDZ Annual Report, 2007/08

Another benefit for investors in ELIDZ is the clustering of services. Industries are clustered around services and facilities that are centralised so as to make business easy. The logistics service and tugger route in the automotive supplier park (ASP) are good examples of this. These do not only enhance business for the investors but also play a crucial role in minimising costs for the investors.

The researcher learnt that in order to further improve access to government and other services by its investors, ELIDZ planned to create a ‘one-stop shop’. At the base of this would be the executive desk, the purpose of which would be to make interaction with government departments easy. The other level would feature a single window which would focus on operations and moving goods from production to markets. The third level would be the development of a basket of value-added services. All of this constitutes a ‘package’ to be offered as an ‘incentive’ to investors.

6.4 Ensuring adherence to investment preconditions: Environmental standards

This sections deals with findings about how the ELIDZ ensures that foreign companies do not engage in practices that could lead to environmental degradation. This is against the background of reports and allegations that foreign companies, especially those operating in developing countries, sometimes dump toxic waste which has hazardous effects on their host environment (Araya, 2005).

Key informant interview accounts revealed that in order to safeguard the environment from degradation, ELIDZ had preconditions which investors or tenants must adhere to in order to be accepted to operate in the Zone. For one thing, the interviewee (a senior ELIDZ manager) revealed, the organisation must be a light industry company. According to the interviewee, this was necessitated by the "environmentally sensitive area" in which ELIDZ is located. ELIDZ, he said, was situated in an area that is not only close to an ocean, but also close to sensitive natural vegetation and a residential area. As such, it was imperative for ELIDZ management to ensure that any company operating in the Zone was a light industry so that its productive activities and processes do not harm the environment. When the researcher interjected during the interview that any industrial production process would have impact on the environment, he emphasised that the requirement was to ensure that any negative impact on the environment would be minimal.

Potential companies underwent the process of "pre-qualification" – a process that helped ELIDZ to establish, among other things, if an interested investor was a light industry or not. The researcher learnt that pre-qualifying a company included screening the company's waste generation and management activities to ascertain whether, for example, the potential company used waste generation and management activities that were listed by the South African government as having the potential to pose a danger to the environment. In a situation where the potential company used listed waste management activities, ELIDZ would seek authorisation from the government and if need be, environmental impact assessment would be performed. All these conditions would be imposed on the potential investor.

In a developing country like South Africa, it is crucial to promote not only sustainable industrial development but also environmental sustainability. Environmental sustainability and sustainable industrial development are intertwined; if a country aspires to achieve industrial sustainability it must make sure that it views seriously the issue of environmental protection because industrial development will always have a negative impact on the environment. It is, therefore, of fundamental importance that the activities of companies in zones like the ELIDZ are monitored. The researcher was informed that ELIDZ monitored the activities of the companies, as far as they pertained to the protection of the environment. The following monitoring criteria were used:

- Infrastructural development. This pertains to how ELIDZ itself, as it embarks on infrastructural development, complies with environmental legislation so that it does not do infrastructural development which has a negative impact on the environment.
- Air quality. Air quality is monitored in ELIDZ using a specialised equipment. This is set and then put in a strategic area. It produces data that is analysed and interpreted. According to a senior manager in ELIDZ no problems related to air quality had been detected since companies began to set up operations in the Zone.
- Control of storm water discharge to natural water courses. This is done so as to ensure that there is no overflow of water to rivers and dams located in close proximity to the ELIDZ.
- Effluent discharge, underground water, and storm water runoff are monitored.

Plate 3 shows the waste transfer station in ELIDZ which is made available to ELIDZ investors so as to assist them to comply with waste management legislation.

Plate 3: Waste Transfer Station in ELIDZ

Picture: Courtsey of ELIDZ

The importance of complying with waste management legislation and seeing to it that investors adhered to legislation and the preconditions that ELIDZ has set, has already been mentioned. It is, however, important to state that the waste sorting station in ELIDZ is privately owned. This implies that no company is forced to use it but it is only a facility which ELIDZ has put in place so that investors can access it if they wish. This facet of the intersection between public and private operations deserves further investigation. The sorting station is a state-of-the-art facility which has capacity to collect, sort and recycle waste but disposes waste which cannot be recycled. It also keeps records of waste management.

As reported above, ELIDZ is situated in an area which has sensitive natural vegetation. It was imperative to find out how ELIDZ protects the indigenous plants around it. The researcher established that ELIDZ had a vegetation control programme, the purpose of which was to protect the indigenous plants. Industrial developments like infrastructural developments always impact negatively on the environment. In ELIDZ indigenous plants that have been affected by developments are rehabilitated. They are, for example, transplanted so as to make sure that the species is not endangered. Furthermore, within the ELIDZ, areas with endangered indigenous plants are not developed at all. It was also pointed out to the researcher that before construction was done in ELIDZ, every major project had to undergo an environment impact assessment.

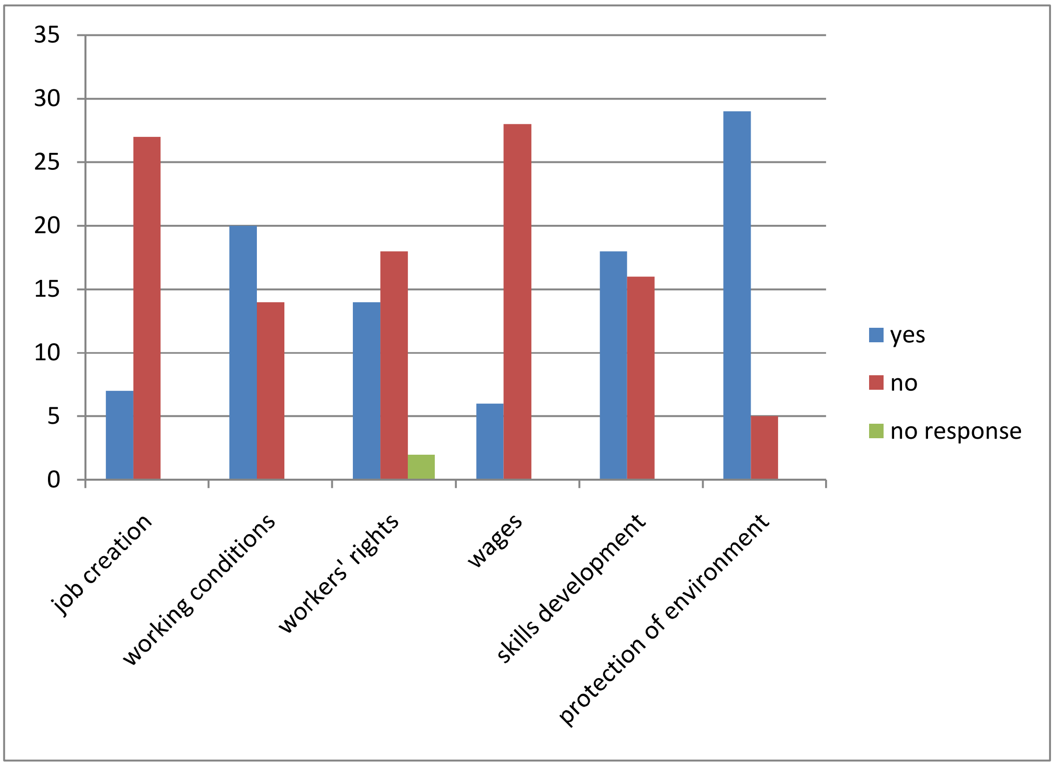
6.5 Labour standards: The perspective of workers

It was imperative to gauge the view of workers about labour standards upheld by foreign companies operating in the ELIDZ. Workers in the selected ELIDZ Company were given questionnaires to elicit information about specific aspects of their experiences as employees. The questionnaire posed a wide range of questions that touched on pertinent issues to this study. Some of the questions that the workers were asked required their views on the following issues:

- Job creation in ELIDZ
- Working conditions
- The rights of workers
- Wages, and
- Skills development

We now look closely at what the response of the workers was concerning these issues.

Figure 4: Workers' responses about satisfaction with specific aspects of ELIDZ



6.5.1 Job Creation

Regarding the role of ELIDZ and job creation, workers were asked whether they thought they would have been employed if they were not hired by their present employer (the selected foreign company operating in the ELIDZ). Of the 34 respondents 26 felt that they might have been unemployed, while 21% felt that they would have been employed. This finding suggests that most employees perceived ELIDZ as making a crucial contribution in the sphere of job creation.

The critical issue here, however, (and this might not have been known to the employees of the company surveyed for this study) is that job creation is never the primary aim of multinational corporations when they invest in host countries. As pointed out earlier on, MNCs have their own aims and goals for investing in foreign countries. These never explicitly include job creation in host countries; indeed, if anything, they often include exploiting available labour – hence, there exists in the international arena a fair measure of activism and disdain against foreign direct investment (especially in developing countries). In fact, the concept of "regime shopping" has gained currency partly because of widespread perceptions that MNCs do not care less about labour standards in their host societies: if business is not going well for an MNC, it simply relocates to another country where the 'cost' of labour is less or where organised labour activities are limited (Rowley and Benson, 2004:197). Thus, for an MNC, an 'investment-friendly' environment is one in which there is availability of 'cheap' labour.

6.5.2 Working Conditions

One of the questions posed in the employee questionnaire pertained to working conditions. The question required the respondents to indicate whether they could say they were happy or not with the working conditions. The majority of the respondents (59%) indicated that they were satisfied with their working conditions as 20 (out of 34) indicated that they were happy while 13 said that they were not happy – clearly a reassuring finding for those with established faith in foreign direct investment. The researcher, however, found that the relatively high number (13) of 'unhappy' employees contradicted the ELIDZ's annual reports (ELIDZ Annual Report, 2007/08) which seemed to give the impression that workers employed by companies operating in the Zone were generally 'happy' with the conditions under which they performed their duties. The 13 respondents who said they were not happy with the working conditions could be referring to long working hours and working conditions under which they were exposed to danger.

6.5.3 Workers' Rights

One of the critical issues when it comes to industrial development zones is the issue of exploitation of workers by investors (Mwilima, 2003). Employees of the one ELIDZ Company selected for the study were asked whether the rights of workers (to belong to unions, declare disputes and go on strike, etc.) were respected in their company. Out of 34 workers in this particular company, 18 said that their rights were not respected while 13 mentioned that their rights as workers were respected. On the other hand, 2 of the workers did not respond to this question. That more than 17 of the workers felt that their rights were not respected poses a challenge to ELIDZ management as the issue of protection of the rights of workers is fundamental. Yet, it is worth mentioning that the mere presence of unions (a unionised organisation) does not automatically mean that workers' rights would be protected. This could be so because, perhaps, the unions in a particular company are not effective. Also, there could be unions that have been 'imposed' on workers by the employers and therefore could not be effective in representing the interests of the workers. A popular slang nowadays in the South African labour relations arena is 'shop steward sell-out'. While the majority of the workers responded that their rights were not respected, this is not a finding that could be regarded as conclusive since there are many inferences that could be made about the issue of unionisation of the workers. Furthermore, workers could have no unions (non-unionised organisations) but still have their rights respected by the employers.

6.5.4 Wages

Workers were also asked if they were satisfied with their wages. The majority of respondents (82%) or 27 respondents said that they were not satisfied with their wages; 6 said that they were satisfied. The issue of wages is always crucial as critics of industrial development zones always point out exploitation of workers by companies as a common feature when foreign direct investment is considered (Mwilima, 2003). On the other hand, that 27 of the workers said they were not satisfied with their wages should be viewed against the background information provided earlier in this chapter. Close analysis of the background of the respondents shows that they have responsibilities which could not be addressed by their wages. Some of them are breadwinners and yet most of them earn wages that range from R3000 to R4000 a month. Also, the majority of them have children who still attend school: this implies that they have a huge responsibility on their shoulders which requires an improvement of their wages so that they can meet the financial demands of everyday life.

6.5.5 Skills Development

While 18 of the respondents in the ELIDZ Company included in the study felt that they had gained skills by working for their company, 15 reported that they had not gained skills. In other words, 17 of respondents in this company stated that they had not gained skills. This is a challenge to companies in ELIDZ as they have to ensure that workers are empowered with skills. One of the official reasons given by governments for creating special incentives to attract FDI is that the new investors would bring advanced technology and also transfer skills to the employees in the host country (Wiegel, 1997). In the case of South Africa, and in particular ELIDZ, a finding that 17 of the respondents did not experience any ‘skills transfer’ might expose the government (and not just the foreign director investor) to serious public criticism.

In the next chapter, an attempt is made to put these findings in perspective, and to draw specific conclusions from them.

CHAPTER SEVEN

Discussion and Conclusion

7.1 Introduction

The purpose of this chapter is to highlight the main issues raised in this thesis and draw a conclusive insight from them. Furthermore, the chapter synthesises these issues so that a critical argument on foreign direct investment in the East London Industrial development Zone as well as South Africa is reached. This is important because in this study ELIDZ has been used as a case study so that a better understanding of FDI flows to South Africa is gained.

7.2 Summary of key findings

In line with the three research questions, below are the key findings of the study:

7.2.1 What institutional preconditions and incentives underpin the attraction of FDI to the East London Industrial Development Zone?

- ELIDZ has no IDZ-specific incentives and sector-specific incentives instead has service-based incentives designed to meet the specific needs of each investor
- ELIDZ aggressively markets its close proximity to a river port (the only river port in South Africa) and airport as an incentive for foreign investors
- ELIDZ investors are offered a package of basic services like a discounted rate for purchasing electricity, rebate on rates and taxes .

- Investors in ELIDZ are provided with infrastructure such as good and well maintained roads within the premises of the zone, well designed buildings and telecommunication system.
- In ELIDZ industries are clustered around services and facilities are centralised for the benefit of the investors
- A 'one-stop shop' has been established to improve access to government services by investors

7.2.2 How does ELIDZ management ensure that foreign investment companies adhere to the institutional preconditions, especially environmental standards?

As part of the preconditions, ELIDZ investors undergo the process of "pre-qualification" to determine whether they can operate in the zone or not. The specific preconditions include the following:

- Potential investors must be light industry companies
- A company's waste generation and management practices must be in line with the South African government's list of waste generation and management practices that have the potential to harm the environment
- Activities of companies in the zone are monitored so as to ensure that they do not harm the environment
- A waste sorting station is made available to the investors to use if they so wish
- ELIDZ has a vegetation programme designed to protect indigenous plants in and around the zone.
- Air quality, effluent discharge and under ground water quality are monitored.

7.2.3 To what extent have the foreign companies complied with the zone's preconditions especially with regard to labour practices and skills development?

To unravel issues concerning labour practices in ELIDZ, the views of the workers of the ELIDZ Company that was included in the study were sought:

- A majority 79% (26) of the workers out of the total of 34 felt that ELIDZ was making a contribution in alleviating unemployment.
- 59% (20) indicated that they were 'happy' with the company's working conditions. However, the 41% (13) that expressed 'unhappiness' with the working conditions cannot be ignored as they might be alluding to critical issues like long working hours and exposure to dangerous working conditions.
- On the issue of the rights of the workers, for example the right to belong to unions, declare disputes and go on strike, 53% (18) said that their rights were not respected while 41% (13) said that they were respected and 6% (2) abstained.
- 82% (27) said that they were not satisfied with their wages.
- On skills development, 53% (18) of the workers felt that they have gained skills. However, 47% (15) felt that they have not gained skills and this poses a challenge to ELIDZ as skills development is one of the economic benefits host countries expect to gain from the foreign investors.

7.3 Discussion

The discussion is structured according to the research questions of this study.

7.3.1 The institutional preconditions and incentives that underpin the attraction of foreign direct investment to the East London Industrial Development Zone.

According to Arvanitis (2006:64) FDI has played a crucial role in the development of South Africa's economy. Arvinitis goes on to state that FDI flows to South Africa, however, have been at “relatively low levels compared with other emerging market economies”. Arvanitis states that “South Africa averaged less than 11/2 percent of GDP during 1994-2004, compared with 2-5 percent in a group of comparator countries.” That South Africa has been experiencing a low flow of FDI implies that ELIDZ, as South Africa’s first operational IDZ, has the responsibility of enticing foreign investors to South Africa so as to increase the presence of foreign investors and thus contribute to South Africa’s economic growth and present to the country the benefits of FDI. The obligation of ELDIZ, therefore, in designing incentives that would ensure that South Africa competes well globally in enticing investors needs no emphasis. It is, therefore, the need to integrate South Africa into the global market economy and increase her global competitiveness as well as increase her economic growth that demands ELIDZ to devise competitive incentives to attract foreign investors.

Noteworthy is the fact that though FDI is viewed as having the potential to increase a country’s economic growth and bring in new technology and skills, there are various scholars who refute the effectiveness of FDI in bringing about economic growth especially in developing countries. Chudnovsky and Lopez (2005) argue that developing countries especially in Africa have not received significant amounts of FDI, as a result they have not enjoyed the benefits associated with FDI. Furthermore, Araya (2005:56) citing scholars like Ruud (2002) argues that technology transfer is “far from automatic”. The assertion by Araya is supported by Brooks (2004) when he argues that not all investments lead to technology transfer and human capital development. We deduce from the foregoing arguments that one cannot simply conclude that FDI would bring about economic growth, technology transfer and human capital development.

Arvanitis (2005:65) further states that the FDI increase which South Africa experienced in 2001 was a result of the takeover of De Beers by Anglo American and not a result of investment in new assets. It is argued that mergers and acquisitions (M&As) could have negative effects on the host economy as they "are likely to result in profit for the investing firm but destruction of the domestic industry" (Mwilima, 2003:32). Therefore, while South Africa through the ELIDZ makes efforts to attract FDI, it is worth noting that the notion of FDI and its potential in bringing economic growth, particularly in developing countries, is highly contested.

It is therefore doubtful, from the findings of this study, if the range of incentives at the ELIDZ is sufficient to attract large numbers of foreign investors who will contribute to the envisaged socio-economic growth of the country, considering that foreign companies tend to operate based on a different set of dynamics than those envisaged by the ELIDZ management.

7.3.2 Ensuring adherence to investment preconditions: Environmental standards

From the study's findings, the ELIDZ appeared serious about protecting the sensitive environment in which the zone is located. However, given the well documented recklessness that characterises the way many foreign operators in developing countries, it seems as though ELIDZ wants to "eat its cake and have it" – to use a popular cliché. As shown in the literature reviewed earlier in this work, often, instead of bringing the highly anticipated transfer of technology, human capital development, economic growth and enhancement of enterprise development within the host country, foreign companies sometimes deliberately engage in environmental practices that could lead to the degradation of the environment (Chudnovsky and Lopez, 2005). Practices that could endanger the environment include overexploitation of natural resources, extraction of indigenous plants and dumping of toxic waste in sensitive areas like oceans and residential areas. This is not to imply that companies operating in the ELIDZ will do the same.

Simon (2005) also asserts that some foreign companies when they invest in developing countries have the tendency of using substandard industrial plants and hazardous production processes. Perhaps it is against the possible negative effects FDI might have on the environment especially in developing countries that ELIDZ ensures that its potential investors or tenants undergo a pre-qualification process. ELIDZ, through the prequalification process ensures that its investors use production processes that conform to acceptable environmental standards.

Adherence to investment preconditions does not only require conformity to acceptable environmental standards by investors but also strict implementation of monitoring policies and procedures by IDZ management. In ELIDZ, for example, production of documents like the integrated waste management strategy would be a futile exercise if the IDZ is not strict on implementation of monitoring processes. Adherence to investment preconditions to safeguard the environment is of utmost importance for ELIDZ because of its location close to a sensitive ocean, a natural vegetation that has to be protected and a residential area.

7.3.3 Adherence to investment preconditions: Labour standards and skills development

It is imperative for a developing country like South Africa, which has a high unemployment rate, to ensure that job opportunities are created so as to contribute to poverty alleviation. To this end, one of the findings of this study appears quite significant. A high number of workers surveyed in the study were positive that the ELIDZ was contributing to employment creation

– since they might still have been unemployed if not for the creation of the ELIDZ. However, as far as FDIs go, there are conflicting interests between the government of the host country and the investors. While the host country might be focusing on job creation and other developmental imperatives, the investor might be attracted by other factors such as cheap labour, lack of competition from domestic companies, and incentives. In fact, the concept of "regime shopping" (where companies continuously look for "investor-friendly" places to set up shop) has become popular in the FDI and globalisation literature for this reason.

The department of Trade and Industry (DTI) in its mandate for the establishment of industrial development zones in South Africa mentions clearly the important issue of job creation. This means that DTI is acutely aware of the role the industrial development zones should play in job creation. What it may not be aware of is that job creation is not the primary aim of foreign investors, even though job creation (and sometimes job losses) does come about as a consequence of their presence in any country (see Table 11).

According to the ELIDZ Annual Report 2007/08 more than 4500 direct construction jobs have been created to date. The report goes on to say that the 14 existing investors have a job creation potential of more than 1313 direct manufacturing jobs. It goes on to say that 800 jobs had been created by year-end 2007/08 (ELIDZ Annual Report 2007/08:9).

Table 11, Jobs Created by ELIDZ in 2007/08

Jobs Created by investors	
Carcoustics	33
Feltex group	397
Foxtech	48

JCI	69
MC Synchro	27
Milltrans	56
Molano Pino	6
Seatek	11
TI group	70
UTI	19
Total	736

Source: ELIDZ Annual Report, 2007/08

In a province like the Eastern Cape Province which has a high rate of unemployment it is important to have an initiative like ELIDZ which is able to create some jobs. The problem with IDZs, however, is that (as stated earlier) investors do not invest in a foreign country for creating jobs in that country but to meet their own company specific needs.

Another crucial aspect of industrial development zones is technology transfer and skills development. In other words, the common expectation (by host governments) is that companies that invest in developing countries must be able to make a positive contribution to technology transfer. It is always believed that since most of these companies come from developed countries, they would be able to bring along world class technology that might not be in existence in the host country. The host country will, therefore, benefit from this investment as it implies an upgrade in the technology that exists in that particular developing country. More than that, it is always hoped that the workforce of the host country will benefit from being exposed to advanced technology. This, of course, goes together with any other efforts that an enterprise could employ to upgrade the skills of its workers.

The findings of this study will disappoint those who have faith in the skills development potentials of FDI. That 15 (47%) of respondents felt they gained no new skills is particularly significant. This was in spite of the fact that some companies in the ELIDZ received specific incentives (such as study subsidies) that aimed to contribute to local skills development in areas such as automation.

The researcher learnt from a member of ELIDZ management that skills development remained a challenge, and that ELIDZ was embarking on programmes like learnerships as well as engaging with education institutions to improve local skills. A partnership between ELIDZ, Walter Sisulu University, University of Fort Hare and other stakeholders to create a techno-park close to the ELIDZ was being envisaged. In other words, while companies must see to it that they contribute towards skills development, ELIDZ management sought to ensure that companies would already find in the zone a workforce that was well skilled. Indeed, according to one ELIDZ annual report (2007/08:33): "an inadequately educated workforce is rated as the most problematic factor for doing business in South Africa".

7.4 Conclusion

This study critically looked at FDI in the East London Industrial Development Zone and explored whether this could be used as a springboard for bringing economic development to South Africa. It has been important to look at this because FDI is generally perceived as one of the means of bringing about economic development and of integrating countries to the global market economy. In most cases, particularly in developing countries there is a low flow of FDI and this implies lack of integration to the global economic market and a poor rate of economic development. On the other hand, there is a school of thought which argues that

FDI does not necessarily bring economic relief to the vast majority of people in developing countries as it could lead to exploitation of low paid workers and environmental degradation. In other words, instead of bringing about development as expected, it could develop underdevelopment.

It was therefore, crucial for this study to look at the ELIDZ and see whether it is attracting FDI, but more importantly, the study scrutinised the character of FDI in the East London IDZ. This study examined the contribution of the multinational corporations in ELIDZ in job creation, technology transfer and environmental protection. It was observed that ELIDZ shows sensitivity when dealing with these issues. Notwithstanding this, multinational corporations when investing in other countries do so not necessarily to meet the economic demands of the host countries but to exploit economic advantages for their own benefit.

Multinational corporations when investing in a foreign country focus on ownership advantages. Most developing countries do not have environments that are conducive to attracting foreign direct investment. In other words, the MNCs will not find “ownership advantages” in those countries and thus not invest in them. Furthermore, most developing countries do not have what is called “locational advantages” as they are unable to put strategies in place that would attract foreign direct investment. The whole notion of using FDI to boost economic development will work for countries that are able to offer both specific and locational advantages to the MNCs.

The other issue which is important to MNCs when investing in foreign countries is the ability of the domestic companies in competing with them. Multinational Corporations look for “monopolistic advantages”, these are advantages they would have over domestic companies.

Once more, this implies that domestic companies will not get an opportunity to grow and develop as they would be competing with companies that are more advanced than them. This is critical in countries like South Africa where there is a need to incorporate previously disadvantaged people into the mainstream of the economy. Their companies will not be able to compete with the advanced companies from other countries. This is what is referred to as ‘crowding out’ of domestic companies and something critics of FDI always voice when FDI is used as a strategy to boost the economy of developing countries.

Policies of host countries are important in attracting FDI but they can also play a role in dispelling it. Developing countries have the huge task of devising economic policies that aim at attracting FDI. This is important for developing countries as there is a scramble for attraction of FDI and developing countries have been experiencing a low flow of FDI especially African countries. What creates a dichotomous situation for developing countries, in particular, is that while they would like to see a high flow of FDI, they might be aware of the negative impact of FDI like exploitation of workers and therefore devise stringent economic policies which in turn dispel FDI.

In addition to stringent economic policies which drive away investors, are economic and political situations which prevail in most developing countries especially in sub-Saharan Africa. Investors are not prepared to invest in countries where there is economic and political instability. What complicates the situation in most African countries is the high rate of poverty, HIV/AIDS, and poor skills.

Furthermore, there is also the challenge of infrastructure in most developing countries. Investors want to invest in countries where infrastructure is developed. In sub-Saharan Africa this is one of the challenges and this implies that there is still going to be a low flow of FDI as poor countries cannot compete with countries that have well developed infrastructure.

For countries like South Africa where the majority of people are mired in poverty and joblessness, there is a need for economic policies that will bring about social inclusiveness and not perpetuate the inequalities of the past. This is obviously the main justification for the wide range of incentives found in the ELIDZ, and the envisaged skills development initiatives as reported to this researcher by a member of the ELIDZ management.

From the study's findings, therefore, the main lesson from the ELIDZ is that attracting FDI, ensuring that foreign companies create jobs, contribute to local skills development and technology transfer, and adhere to strict environmental and labour standards is a balancing act, for both the host government and the foreign companies themselves. Again, from the findings, what is perhaps most important is the fact that with FDI is underpinned a complex array of motivations: foreign companies and host governments are not necessarily motivated by the same set of factors. As such, much of the faith placed in FDI by host governments could very well be false faith.

REFERENCES

Araya, M. (2005). Governing Foreign Direct Investment in sub-Saharan Africa: Policies and Practices Reconsidered in Gallagher and Zarsky, L. (ed) *International Investment for Sustainable Development***,** London: Earthscan.

Babbie, E., Mouton, J., Vorster, P., and Prozesky, B. (2001). *The Practice of Social Research.* South African Edition. Cape Town: Oxford University Press.

Barclay, L.L.A. (2000). *Foreign Direct Investment in Emerging Economies: Corporate strategy and investment behaviour in the Caribbean*. London: Routlege

Bond, P. (2006). Local Economic Development debates in South Africa in *Occasional Papers,* Series Number 6, Municipal Services Project

Brooks D.H., Fan , E. X., & Sumulong , L. R. (2004). Foreign Direct Investment: Recent Trends and the Policy Context in Brooks H.D., & Hill H. (eds) *Managing FDI in a Globalising Economy: Asian Experiences.* Britain: Palgrave Macmillan

Brook D.H., Hill H. (2004). Divergent Views on Foreign Direct Investment and Its Governance in *Asian Development Review*, vol. 21 no. 1, pp 1-36

Chudnovasky D and Lopez A. (2005). Globalisation, Foreign Direct Investment and Sustainable Human Development in Gallagher and Zarsky, L.(ed) *International Investment for Sustainable Development*, London: Earthscan.

Colman D and Nixon F. (1978). *Economics of Change in Less Developed Countries*. Oxford: Phillip Allan.

Creswell J.W. (1979). *Qualitative inquiry and research design: Choosing among five traditions***.** Thousand Oaks, CA: Sage Publications

Donaldson D. J., Sader F., and Wagle D. M. (1997). *Foreign Direct Investment and Infrastructure: The challenge of Southern and Eastern Africa.* The World Bank: Washington, D.C.

DPLG (Department of Provincial and Local Government), (1996). *The South African Framework for Local Economic Development*, *DPLG*, Pretoria.

ELIDZ (East London Industrial Development Zone) *Annual Report 2006/07*

Frank, G. (1969). The Development of Underdevelopment in Roberto, J.J. and A. Hite. (2000). *From Modernisation to Globalisation: Perspectives on development and Social Developments*

Gallagher, K.P., and Gallagher and Zarsky, L. (2005*).* Governing Foreign Direct Investment in Sub-Saharan Africa: Policies and Practices Reconsidered in Gallagher and Zarsky, L. (ed) *International Investment for Sustainable Development,* London: Earthscan.

Henley J., Kratzsch S., Kulur M., and Tandogan T. (2008). *Foreign Direct Investment from China, India and South Africa in sub-Saharan Africa: A New or Old Phenomenon?* Research Paper No. 2008/24 United Nations University: World Institute for Development Economics Research

International Finance Corporation (1997). *Factors Affecting Foreign Direct Investment*. The World Bank: Washington, D.C.

Jenkins C., and Thomas L.(2002). *Foreign Direct Investment in Southern Africa: Determinants, Characteristics and Implications for Economic Growth and Poverty Alleviation***.** Oxford: CSAE.

Lincoln, S.L. and Guba, E.G. 1985. *Naturalistic Inquiry.* London: Sage.

Mbeki, M. (2009). *Architects of Poverty: Why African Capitalism Needs Changing*. Picardo Africa: Johannesburg

Michalet, C.A.(1997). *Strategies of Multinationals and Competition for Foreign Direct Investment.* The World Bank, Washington, D.C.

Mikich, S. (2002). Interview with Nobel Prize winner Joseph Stiglitz in German Television (ARD, Monitor) broadcast on the 13th of May 2002.

Mugabe, J. (2005*).* Governing Foreign Direct Investment in Sub-Saharan Africa: Policies and Practices Reconsidered in Gallagher and Zarsky, L. (ed) *International Investment for Sustainable Development***,** London: Earthscan.

Mwilima, N. (2003). *Foreign Direct Investment in Africa*. Social Observatory Pilot Project – Final Draft Report - FDI

Ntwala, M. (2003). *Foreign Direct Investment in Africa.* Social Observatory Pilot Project – Final Draft Report – FDI, Africa Labour Research Network.

Rowley, C. and Benson, J. (2004). *Globalisation and Labour in the Asia Pacific Region.* London: Routledge.

Rucker, A. and Trah, G. (2006). *Local and Regional Economic Development (LRED): Towards a Common Framework for GTZs LRED Interventions in South Africa.* DGTZ LED Project, Pretoria

Ryan, A., Gounden, Y., Mushayanyama T. (2006). *Inventory of a Free Trade Zone: Industrial Development Zones in South Africa.* WHSA Southern Africa Project Report 3.6.1

Taft, R. (1988). Ethnographic Research Methods in J. P.Keeves (ed) *Educational Research, Methodology and Measurement: An International Handbook.* Oxford: Pergamon Press.

Tay, S.S.T. and Tan, I. (2005*).* Governing Foreign Direct Investment in Sub-Saharan Africa: Policies and Practices Reconsidered in Gallagher and Zarsky, L. (ed) *International Investment for Sustainable Development*, London: Earthscan.

Tang, V. (2008). *Zoning in on South Africa's Industrial Development Zones.* TIPS Annual Forum

Tham Siew- Yean (2004). Malaysia in Brooks H.D. and Hill H. (eds) *Managing FDI in a Globalising Economy: Asian Experiences,* Britain: Palgrave Macmillan

Trade and Investment South Africa (2001). Foreign Direct Investment in South Africa in *OECD Global Forum on International Investment: New Horizons and Policy Challenges for Foreign Direct Investment in the 21st Century***,** Mexico City: Mexico

Ruccio, D.F. and Simon, L.H. (1992). Perspectives on Underdevelopment: Frank, the Modes of Production School, and Amin in C.K. Wilber and K.P. Jameson (eds) *The Political Economy of Development and Underdevelopment*, New York:McGraw-Hill, Inc.

Weigel, D.R., Gregory, N. F., and Wagle, D.M. (1997). The Role of FDI in Developing Countries**,** International Finance Corporation, Washington D.C.: USA

Xiaolu Wang (2004). People's Republic of China in Brooks H.D. and Hill H. (eds) *Managing FDI in a Globalising Economy: Asian Experiences*, Britain: Palgrave Macmillan

Yin, R.K. (1984). *Case Study Research: Design and Methods*. Beverly Hills: Sage

Internet References

Arvanitis A. (2006) *Foreign Direct Investment in South Africa: Why Has it Been So Low?* http://www.mf.org/external/pubs/nfi/2006/soafrica/eng/pasoafr/sach5.pdf

Malaysian Industrial Development Authority. http://210.187.41.3/beta/print.php?cat=1&scat=2355

Moolman, C. E. and others (2006) *Foreign Direct Investment: South Africa's Elixir of Life?*

http://www.up.ac.za/up/web/en/academic/economics/index.html

Department of Trade and Industry (2008). www.dti.gov.za

Hazelhurst, E. (2007) Business Report
http://www.busrep.co.za/general/print_article.php?fArticleld=3896655&fSectionld=561&f...

Hume, C.R. (2004) *Foreign Direct Investment in South Africa* http://southafrica.usembassy.gov/hume040630.html

East London IDZ woos investors – South Africa.info (2003) http://www.southafrica.info/pls/procs/iac.page?p

China to help Build Export Processing Zone in S Nigeria (2009) http://www.china.org.cn/english/features/focac/187580.htm

Mabindla, N. (2009) Local economy benefits from Zones success
http://www.elidz.co.za/article _print.asp?id=35

SouthAfrica.Info (2009) *Investor vote of confidence in SA* – SouthAfrica.info
http://www.southafrica.info/pls/procs/iac.page?

Southafrica.Info (2006) *SA Investment inflows on a high*
http://www.southafrica.info/business/investing/fdi-2005.htm

The A-Z of IDZs – SouthAfrica.info (2009) http://www.southafrica.info/pls/procs/iac.page?

UNCTAD (2004) *For Five African Least Developed Countries, 2002 A Bad Year for FDI.*
http://www.globalpolicy.org/socecon/ffd/fdi/2004/0213africa.htm

Yoo-Yoo Yeh (2004). *Global Perspectives on Human Language: The South African Context*
http://www.stanford.edu/~jbaugh/saw/Yoo-Yoo_Literacy.html

APPENDIX A

15 February 2012

To Whom It May Concern

Dear Sir / Madam

DATA COLLECTION – REQUEST FOR ASSISTANCE

This letter serves to confirm that……………………………………………………………………

(Student No: …………………………………………………………………………………….)
is a registered Masters student in the Department of Sociology and Industrial Sociology for an Masters of Social Science in Rural Development at the University of Fort Hare, East London campus.

He/she is currently collecting empirical data to enable him/her complete a research project, which is a major requirement for the degree.

We would greatly appreciate whatever assistance you can offer to enable him/her to successfully fulfill this important aspect of the degree requirements.

Please be assured that the data collected are strictly meant for academic purposes.

Many thanks.

Yours sincerely

DR. PHILANI MOYO
Head of Department

APPENDIX B

Schedule of Interview with a senior ELIDZ manager

1. What incentives do you use to attract FDI to ELIDZ?
2. How do you ensure that the foreign companies investing in ELIDZ contribute to technology transfer and skills development?
3. How do you ensure that foreign companies show sensitivity to protection of environment?
4. What strategies do you use to protect low paid workers from exploitation?
5. I see that your focus is on three key sectors; automotive, information and communication technology (ICT) services and component manufacturing. Any specific reasons for focusing on these and how are these sectors doing?
6. How is ELIDZ doing on job creation?
7. What would you say are the challenges of the ELIDZ?

APPENDIX C

Questionnaire for the Workers

Answer all questions
Nceda phendula yonke imibuzo
Mark with a tick to show your answer.

1. Would you be employed if this company did not employ you? *Ucinga ukuba ngowuqeshiwe ukuba lenkampani yayingakuqeshanga*?	Yes	No
2. Are you happy with the conditions under which you work? *Ingaba wanelisekile zimeko ophangela phantsi kwazo*	Yes	No
3. Are the rights of the workers respected in this company? *Ingaba amalungelo abasebenzi ahlonitshiwe na kule nkampani?*	Yes	No
4. Are you satisfied with your wages? *Ingaba uyaneliseka na ngumvuzo wakho*?	Yes	No
5. Have you gained any skills by working for this company? *Ingaba bukho na ubuchule nolwazi othe walufumana ngokusebenzela le nkampani?*	Yes	No
6. Do you think this company respects environmental protection? *Ucinga ukuba le nkampani iyaluhlonipha ukhuseleko lwendalo nokusingqongileyo*?	Yes	No
7. What would you say this company must do to improve job creation, skills transfer and protection of the environment? *Zintozini ongathi le nkampani mayizenze ukuvula imisebenzi, ukuxhobisa abasenzi ngobuchule nobuchwepheshe bale mihla, kwanokukhusela indalo nokusingqongileyo*?		

APPENDIX D

Schedule of Interview with a Company Manager

1. Can you briefly tell me what your enterprise is about?
2. How is business in this field doing?
3. What would make you decide to invest in another country?
4. How many people are employed in your enterprise?
5. What skills would say your employees have gained for working in your company?
6. What prompted you to operate in the ELIDZ?
7. What measures do you take to protect the environment from degradation during the process of making your products? Any policies on this that you can share with me?

APPENDIX E

Workers' Response to the Questionnaire

Questions	Number of Respondents	
	Affirmative	Negation
Would you be employed if this company did not employ you?	27	7
Are you happy with the conditions under which you work?	20	14
Are the rights of the workers respected in this company?	16	18
Are you satisfied with your wages?	28	6
Have you gained any skills by working for this company?	18	16
Do you think this company respects environmental protection?	29	5

APPENDIX F

Questionnaire for the workers (2011)

How many people are working in your family? Bangaphi abantu abasebenzayo kowenu?				
How many children do you have? Bangaphi abantwana bakho?				
How many children are still at school? Bangaphi abasafundayo?				
Where do you stay? Uhlala phi?	RDP house	Own house	Renting	shack
Do you have a house in a rural area? Ingaba unawo umzi ezilalini?				
For how long have you worked for this company? Unethuba elingakanani usebenza apha?				
Choose the amount that more or less reflects your salary. Khetha isixa esibonisa umyinge wemali oyamkelayo.	R3000+	R5000+	R7000+	R10000+
	Ngaphantsi kwe R3000			

APPENDIX G

Schedule of Interview with an ELIDZ manager

1. What does the waste sorting station do?
2. What conditions do you put to your tenants to safeguard the environment?
3. Have you ever experienced problems of non compliance by tenants with your preconditions?
4. Do companies report their waste generation and management activities?
5. How is ground water quality monitored? Why/ How often and to what effect?
6. Air quality is also monitored. How and how? And how often?

---

[i]According to Lincoln and Guba (1985:301-318), member checking is a data validation process whereby a researcher returns to the field to seek a second chance of meeting with his or her research subjects (or a subset thereof) for the purposes of checking of the data initially collected from them (and/or the researcher's interpretations of such data).