Dissertation
By FRITZ IKOME NGANJE

Faculty of Human and Social Sciences of the North-West University, South Africa

AN INVESTIGATION INTO THE IMPACT OF FOREIGN DIRECT INVESTMENTS ON THE ACHIEVEMENT OF THE MILLENNIUM DEVELOPMENT GOAL OF POVERTY REDUCTION IN SOUTH AFRICA

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BY

FRITZ IKOME NGANJE
(17053765)

A Mini-Dissertation Submitted in Partial Fulfillment for the Degree of Master of Arts in Peace Studies and International Relations from the Faculty of Human and Social Sciences of the North-West University, South Africa

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SUPERVISOR: DR. KALE EWUSI July 2007

DECLARATION

I, Fritz Ikome Nganje declare that, the mini-dissertation titled: *An Investigation into the Impact of Foreign Direct Investments on the Achievement of the Millennium Development Goal of Poverty Eradication in South Africa*, has not been submitted by me at this or other university; that it is my own work in conception and design and that all material contained herein has been duly acknowledged.

Mmabatho, July 9, 2007

Sign:..

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DEDICATION

Dedicated to the solidarity of the millions braving the effects of excruciating poverty and deprivation all over the world

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LIST OF ACRONYMS

ANC	African National Congress
AIDS	Acquired Immune Deficiency Syndrome
ASGISA	Accelerated Shared Growth Initiative of South Africa
CIT	Company Income Tax
COSATU	Congress of South African Trade Unions
DPLG	Department of Provincial and Local Government
ECLAC	Economic Commission for Latin America and the Caribbean
FAO	Food and Agricultural Organization
FDI	Foreign Direct Investments
GDP	Gross Domestic Product
GEAR	Growth, Employment and Redistribution Strategy
HIV	Human Immuno Virus
HSRC	Human Science Research Council
IDP	Integrated Development Planning/Plan
IMF	International Monetary Fund
LED	Local Economic Development
LBS	London Business School
M&A	Merger and Acquisition
MDGs	Millennium Development Goals
MNC	Multinational Company
NEPAD	New Partnership for Africa's Development
OECD	Organization for Economic Cooperation and Development
PRSP	Poverty Reduction Strategy Paper
RDP	Reconstruction and Development Programme
SARB	South African Reserve Bank
SARS	South African Revenue Service
SARPN	Southern African Regional Poverty Reduction Network

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SETA	Sector Education and Training Authority
STC	Secondary Tax on Companies
UN	United Nations Organization
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNICEF	United Nations Children Emergency Fund

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ABSTRACT

The study set out to examine the impact of foreign direct investments (FDI) on efforts to significantly reduce poverty in South Africa by 2015. The research drew largely from official documents, research findings and survey reports. Primary data were also collected through interviews with experts in the field. The study found that in the South African context, the contributions of FDI to employment has been very insignificant since the end of apartheid. As such, for a country with unemployment rates in excess of 40%, the benefits of FDI in reducing poverty need to be found elsewhere than in their potential to engender growth that would absorb the poor into the active labour force and provide them with some means of income.

Moreover, it was established that FDI have directly and indirectly contributed to skills upgrading, particularly amongst high-skilled blacks. But in doing so, they have also worsened the skills bias in the labour market. This development was found to have deepened inequality, especially among blacks, with serious negative implications for the realization of the MDG of poverty reduction.

The study also found that tax revenues collected from foreign firms, just like those collected from their domestic counterparts contribute greatly to sustain the government's poverty reduction programmes. However, it was also noted that in some municipalities, the incidence of poverty has been amplified by the operations of foreign firms that have assumed the role of service providers.

Based on these findings, a number of recommendations were advanced. These include: the need for improved skills development programmes that would target especially those at the bottom of the skills ladder; policies and measures that would stimulate foreign investments in labour-intensive sectors; and a review of South Africa's labour regulations.

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FDI and the MDG of Poverty Reduction in South Africa[1]

BY

FRITZ IKOME NGANJE

Department of Politics and International Relations,
North West University, Mafikeng Campus, Private Bag X2046 Mmabatho 2735

Email: nganjef@yahoo.com

Cell: 078 439 4358

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ABSTRACT:

The paper examines the link between Foreign Direct Investments (FDI) and the drive to significantly reduce poverty in Africa within the framework of the Millennium Development Goals (MDGs). Using South Africa as a reference point, the paper argues that under the prevailing circumstances, FDI provide little hope for the fight against poverty in the continent. While significant strides have been made by African countries to attract FDI, these efforts have not been matched by a corresponding improvement in the lives of the poor. In the South African case, policy expectations that an influx of FDI would create jobs and provide the poor with some means of income are far from being realized. This has been blamed primarily on the mode of entry and capital-intensive nature of most investments, but also on the strength of trade unions. Of greater concern, however, is the propensity of these investments to exacerbate inequality and deepen poverty in South Africa. The paper highlights that while FDI have directly and indirectly contributed to skills upgrading in South Africa, in doing so, they have also worsened the skills bias in the labour market. This development is noted to have deepened inequality, especially among blacks, with serious negative implications for the realization of the MDG of poverty reduction. Recommendations are made for improved skills development programmes; policies to attract labour-intensive FDI & a review of SA's labour legislation. A strong case is also made for further research on the issue, comparing the situation in SA with that in other African countries.

[1] The paper is an extract from a mini-dissertation titled: *An Investigation into the Impact of FDI on the Achievement of the MDG of Poverty Reduction in South Africa*, submitted by the author in partial fulfillment of the requirements for the award of an MA in Peace Studies & International Relations from the Faculty of Human & Social Sciences of the North-West University, South Africa.

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1. Introduction

A reference to Africa and the Third World has become synonymous with an allusion to underdevelopment, marked by widespread poverty. Considered in all its dimensions, this state of extreme poverty has brought untold deprivation and misery to the people of the Third World in general and sub-Saharan Africa in particular. It is estimated that more than one billion people in these countries live on less than one dollar a day, leaving them with inadequate drinking water, basic shelter, sanitary and health facilities. Worse still, literacy and education are considered to be beyond the dreams of many (Balaam & Veseth, 2001; Rourke, 2005).

The causes of poverty in Africa have been widely debated, with the most contention settling on whether the factors that perpetuate this phenomenon are endogenous or exogenous. Those who blame Africa's poverty on external factors do so with an accusing finger pointing primarily at the unequal and unjust global trade regime, but also at the incidence of the debt restructuring and development aid schemes championed by the World Bank and the International Monetary Fund (IMF) (Chikulo, 2001). Advocates of the endogenous school of thought on their part argue that Africa's poverty is driven largely by widespread corruption, bad governance and poor development choices (Calvocoressi, 1985). As a result of this dichotomy, the will to address Africa's poverty pandemic has in the past been lost in the blame game between the continent's leadership and their Western benefactors. This had ensured that poverty reduction initiatives merely attended to the symptoms and not the underlying causes of the problem.

The past decades have however witnessed a tremendous shift in the perception and approach in tackling the twin problems of poverty and underdevelopment in the Third World. Born perhaps from the realization that continuous poverty and misery in these countries breed instability that renders the entire world vulnerable (see Ikome and Samasuwo, 2005), more and more concerted efforts have been made at the international level to support Third World development. One of such efforts creates a partnership between the developed and the developing countries, and brings the latter into a position

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where they are able to make commitments to meet certain development goals and targets, albeit with the support of the former. Officially referred to as the Millennium Declaration, this initiative operates under the auspices of the UN, and establishes a set of simple but powerful objectives (the Millennium Development Goals), which if achieved, will meet the basic needs of the world's poorest (UNDP, 2005).

Much to the chagrin of some African development scholars (see Tandon, 2000; 2002), both the UN and the New Partnership for Africa's Development (NEPAD) have without any reservations hinged the achievement of the MDGs in Sub-Saharan Africa on the success of efforts at increasing the inflow of Foreign Direct Investments (FDI) into the region. The UN Millennium Declaration for example, states the resolve of the UN "… to take special measures to address the challenges of poverty eradication and sustainable development in Africa, including … *increased flows of Foreign Direct Investment*, as well as transfers of technology".[2] The perceived importance of FDI in eradicating poverty is also reflected in the NEPAD working document, which stipulates that in order for the continent to achieve the MDGs, the region "…needs to fill an annual resource gap of 12 per cent of its GDP, or US $64 billion."[3] Since income levels and domestic savings in the region are low, the architects of NEPAD argue, a bulk of the finance will have to come from abroad. However, as Asiedu (2005) argues, official assistance to the region has been declining and most of the countries in the region do not have access to international capital markets. As a consequence, the resources needed for poverty alleviation have to come from FDI.

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However, experience from most developing countries has revealed that FDI, which operate through MNCs, are a mixed blessing. They can have both positive and negative impacts on the host economy. This owes to the fact that MNCs are driven primarily by profit motives. As argued by Balaam & Veseth (2001: 353), while MNCs can make significant contributions to the economic growth of developing countries, they

[2] *See Paragraph 28 of the UN Millennium Declaration, September 2000*
[3] *See Paragraph 144 of the Official Working Document of NEPAD, October 2001*

nonetheless represent forces that exacerbate inequality and exploitation. In most cases therefore, the policies and activities of these corporations come into conflict with the desired human development objectives reflected in the MDGs. Using the South African example, this paper analyses the intricate and often controversial connections between FDI and poverty reduction in Africa and in the process questions the wisdom behind policies that make the realization of the MDGs dependent on these investments.

2. Conceptualizing Poverty and Foreign Direct Investments

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2.1 Poverty

Poverty is not a self-defining concept. Experts and academics have suggested many definitions over time, leaving behind the impression that there is no single correct definition of the concept. A review of the various definitions of poverty reveals that they differ primarily on account of how extensive or narrow the concept is measured. While writers like Nolan and Whelan (1996) limit poverty to the lack of resources, especially income, to maintain an acceptable and reasonable standard of living in society, others such as McNamara (1980) and Thorbecke (2005) have broadened the concept to consider non-material aspects such as human rights, freedom, dignity and self-esteem. According to Lister (2004), while it is not recommended to lose sight of the importance of the more symbolic aspects of poverty and especially the way these impact on the material aspects, there is a strong case for a more focused approach to defining the concept. She builds her argument on the assertion that definitions that are too broad serve to crowd out the distinctive notion of poverty, adding that aspects of deprivation such as lack of political participation, freedom of expression, or human dignity and self-esteem "are not unique to the condition of poverty; they are also associated with other conditions such as being Black in a White-dominated society" (Lister, 2004: 13).

Also important in the conceptualization of poverty is the debate on the role of income. The seminal works of Amartya Sen provide a useful insight into this debate. At the heart of Sen's (1985) argument is the idea that an individual has a space of *functionings*, which include what a person is actually able to do or be (realized functionings) and the set of alternatives open to him/her (real functionings or capabilities). He further argues that money is just a means of achieving functionings, and that economic and personal factors play a major role in the way money is converted into functionings or capabilities. For example, he argues, though a disabled person may earn the same income as a non-disabled person, the capability to function of the former may still be lower than that of the latter because of the difficulty in converting income into functionings imposed by the disability. Sen therefore posits that poverty should be defined not in terms of low income, but in terms of the failure of an individual's "basic capabilities to reach certain minimally acceptable standards" (1992: 109).

Sen's notion of poverty as capability failure without doubt serves to enhance the understanding of the concept. However, the position adopted in this paper leans towards Lister's (2004) contention that low income remains a major factor in the definition of poverty. She argues that though money is a means and not an end, in comodified and wage-based societies like that of South Africa, money and the lack of it thereof determines who is considered poor and who is not.

In conceptualizing poverty, an important distinction is also made between absolute and relative poverty. Absolute poverty is used to denote a situation where people lack the necessary food, clothing, or shelter to survive (Ray, 1998). The defining element of absolute poverty is its reference to the actual needs of the poor, divorced from their social context. This is what separates it from relative poverty, which according to Townsend (1993: 36) occurs when people cannot afford the resources to live the kind of life that is expected of an average person in a given society. In other words, people are considered to be poor, in the relative sense, not by comparing them to some preset standard, but by comparing them to others in the same society (Ray, 1998). Implied in the notion of

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relative poverty is the concept of inequality, which of course opens up a political debate as to what interventions should be considered for the reduction of poverty. As Lister (2004: 34-35) observes, "if poverty is defined in narrow, absolutist terms, the role ascribed to government and the resource implications for the policies needed to eradicate it are considerably more limited than if it is defined to" reflect the inequalities within societies.

This debate is played out in the literature on pro-growth versus pro-poor growth strategies for poverty reduction. Partisans of economic growth strategies such as Dollar and Kray (2001),who also favour the absolute definitions of poverty argue that measures that stimulate economic growth would not only increase the income of the rich, but would benefit the poor as well. Their argument is built on the assumption that if the national economy is expanded, the different groups and classes in society would be automatically uplifted and thus begin to enjoy high standards of living. This position is contested by pro-poor growth strategists (see for example Lopez, 2004; Bourguignon 2004; Fuentes, 2005) who have their eyes fixed on the implications of inequalities on economic growth. They argue that in highly unequal societies like those in Africa, Asia and Latin America, effective poverty reduction interventions would focus more on issues of redistribution than on mere economic growth.

Finally, it is pertinent to highlight the importance of redistribution or pro-poor growth strategies in relation to the time horizon of poverty eradication. Fuentes (2005) points out that a shift in the distribution of income and growth accelerates poverty reduction and thus reduces the time horizon of poverty eradication drastically, especially in the context of achieving the Millennium Development Goals. This argument is supported by the findings of a study carried out by the United Nations Development Programme (UNDP) and the Economic Commission for Latin America and the Caribbean (ECLAC) on Latin American countries. It concludes that in Brazil, pro-poor growth would save the median household 20 years in poverty on average relative to just growth without redistribution.

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This translates into almost a complete generation escaping from poverty (UNDP & ECLAC, 2002).

2.2 Foreign Direct Investments

O'Brien & Williams (2004) define Foreign Direct Investments (FDI) as investments made outside the home country of the investing company in which control over the resources transferred remains with the investor. It consists of a package of assets and intermediate goods such as capital, technology, management skills, access to markets and entrepreneurship. The emphasis this definition puts on control over resources serves to distinguish FDI from Foreign Indirect or portfolio investments. In the case of the latter, only financial resources are transferred between two independent economic agents through the modality of the market, and control over the resources is relinquished by the seller to the buyer.

A distinction is usually made between Greenfield FDI and Merger and Acquisition (M&A) FDI. While the former is used to denote investments that involve mostly new assets, the latter basically entails a transfer of ownership of existing assets from local to foreign firms (Mwilima, 2003). Although M&As offer the best mode of investment for companies wishing to enhance their competitiveness, concerns have been raised about their suitability for Third World development. According to the United Nations Conference for Trade and Development (UNCTAD), compared to Greenfield investments, FDI through M&As come with little benefits for the host country, and may even trigger negative effects. Among other things, M&As do not generate employment at the time of entry into the host economy as do Greenfield investments. On the contrary, M&As may lead to lay-offs as the acquired firm is restructured (UNCTAD, 2000).

Commenting on the motivations FDI, Balaam and Veseth (2001) write that these investments are usually carried out by large firms possessing some particular competitive

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advantage that they do not want to share with competitors. These firms tend to become multinational so they can enjoy the advantages of locating in a foreign site. Such locational advantages include getting under trade barriers, operating close to large markets, and access to raw materials inexpensive labour. However, Balaam and Veseth (2001) contend that as more and more firms become multinational, discussions of FDI have concentrated less on their motivations and focused more on how these firms behave as multinationals. In other words the major debate on FDI centers around their impact on the host country.

The controversy over the merits of FDI is a battle of words between economic liberals and dependency theorists. The former posit that as part of a free market system, FDI have a positive developmental effect on Third World economies. They argue that among other benefits, FDI come with much needed capital and technology, contribute to employment and skills development, and also help to integrate the local economy with the global marketplace (Balaam and Veseth, 2001). This view is not shared by dependency theorists who consider FDI together with foreign trade and aid as mechanisms for entrenching the dependency and exploitation of the Third World. More specifically, they argue that FDI contribute to capital flight from the host country, destroy the local economy, exploit workers, and exacerbate income inequality (Mwilima, 2003; Gray, 2002).

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Without seeking to downplay the arguments highlighted above, the approach that is favoured in this paper is that advocated by Modern Mercantilists. This optimistic but cautious approach attempts to strike a balance between the views of economic liberals and those of dependency theorists. As reflected in the next section of the paper, this approach theorizes that FDI have the potential of contributing to poverty reduction in Africa, but only under certain conditions. It argues that a fairly developed local industry and a strong government to oversee the activities of multinational companies are prerequisites for the realization of the benefits of FDI in the Third World (Jackson and Sorensen, 2003: 209).

2.3 Conceptual Issues on the Role of FDI in Poverty Reduction in Africa.

The linkages between FDI and poverty reduction is quite complex. While the overall benefits of FDI for developing country economies have been well documented, the consensus in the literature however is that such benefit can only be maximized under appropriate host-country policies and a basic level of development. In fact, Obwona and Mutambi (2004) argue that in principle there is no direct link between FDI in Africa and poverty reduction. In other words, FDI may result in significant poverty reduction effects only if a number of prerequisites are in place. If not, the FDI effects may be zero or even negative. This position is echoed by Addison & Mavrotas (2004) in their assertion that FDI can contribute to the MDGs by generating employment and via its revenue effects. However, they caution, these potentially strong development benefits of FDI can only be realized if the host country has a clear vision of how FDI fits into its overall development strategy. By implication, FDI is a useful, but not a miracle, ingredient for development.

While acknowledging and emphasizing the fact that many FDI impacts are inherently difficult to measure, Tambunan (2004) has outlined three concrete ways in which in the contributions of FDI to poverty reduction in developing countries can be measured: through labour-intensive economic growth, through transfer of new technology, knowledge or other intangible assets, or through the allocation of tax revenues collected from foreign firms. This framework will be employed to measure the impact of FDI on poverty reduction in South Africa.

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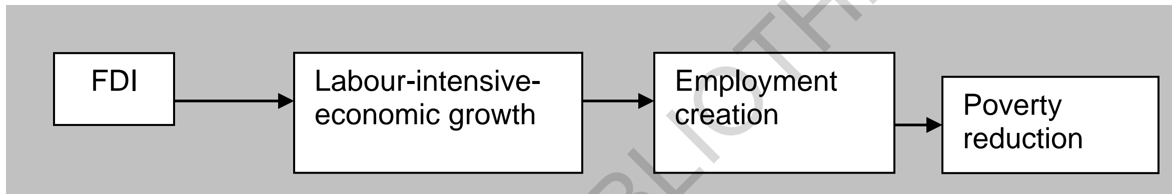
2.3.1 Poverty Reduction through FDI-induced Labour Intensive Growth[4]

The presumed relationship between FDI and poverty reduction through the creation of employment is represented in Figure 1 below. This approach to measuring the

[4] All the diagrams in this section are adapted from *Tambunan (2004).*

contributions of FDI to poverty reduction has as its starting point the highly contested trickle-down effects of economic growth .It posits that, other things being equal, a larger presence of FDI is associated with a faster economic growth, and the latter is associated with a faster growth of employment, and a rapid reduction of poverty. According to this model, however, FDI-induced economic growth on its own would not automatically generate benefits for the poor. The effective way to transfer the benefits of FDI to the poor would be through labour-intensive or employment-creation economic growth (Tambunan, 2004).

Figure 1: Relation between FDI and Poverty Reduction through Economic Growth



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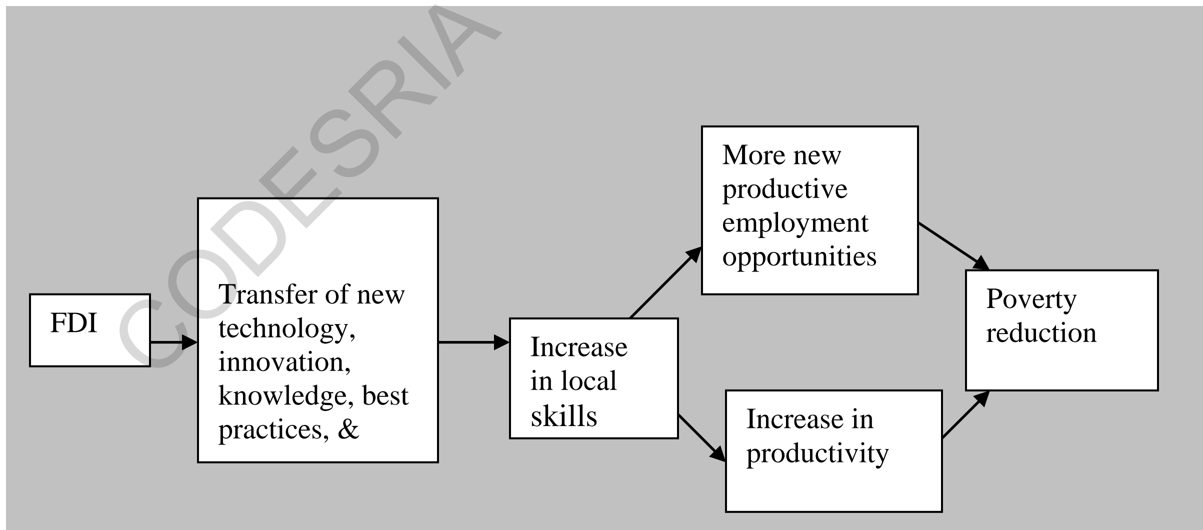
The contribution of FDI-led growth to poverty reduction through employment is not always simple as suggested in the sketch above. The works of Gardiner (2000); Jenkins & Lynne (2002) and te Velde & Morrissey (2002) highlight the fact that in some cases even if foreign firms do succeed in creating employment, the benefits may not be evenly distributed, thereby exacerbating inequality. Their works come with an important conclusion that when it comes to employment in developing countries, foreign firms tend to pay attention only to skilled workers, to the exclusion of those with less skill. These firms tend to promote the interests of a small number of local factory managers and relatively well paid modern-sector workers against the interests of the rest of the population.

2.3.2 Poverty Reduction through FDI-Transferred Technology, Knowledge, and other Intangible Assets

Figure 2 depicts the assumed relationship between FDI and poverty reduction through the transfer of intangible assets such as skills. It is believed that theoretically, the diffusion of new technologies, innovations, knowledge, new best practices and other intangible assets from FDI will increase efficiency and productivity, and hence income per worker in the host country. Jenkins and Lynne (2002) for example, assert that if FDI serves to multiply job opportunities in host countries, this will not only help to address unemployment and raise wages, but would also encourage investment in human capital through the transfer of skills and knowledge to the local workforce via both on-the-job and specialized training. According to them, one way in which skills may be transferred from FDI-based foreign firms to locals is via joint ownership of assets. That is, if foreign firms permit domestic investors to hold a share of the equity, this would not only result in the sharing of profits, but would also lead to the diffusion of human capital.

Figure 2: Relation between FDI and Poverty Reduction through the Diffusion of New Technologies, Innovations, Knowledge, Best Practices, and Other Intangible Assets



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Unfortunately, the concern of inequality highlighted above is very much present here, also. This is highlighted in the writings of Cockcroft & Riddell (1991) and those of te Velde (2002) who contend that in most developing countries, particularly in Africa where there is an abundance of low-skilled labour, the diffusion of technology and other best practices by FDI does not work very well. This is attributed chiefly to the fact that many foreign firms in developing countries are capital-intensive. These firms tend to introduce new and skilled-biased technologies that push the low-skilled out of the job market. The message that seems to emerge from these analyses is that in order to effectively measure the impact of FDI on poverty reduction via its contribution to human capital formation, the main focus should be on the degree to which skills development programmes benefit the less-skilled workers.

3.3.3 Poverty reduction through the Allocation of FDI-generated Tax Revenue

A third linkage between FDI and poverty reduction is made possible through taxation of foreign subsidiaries, which raises government revenues, which in turn can be used to fund various social development programs. Such programmes include productive improvement and development of labor-intensive economic activities or poverty alleviation-oriented projects. The relationship between FDI and poverty reduction via tax revenue collected from foreign firms is sketched in Figure 3 below.

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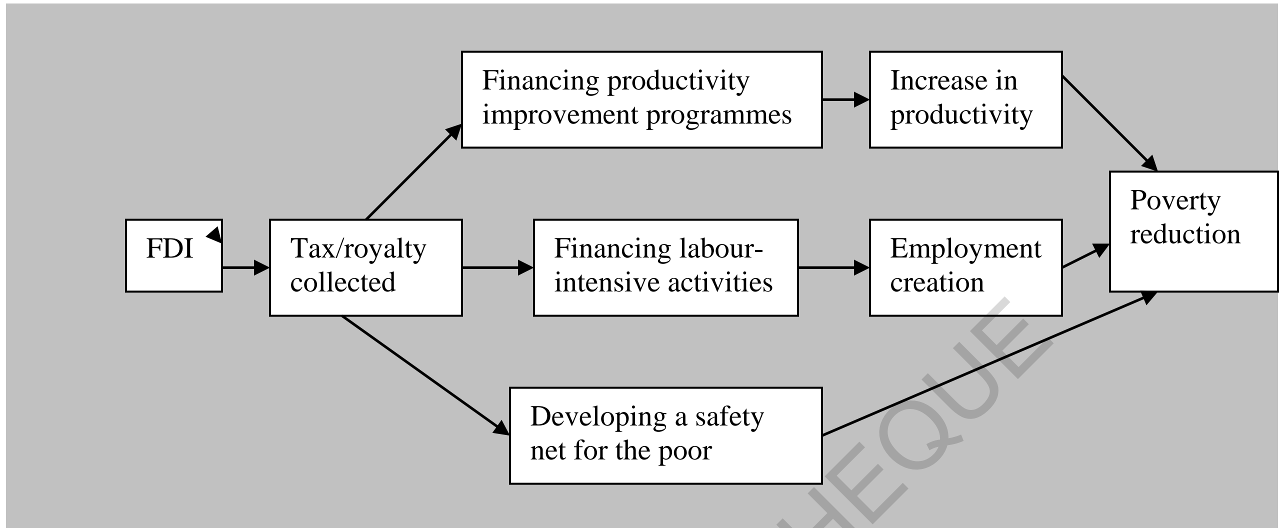
Figure 3: Relation between FDI and Poverty Reduction through Tax Revenue collected from FDI-based firms.



The indirect contributions of FDI to poverty reduction through its tax revenue effect would definitely depend on two major factors: the policies and agreements that are in place to ensure that tax revenues are effectively collected and how the government in place actually distributes these resources. In the first instance, the UNCTAD (1999) has noted that the issue of transfer pricing and other corrupt practices by MNCs remains a major concern for developing countries, robbing governments of much-needed resources for poverty reduction. In the second instance, Tambunan (2004) points out that the correlation between FDI-generated revenue and poverty reduction can only become potent if the collected tax from FDI is in effect used for financing employment creation or poverty reduction programmes. These could take the form of developing labor-intensive projects or small and medium enterprises. Alternatively, such revenue could be employed to support the development of a safety net for the poor, say, in the form of social security grants.

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4 FDI & the MDG of Poverty Reduction in South Africa

Since the demise of Apartheid in 1994, South Africa has witnessed an increase in the inflow of FDI, with its large domestic market being the most determinant factor in attracting FDI. Despite having some of the world's richest resources, and a well-developed mining industry, South Africa attracted more FDI into business services and telecommunications than mining between 1994 and 2002 (Business Map Foundation, 2002). In congruence with the general trend in the continent, a large part of FDI over this period has been made in existing assets. In other words, cross-border mergers and acquisitions are increasingly prominent, accounting for more than 60 percent of the total. Greenfield investment has been relatively uncommon in South Africa over the years (Arvanitis, 2005).

In this context, the contributions of FDI to the fight against poverty have been very disappointing. Unarguably, FDI have been significant driving forces behind the sustained high growth rates recorded in the country in recent years. However, evidence points to the fact that much of the FDI-induced growth has not benefited the poor. In terms of mitigating income poverty via job creation, Gelb[5] notes that very few jobs have been added to the labour force by foreign firms over the last fifteen years, especially as most investments that have come into the country during this period have been in the services and mining sectors, which are not labour intensive. Besides, he argues, most EU and North American companies that form the bulk of new FDI inflow into South Africa are medium-size companies that have not been able to create large-scale jobs, as is the case in the emerging economies of Asia. According to Gelb,[6] the failure of FDI to contribute to substantial employment in South Africa can be attributed primarily to the strength of trade unions that has resulted in huge wage gains for workers relative to low productivity in the manufacturing sector. This situation has made the South African environment less

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[5] Professor Stephen Gelb is the Executive Director of the EDGE Institute in South Africa, and is also Visiting Professor of Economics, University of Witswaterands. Prof. Gelb has carried out extensive surveys on FDIs in South Africa. The researcher interviewed him on Thursday, June 21st 2007 at 09: 15 am at the EDGE Institute in Johannesburg.
[6] ibid

attractive to those foreign firms that would have loved to take advantage of the pool of low-skilled labour the country has to offer.

This argument of marginal employment by foreign firms in South Africa is further sustained by evidence from a qualitative survey conducted amongst the members of the Southern African-German Chamber of Commerce and Industry in 2000[7]. The results of the survey reveal that since 1995, the majority of respondents (70%) had not been creating any new jobs, and that a vast majority of German firms in South Africa employ less than 100 employees. Just like Gelb, the survey results further suggest that the activities of labour unions and low labour productivity have been prime barriers to job creation by German firms in South Africa. About 53% of German firms surveyed indicated that labour market regulations do indeed restrict further employment of local labour.

A study by Bhorat and Poswell (2003) provide a related explanation to the marginal contributions of FDI to employment-creation in South Africa. It concludes that the type of foreign direct investment South Africa has received since 1995 has not been of the kind that would stimulate economic development. Rather, South Africa's FDI flows appear to be more likely either to have no impact on employment or to lead to short-term job losses. Shedding light on this trend, Altman[8] highlights that most foreign firms that have entered the country during this period did not establish new operations in the form of Greenfield operations. A greater part of foreign investments has been in the form of partial or full acquisitions as firms have sought to benefit from the large size of the market and at the same time mitigate the risks of investment associated with strong labour regulations. Thus, as Gelb & Black's (2004) study show, most affiliates of foreign

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[7] The findings of the sixth survey of German enterprises in South Africa by G. Pabst are discussed in Gilroy et al. (eds.) (2005) *Multinational Enterprises, Foreign Direct Investments and Growth in Africa*: *South African perspectives.* New York: Physica-Verlag. It should be noted however that the recent survey conducted by Dr. G. Pabst on German firms in South Africa in 2006 claims there's been an addition to the labour force by German firms, though no figures are given. The issues of labour regulation and low labour productivity are still identified as barriers to employment in the 2006 survey.
[8] Dr. Miriam Altman is the Executive Director of the Employment, Growth & Equity Initiative of the HSRC. The researcher interviewed her on Thursday, June 21st 2007 at 13: 30 pm at the HSRC in Pretoria.

firms in South Africa have been found to be outsourcing substantial shares of their operations while restricting their own activities to strategic management, marketing and technical services. Similarly, others are engaging in service provision, in contrast to the production activities of other affiliates of their parents elsewhere or in contrast to their original intention on entering the South African market. Such practices have had little effect on employment creation in the country.

Further evidence for the lack of employment-creation by foreign firms in South Africa has also come from Jenkins & Lynne (2002). They argue that foreign firms in the country increasingly adopt capital-intensive modes of production, using technologies developed abroad with other markets in mind. The increasing use of capital-intensive modes of production in South Africa is however not limited to foreign firms. Evidence from the 2007 South African Investment Climate Survey[9] suggests that both local and foreign enterprises in South Africa are relatively capital intensive due both to firms adopting capital-intensive production methods and an expansion of firms in capital-intensive sectors. This has created a situation where South African firms have about twice as much capital per worker (about $3500 per worker) as firms in Lithuania, Brazil, and in the most productive areas of China (ibid).

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Foreign Investments into South Africa over the years have followed and perhaps perpetuated this trend, thereby making little addition to the labour market. A number of reasons have been advanced for the increasing use of capital-intensive modes of production by foreign firms entering into South Africa. These include the need for increased efficiency and lower unit costs; a shortage of skilled labor and therefore a need to use labour-saving techniques; the need to reduce dependence on increasingly expensive and militant labor; and the tendency for the parent company and its subsidiaries to use uniform production techniques all over the world (Jenkins & Lynne, 2002).

[9] The investment Climate Survey (ICS) was carried out by Citizen Surveys and was commissioned by the World Bank in partnership with the South African Department of Trade and Industry.

There is perhaps no better way to summarize the impact FDI have had on job-creation in South Africa than to rehearse the conclusions of the London Business School/EDGE Survey[10] on the subject. The survey results conclude that the majority of new foreign investors entering South Africa during the 1990s established small or medium size affiliates with limited impact on employment creation and capital inflows. As already seen above, nearly half the entrants acquired existing operations, rather than setting up new enterprises via Greenfield and many investors mitigated risk by limiting the irreversibility of their investment, by outsourcing production or focusing on service provision rather than on manufacturing operations.

The LBS/EDGE survey results further argue that most new FDI in South Africa have not had impact on the globalizing of production, in the sense of output being exported into global production networks. Rather, foreign firms have focused on domestic and regional markets. Thus, the integration of domestic production processes into global networks, a process that is believed to spur labour-intensive growth, remains limited. This position is supported by the findings of the sixth survey of German firms in South Africa. [11] It reports that only 4% of all German firms surveyed engaged in foreign trade, suggesting that German MNCs are in South Africa to service the domestic market and that the country may not be seen as an attractive platform for international production. Putting these findings into context, it is evident that policy objectives of increased output and employment from FDI have not been met in South Africa. In other words, for a country with soaring rates of unemployment, the benefits of FDI in reducing poverty need to be found elsewhere than in their potential to engender growth that would absorb the poor into the active labour force and provide them with some means of income.

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[10] This is a survey on Foreign Direct Investments conducted in four Emerging Economies (South Africa, Egypt, Vietnam and India) by the London Business School (LBS) in partnership with the EGDE Institute. The results are reported in full in S. Estrin & K. Meyer (ed.), 2004, *Investment Strategies in Emerging Markets*. Edward Elgar, Cheltenham UK & Northampton MA USA,

[11] See Gilroy et al. (eds.), 2005,op.cit, p. 203,

...FDI-transferred technology and human capital upgrading is biased and exacerbates income inequality in South Africa

In the absence of any evidence that point to meaningful FDI contribution to poverty reduction via job creation, it is only logical to turn to the impact FDI have had on human capital formation in the country. The results of skills surveys conducted on American and German firms in South Africa paint a positive picture of the contributions of foreign firms to skills development in South Africa. For example, a skills survey conducted by the American chamber of commerce concludes that US companies trained nearly 60,000 people in a space of 12 months, training on average 170 people per company and spending over R139 million on the training.[12] Similarly, it is reported that between 1997 and 1999, German firms spent about R1.56million on training of employees.[13]

Data from the LBS/EDGE survey[14] seems to support this trend as it suggests that foreign affiliates in South Africa indeed spend a larger proportion of revenue on training than domestic firms and affiliates in other emerging economies such as Egypt, India and Vietnam. It also indicates that in most cases this training is complemented by exposure to modern production principles and new technologies transferred from the parent firm. Though the training spending and technology transfers provide an indication of firms' investment in their labour force, they do not however in themselves tell anything about the quality of skills upgrading and the implications for poverty reduction. In actual fact, according to Gelb & Black (2004), while FDI has contributed to skills upgrading in South Africa, particularly amongst high-skilled blacks, in doing so, it has also worsened the skills bias in the labour market.

Bhorat and Poswell (2003) substantiate this argument with the contention that the technological changes and training that accompany foreign direct investment in South

[12] The findings are contained in a Skills survey summary published by the American chamber of commerce in South Africa in April 2007.
[13] Gilroy et al. (eds.) (2005); op. cit, p. 202.
[14] Estrin & Meyer, 2004, op. cit.

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Africa are biased against the poor and only serve to strongly reinforce the inequitable distribution of household income in the country. They argue that the introduction of new technologies by foreign investors reinforce a trend whereby employment and training is skewed towards and concentrated on highly skilled labour, generally at the expense of those with few skills. According to Craven,[15] the effect of this trend on inequality has been made worse by the fact that foreign direct investments into South Africa have persistently been attracted to capital intensive sectors that can only make use of a highly qualified workforce.

Over the past decades therefore, formal sector unskilled jobs have been lost, while the demand for scarce skilled labour and capital has risen. As Samson, MacQuene & van Niekerk (2001) have indicated, recent economic growth in South Africa has mainly benefited sectors that rely more on relatively skilled labour. Unskilled workers and those in poor households have undoubtedly borne the brunt of the adjustment costs associated with FDI-transferred technologies, knowledge and training. For example, evidence points to the fact that in 1999 employees of German firms in South Africa were paid an average monthly wage of R29 609, an amount that is significantly higher than the average South African monthly wage. It is reported that these very high wages are used to attract and retain very skilled employees.[16]

It is clear from the preceding analyses that foreign firms that have invested in South Africa after apartheid have played a significant role in the development of the skills of the locals. Unfortunately, owing to the dismal state of human capital inherited as part of the legacy of apartheid and the dictates of modern production techniques, not all segments of the South African labour force have benefited from this skills upgrading. While a few skilled workers have had their productivity and income boosted by exposure to modern technologies and methods of production, the majority of the labour force, which happen to be unskilled, have remained the same, and in some cases have even

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[15] Patrick Craven is the National Spokesperson of the Congress of South African Trade Unions (COSATU). The research held a telephone interview with him on Friday, July 6 2007 at 15:32 p.m.
[16] Gilroy et al. (eds.) (2005); op. cit, p. 202.

become redundant. Though FDI are not the major driving force behind the rising inequality in South Africa, their preference for highly skilled labour that is commensurate with the advanced technologies they bring into the country nonetheless fans the flames of inequality. The unintended consequence of their biased skills development has therefore turned out to be a tacit endorsement of the redundancy and poverty of the unskilled majority.

…Tax revenues from foreign firms are a significant source of funding for skills development and poverty alleviation programmes in South Africa

Perhaps the only area where the contributions of FDI to poverty alleviation in South Africa were noted to be undisputable is in their ability to generate huge sums of tax revenues for the government. Though it was difficult to get information on the exact revenue collected exclusively from foreign firms,[17] the overall performance of both foreign and domestic companies in terms of revenue-generation has been quite phenomenal. Over the last decade the amount of income tax paid by South African companies has expanded at a very rapid rate.[18]

Thanks to this robust growth in company tax revenues, of which foreign companies have been significant contributors, there has been a boost in the South African government's poverty reduction programmes such as the social grants system and the extended public works programme. For example, the social grants system that was developed as a safety net for the poor and is considered by many as the most efficient poverty alleviation means in the country, has witnessed a tremendous enlargement in the past years. The number of social grant beneficiaries has increased significantly, in particular the child support and disability grants. According to the 2007 Budget Speech, the state old age pension, disability and care dependency grants will rise by R50 to a maximum of R870 a

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[17] Attempts by the researcher to solicit this information from the South African Revenue Service (SARS) turned out to be futile.
[18] National Treasury, 2004. Cited in *Chambers of Commerce and industry South Africa (Chamsa), 2004, Economic and Intelligence Quarterly, Issue 1 Fourth Quarter. p. 10*

month. Child support grants will increase by R10 to R200 a month and foster care grants will also be raised to R620 a month (Manuel, 2007).

Besides, in addition to the Company Income Tax and the Secondary Tax on Company, foreign firms in South Africa like their domestic counterparts are required to pay a skills development levy. This levy is paid by all companies with an annual payroll in excess of R250 000 and is equivalent to1% (one percent) of the total amount of remuneration paid to employees. 80% of the total amount collected is distributed to the relevant Sector Education and Training Authority (SETA) and is used to support the training programmes of qualified employers in the form of grants. The remaining 20% is paid to the National Skills Fund which is then used to fund skills development projects not within the scope of SETAs. In this way, the skills development levy serves as a mechanism to improve on the productivity and employability of the pool of unskilled workers in South Africa and thus reduce poverty (SA Department of Labour, 2000).

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5 Conclusion: What implications for South Africa's MDG of Poverty Reduction?

Paramount among the many legacies the ANC government inherited from the apartheid regime is the incidence of excruciating poverty. Thus, even before the Millennium Declaration in 2000, the new democratic government that came into being in 1994 had prioritized the fight against poverty. The MDGs therefore served to strengthen this commitment and give it an international dimension. Like most other African countries, the South African government has chosen the pro-growth path to realize this dream. This is reflected in the adoption of the Growth, Employment and Redistribution (GEAR) strategy in 1996 as the government's macroeconomic development blueprint (Aliber, 2002). Conceived on the neo-liberal premise that poverty reduction follows economic growth, GEAR by implication ensconces FDI as an integral component of the South African government's drive to halve poverty by 2015.

Going by the preceding analyses however, it is safe to conclude that these policy expectations are far from being realized. As revealed above, FDI have not been a successful catalyst for large-scale job-creation in South Africa to match the spiraling levels of unemployment experienced in the country. Besides, efforts by foreign investors to improve on the country's human capital and thus boost employment and productivity have also been met with mixed results. The bulk of the benefits in this regard have accrued to a few skilled workers thereby deepening or ushering a new wave of inequality, particularly among blacks. According to the 2004 study by the Human Science Research Council (HSRC), while in the past inequality in South Africa was largely defined along race lines; today it is increasingly defined by inequality within population groups. The gap between the rich and poor within the black group, especially, has increased substantially (HSRC, 2004).

The implications of these developments for the realization of the MDG of poverty reduction in South Africa cannot be overemphasized. Contrary to the theorizing of pro-growth strategists, it is evident that whatever growth that has been stimulated by foreign investments over the past decade has failed to adequately trickle down to the poor. Under the present conditions FDI-induced growth has only served to entrench poverty, especially if considered from a relative perspective. Thus, considered within the framework of Fuentes' (2005) contention that the time horizon of poverty reduction increases considerably if inequality rises, FDI might just be one of the ingredients that would make it difficult to significantly reduce the number of poor people in South Africa by 2015.

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Recommendations

The following recommendations could help make FDI more beneficial to the cause of achieving the MDG of poverty reduction in South Africa:

- Efforts should be made by the South African government to accelerate and improve on the quality of its skills development programmes. Such programmes should target especially the low-skilled who are usually biased by the training priorities of the private sector. The increased productivity of the labour force would boost employment in FDI-related businesses and thus help reduce income poverty.

- More importantly, there should be much focus on attracting FDI into labour-intensive sectors of the economy such as tourism, clothing, electronics assembling and call centers. One way to do so is by ensuring that the operating environment is attractive enough to foreign investors who would want to do business in these sectors. For example, by setting call rates for call centers, the government is able to keep telecommunication rates low and thus attract prospective foreign investors into this highly labour-intensive sector. Similarly, with all its potential for massive job-creation especially for the low-skilled, the bourgeoning tourism sector can be made more attractive to foreign investors if infrastructural issues such as the conditions of airports, hotels, public transport in cities and safety and security are addressed.

- A cautious review of labour regulations is also required as part of measures to reduce the propensity of FDI to exacerbate income inequality in South Africa. In a country like South Africa with a pool of low-skilled labour, robust labour regulations have only served the interest of a few skilled workers, guaranteeing those high wages and job security. Evidence presented above suggests that stringent labour laws and a militant labour union have scared away foreign investors and prevented those already in the country from reinvesting and expanding their businesses so as to create more jobs. A cautious relaxation of labour regulations would therefore serve as a pro-poor growth strategy, which will ensure that the benefits of FDI do not accrue only to those at the top of the skills

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ladder or those already employed, but are also shared by the low-skilled unemployed.

- Finally, though what is true for South Africa is to a larger extent also true for most of the continent, the country's history and level of development puts it at variance with most Sub-Saharan African countries. In order to come up with a rich analysis of the intricate relationship between FDI and the realization of the MDG of poverty reduction on the continent, a case is made here for further research into the phenomenon. It is recommended that such research should take the form of a comparative study, adopting the same framework used in analyzing the South African case to study this complex phenomenon in other African countries with somewhat different characteristics.

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CHAPTER ONE
INTRODUCTION

1.1 Background

A reference to Africa and the Third World has become synonymous with an allusion to underdevelopment, marked by widespread poverty. Considered in all its dimensions, this state of extreme poverty has brought untold deprivation and misery to the people of the Third World in general and sub-Saharan Africa in particular. It is estimated that more than one billion people in these countries live on less than one dollar a day, leaving them with inadequate drinking water, basic shelter, sanitary and health facilities. Worse still, literacy and education are considered to be beyond the dreams of many (Balaam & Veseth, 2001; Rourke, 2005).

The causes of poverty in Africa have been widely debated, with the most contention settling on whether the factors that perpetuate this phenomenon are endogenous or exogenous. Those who blame Africa's poverty on external factors do so with an accusing finger pointing primarily at the unequal and unjust global trade regime, but also at the incidence of the debt restructuring and development aid schemes championed by the World Bank and the International Monetary Fund (IMF) (Chikulo, 2001). Advocates of the endogenous school of thought on their part argue that Africa's poverty is driven largely by widespread corruption, bad governance and poor development choices (Calvocoressi, 1985). As a result of this dichotomy, the will to address Africa's poverty pandemic has in the past been lost in the blame game between the continent's leadership and their Western benefactors. This had ensured that poverty reduction initiatives merely attended to the symptoms and not the underlying causes of the problem.

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The past decades have however witnessed a tremendous shift in the perception and approach in tackling the twin problems of poverty and underdevelopment in the Third World. Born perhaps from the realization that continuous poverty and misery in these countries breed instability that renders the entire world vulnerable (see Ikome and Samasuwo, 2005), more and more concerted efforts have been made at the international level to support Third World development. One of such efforts creates a partnership between the developed and the developing countries, and brings the latter into a position where they are able to make commitments to meet certain development goals and targets, albeit with the support of the former. Officially referred to as the Millennium Declaration, this initiative operates under the auspices of the UN, and establishes a set of simple but powerful objectives (the Millennium Development Goals), which if achieved, will meet the basic needs of the world's poorest (UNDP, 2005).

Much to the chagrin of some African development scholars (see Tandon, 2000; 2002), both the UN and the New Partnership for Africa's Development (NEPAD) have without any reservations hinged the achievement of the MDGs in Sub-Saharan Africa on the success of efforts at increasing the inflow of Foreign Direct Investments (FDI) into the region. The UN Millennium Declaration for example, states the resolve of the UN "… to take special measures to address the challenges of poverty eradication and sustainable development in Africa, including … increased flows of Foreign Direct Investment, as well as transfers of technology"[1]. The perceived importance of FDI in eradicating poverty is also reflected in the NEPAD working document, which stipulates that in order for the continent to achieve the MDGs, the region "…needs to fill an annual resource gap of 12 per cent of its GDP, or US $64 billion."[2] Since income levels and domestic savings in the region are low, the architects of NEPAD argue, a bulk of the finance will have to come from

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[1] See Paragraph 28 of the UN Millennium Declaration, September 2000
[2] See Paragraph 144 of the Official Working Document of NEPAD, October 2001

abroad. However, as Asiedu (2005) argues, official assistance to the region has been declining and most of the countries in the region do not have access to international capital markets. As a consequence, the resources needed for poverty alleviation have to come from FDI.

However, experience from most developing countries has revealed that FDI, which operate through Multinational Companies (MNCs), are a mixed blessing. They can have both positive and negative impacts on the host economy. This owes to the fact that MNCs are driven primarily by profit motives. As argued by Balaam & Veseth (2001: 353), while MNCs can make significant contributions to the economic growth of developing countries, they nonetheless represent forces that exacerbate inequality and exploitation. In most cases therefore, the policies and activities of these corporations come into conflict with the desired human development objectives reflected in the MDGs. This realization has brought to the forefront the intricate and often controversial relationship between FDI and poverty reduction in Africa.

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What is true for Africa in terms of poverty and the requirements for poverty reduction is also true for South Africa. As is the case with other countries on the continent, poverty in South Africa is primarily the by-product of a state of skewed development made possible by a long history of exploitation and exclusion. Poverty in South Africa however has a unique feature; it revolves around the fundamental black/white divide, around white wealth and privilege on the one hand, and black exploitation and oppression on the other (SA Development Report, 2005: 22). The bitter history of apartheid has left behind a situation where poverty and degradation exist side by side with modern cities and a developed mining, industrial and commercial infrastructure. By and large, income distribution in the country is racially distorted and ranks as one of the most unequal in the world. In simple terms, the South African society inherited from the apartheid era can be qualified as one in which lavish wealth is juxtaposed with abject poverty (ANC, 1994).

The backlog of apartheid orchestrated injustices continue to have daunting impacts on the living conditions of the people more than a decade after the ushering in of a democratic era. In no better ways are these consequences more evident than in the twin and inextricable processes of extreme poverty and unemployment. As rightly indicated by Knipe and Waldt (1998), at the present moment, poverty is one of the major issues hampering development in various parts of South Africa. This is reflected in, among other things, “the emergence of informal settlements, the general pattern of urban settlement, large-scale unemployment, hunger and malnutrition, an inability to access medical care and basic services, the break up of families, homelessness, and sheer helplessness” (Knipe and Waldt,1998:106). South Africa can therefore be easily identified as one of the African counties with the most serious cases of poverty, with regards to social indicators such as health, education, water, fertility and services.

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1.2. Statement of Problem

When individuals suffer from extreme poverty and lack the meager income even to cover basic needs, a single episode of disease, drought, or a pest that destroys a harvest can be the difference between life and death. Such is the reality for the majority of the people living in Africa in general, and South Africa in particular. The MDGs are therefore a life-and-death issue, offering hope to the millions that continue to languish in excruciating poverty in this region of the world. Achieving these goals obviously requires strong and vibrant economies that can speed the process of service delivery and make available the resources necessary to uplift and empower the poor. Considering the important role Foreign Direct Investments (FDI) are assumed to play in revitalizing backward economies, African countries, South Africa included, have been in a mad rush to attract these investments. They are liberalizing their investment regulations and are offering incentives to foreign investors, in the hope of benefiting from capital formation, technology transfer and job creation.

However, as indicated above, the modes of operation of these investments may sometimes come into conflict with the desired human development objectives reflected in the MDGs. Thus, South Africa, like many other African countries may claim to be well on course to achieve the MDGs by 2015, but the marginalizing potentials of FDI is a factor that cannot be ignored if both the letter and spirit of these goals are to be realized. The study was guided by the following questions:

- What is the scope of Foreign Direct Investments (FDI) in South Africa?

- To what extent do FDI contribute to economic growth and poverty reduction in South Africa?

- What are the prospects for South Africa reducing poverty by half by 2015 against the backdrop of profit-motivated MNC policies and activities?

1.3 Rationale for the Study

Research of this nature becomes very imperative if due consideration is given not only to the extreme deprivation that characterizes the life of many in Africa, but also to the opportunity for a better life that is hinted by the MDGs. There is a near consensus that the MDGs offer the best blue print, at least for the foreseeable future, on the basis of which the world's poorest can be reassured of a better quality of life. By implication, the MDGs must not fail. Unfortunately, the pursuit of these goals does not occur in a vacuum, but is inextricably linked to vital economic processes, which on the one hand are considered pivotal for the realization of these goals, but on the other hand come with the potentials for stalling human development.

For success to be guaranteed and maximized there is need to start realigning some of these economic processes to the human development objectives of

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the MDGs. However, this can only be possible if a full knowledge of how specific processes affect the realization of the MDGs is gained. This therefore justifies the need to carry out an empirical study on the exact ways in which attempts at meeting the MDGs are impacted by FDI, especially as the operations of the latter are reputed for entrenching exploitation and exacerbating inequality.

1.4 Aim of the Study

The broad purpose of this study was to investigate the impact of Foreign Direct Investments on South Africa's efforts at achieving the MDG of reducing poverty by 2015.

1.5 Specific Objectives of the Study

- To analyze the extent and trend of FDI in South Africa.

- To critically assess the contributions made by FDI to economic growth and poverty reduction in South Africa.

- To ascertain the prospects for South Africa eradicating extreme poverty by 2015 against the backdrop of profit-motivated MNC policies and activities.

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1.6 Research Hypothesis

The main hypothesis of the study was that, left on their own, FDI pose a significant threat to the realization of the MDG of poverty reduction in Africa.

1.7 Significance of the Study

The major significance of this study was its contribution to academic knowledge. Though many studies have been carried out on the intricate and often controversial connections between FDI and poverty reduction in Africa,

none of these have been undertaken within the context of the MDGs. The study sought to fill this gap by generating empirical literature on how FDI can impact on poverty reduction efforts within a specified time-frame like that set in the MDGs.

By undertaking to uncover the possible impact of FDI on the process of achieving the MDGs, this study will also benefit African governments, NGOs and other stakeholders in the process of realizing the MDG of poverty reduction. It is hoped that the findings from this study would empower these stakeholders with the knowledge to design intervention strategies that will take into account the possible challenges FDI can pose to efforts at halving poverty by 2015. In essence, it is expected that the research would have a great impact on the way policies and strategies to achieve the MDGs in Africa are conceived and designed. By unraveling and highlighting the connection between the activities of MNCs and the fight against poverty, it is hoped that this research would trigger useful debate and cause stakeholders in the Millennium Declaration to come up with measures that will align the policies and activities of MNCs with a commitment to human development and the MDGs.

1.8 Scope of the Study

The study was bounded both by time and space. It was restricted to South Africa, and was concerned only with the impact of foreign direct investments that entered the country at the dawn of the democratic era. Besides, the study focused only on the Millennium Development Goal of eradiating extreme poverty by 2015.

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CHAPTER TWO
LITERATURE REVIEW

Literature review is an integral part of every research process for a number of reasons. Firstly, it exposes the researcher to the writings of other authors on the same or related research problem. This is crucial because it enables the researcher to acquaint him/herself with the concepts, variables, theories, methods and even constraints that are central to the investigation. In addition, a good review of the existing literature serves to identify gaps in the literature, thereby giving the study a better focus (Welman and Kruger, 2001). While not pretending to have exhausted all the relevant literature, this section of the report presents a rich synopsis of the major themes, issues, as well as current debates on the role of FDI in poverty reduction in Africa. It will also develop a theoretical framework for understanding the phenomenon under study.

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2.1 Poverty

Poverty is not a self-defining concept. Experts and academics have suggested many definitions over time, leaving behind the impression that there is no single correct definition of the concept. A review of the various definitions of poverty reveals that they differ primarily on account of how extensive or narrow the concept is measured. While writers like Nolan and Whelan (1996) limit poverty to the lack of resources, especially income, to maintain an acceptable and reasonable standard of living in society, others such as McNamara (1980) and Thorbecke (2005) have broadened the concept to consider non-material aspects such as human rights, freedom, dignity and self-esteem. According to Lister (2004), while it is not recommended to lose sight of the importance of the more symbolic aspects of poverty and especially the way these impact on the material aspects, there is a strong case for a more focused approach to defining the concept. She builds her argument on the assertion that definitions that are too broad serve to crowd out the distinctive notion of poverty, adding that aspects of deprivation such as lack of political participation, freedom of

expression, or human dignity and self-esteem “are not unique to the condition of poverty; they are also associated with other conditions such as being Black in a White-dominated society” (Lister, 2004: 13).

Also important in the conceptualization of poverty is the debate on the role of income. The seminal works of Amartya Sen provide a useful insight into this debate. At the heart of Sen’s (1985) argument is the idea that an individual has a space of *functionings*, which include what a person is actually able to do or be (realized functionings) and the set of alternatives open to him/her (real functionings or capabilities). He further argues that money is just a means of achieving functionings, and that economic and personal factors play a major role in the way money is converted into functionings or capabilities. For example, he argues, though a disabled person may earn the same income as a non-disabled person, the capability to function of the former may still be lower than that of the latter because of the difficulty in converting income into functionings imposed by the disability. Sen therefore posits that poverty should be defined not in terms of low income, but in terms of the failure of an individual’s “basic capabilities to reach certain minimally acceptable standards” (1992: 109).

Sen’s notion of poverty as capability failure without doubt serves to enhance the understanding of the concept. However, the study evolved from the position advanced by Lister (2004) that low income remains a major factor in the definition of poverty. She argues that though money is a means and not an end, in comodified and wage-based societies like that of South Africa, money and the lack of it thereof determines who is considered poor and who is not.

In conceptualizing poverty, an important distinction is also made between absolute and relative poverty. Absolute poverty is used to denote a situation where people lack the necessary food, clothing, or shelter to survive (Ray, 1998). The defining element of absolute poverty is its reference to the actual

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needs of the poor, divorced from their social context. This is what separates it from relative poverty, which according to Townsend (1993: 36) occurs when people cannot afford the resources to live the kind of life that is expected of an average person in a given society. In other words, people are considered to be poor, in the relative sense, not by comparing them to some preset standard, but by comparing them to others in the same society (Ray, 1998). Implied in the notion of relative poverty is the concept of inequality, which of course opens up a political debate as to what interventions should be considered for the reduction of poverty. As Lister (2004: 34-35) observes, "if poverty is defined in narrow, absolutist terms, the role ascribed to government and the resource implications for the policies needed to eradicate it are considerably more limited than if it is defined to" reflect the inequalities within societies.

This debate is played out in the literature on pro-growth versus pro-poor growth strategies for poverty reduction. Partisans of economic growth strategies such as Dollar and Kray (2001),who also favour the absolute definitions of poverty argue that measures that stimulate economic growth would not only increase the income of the rich, but would benefit the poor as well. Their argument is built on the assumption that if the national economy is expanded, the different groups and classes in society would be automatically uplifted and thus begin to enjoy high standards of living. This position is contested by pro-poor growth strategists (see for example Lopez, 2004; Bourguignon 2004; Fuentes, 2005) who have their eyes fixed on the implications of inequalities on economic growth. They argue that in highly unequal societies like those in Africa, Asia and Latin America, effective poverty reduction interventions would focus more on issues of redistribution than on mere economic growth.

Finally, it is pertinent to highlight the importance of redistribution or pro-poor growth strategies in relation to the time horizon of poverty eradication. Fuentes (2005) points out that a shift in the distribution of income and growth accelerates poverty reduction and thus reduces the time horizon of poverty

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eradication drastically, especially in the context of achieving the MDGs. This argument is supported by the findings of a study carried out by the United Nations Development Programme (UNDP) and the Economic Commission for Latin America and the Caribbean (ECLAC) on Latin American countries. It concludes that in Brazil, pro-poor growth would save the median household 20 years in poverty on average relative to just growth without redistribution. This translates into almost a complete generation escaping from poverty (UNDP & ECLAC, 2002).

2.1.1 Causes of poverty in Africa

The causes of poverty and hunger in Africa are both internal and external. While Africa's failure to overcome poverty and feed itself needs to be seen in an international context, domestic constraints have also played a role. According to the World Bank (1996), the consequences of poverty in Africa often reinforce its complex causes, thereby exacerbating the problem. Among other things, the bank identifies inadequate access to markets, low endowment of human capital, and destruction of natural resources leading to environmental degradation and reduced productivity as the main causes of poverty in Africa. Similarly, Tazoacha (2001) blames the prevailing state of poverty partly on the high levels of illiteracy and the lack of development capacity in the continent. Besides, he argues that the actions of some of the continent's avaricious, dishonest and heartless leaders have also contributed to the prevailing state of poverty and hunger on the continent. He adds that some of these leaders divert money for developmental projects into their private accounts.

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According to the Food and Agricultural Organization (FAO), inappropriate agricultural policies such as a bias favouring export crops and inadequate public investment in farm research, extension and infrastructure have partly contributed to the problem of poverty and hunger in Africa. This has been made worse by a failure to extend agricultural credit and extension services to women, who produce 50 to 80 percent of Africa's food. Civil wars and political

instability have also taken a toll on food production, says the FAO. Added to these are unfavourable weather conditions, eroded soils and other environmental stress (FAO, 1996).

Another domestic factor that has been identified as a cause of poverty in Africa is the HIV/AIDS pandemic. According to Care International, HIV and AIDS is no longer a symptom of poverty, but has now become a major cause. They argue that the phenomenon is undermining the livelihoods, in general and food security in particular, of many Africans. Besides, HIV/AIDS is having a negative impact on the provision of health and education services and is therefore seen as an assault on the coping mechanisms of the poorest of the poor (CARE, 2004). On his part, Mokhothu (2004) attributes the extreme poverty in rural Africa to the prevailing gender inequality. She argues that the social group that suffers a high poverty risk in the continent is women. Most of these women reside in rural areas where they live below the poverty line. She attributes this situation to the fact that women in Africa remain culturalised subjects controlled by men, chiefs, husbands and even minor sons. Thanks to the cultural subordination of women in most parts of Africa, the worsening poverty in the rural areas has primarily been borne by females or female headed households.

Besides the above domestic causes, a number of international factors have also been identified to contribute to African poverty. It is argued that African economies have performed poorly since the 1980s, in part due to adverse international conditions, such as unfavourable terms of trade and their external debt burden (Chikulo, 2001). Moreover, due in part to Structural Adjustment Programmes, since the 1980s, Africa has witnessed a reduction in government expenditure on social services and investments in infrastructure essential for rapid economic development (FAO, 1996; Tazoacha, 2001).

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2.1.2 Poverty and Poverty Reduction Strategies in South Africa

A study of poverty in South Africa has revealed that its characteristics more or less reflect the skewed nature of the social, economic and political policies of the apartheid era. According to an investigation into poverty in South Africa conducted by the Reconstruction and Development Programme (RDP) office, poverty and race go hand-in-hand in the country. Approximately 95% of poor people are black; the other 5% belong to the other three racial groups. The unemployment rate among blacks is equally higher at approximately 38% (ANC, 1994). In addition, it has been noted that poverty in South Africa is also linked to the rural population. Approximately 75% of South Africa's poor people live in rural areas, where very few, if any, services and facilities are provided (Knipe and Waldt, 1998: 106-107).

Besides, it has been observed that the burden of poverty weighs much more heavily on women and children than on men. In addition to more than 45% of poor people in South Africa being children below the age of 16, female-headed households where only a woman is at the head are generally much poorer than those headed by males. These characteristics have left South Africa parading as a country with one of the severest cases of poverty as regards social indicators such as health, education, water, fertility and services. This is in addition to it having one of the most serious cases of unequal distribution of income compared with other middle-income developing countries in sub-Saharan Africa (Knipe and Waldt, 1998: 107).

Poverty reduction strategies in South Africa after the demise of apartheid have ranged from broad policy frameworks to specific project-based interventions. Though the analyses that follow do not exhaust the policy frameworks that have had a strong bearing on poverty, they cover a sufficiently broad range to help appreciate the instruments with which the South African government expects to achieve the MDG of poverty reduction.

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2.1.2. 1 National Economic and Development Policy Frameworks

Shortly after its victory in the 1994 elections, the ANC adopted the Reconstruction and Development Programme (RDP). The main goal of the RDP was to reduce the poverty of the majority of South Africans, thereby redressing the inequalities and injustices of colonialism and apartheid. Access to water, jobs, land, education, and health care were among the priorities highlighted. The RDP therefore provided the 'shared communal vision of desired poverty reduction goals' (ANC, 1994). Despite its pro-poor rhetoric, analysts such as Hunter, May and Padayachee (2003) are of the opinion that in its heyday, the implementation of the RDP was compromised by the pervasiveness of neo-liberal values. As such, even before its official replacement with the Growth, Employment and Redistribution Strategy (GEAR) in1996, failed to address the needs of the poor in a meaningful way (Aliber, 2002).

With its neo-liberal prescriptions, GEAR has been criticized for curtailing most of the poverty alleviation objectives that were enshrined in the RDP. For example, Hunter et al. (2003) argue that while government policies enshrined in GEAR appear to have been remarkably successful in the areas of fiscal restraint, tariff reductions, and inflation, this has come at the costly price of reduced expenditure for poverty reduction. Similarly, Aliber (2001) contends that one of the most unfortunate aspect of the evolution of the economy since the adoption of GEAR in 1996 is the continued shedding of formal-sector employment.

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2.1.2.2 Poverty Reduction through Social Security

The foremost of the state-driven poverty reduction programmes is the system of social grants that are in place for certain categories of vulnerable people. Inherited and continued from the apartheid government's set of programmes, this is the present government's largest poverty reduction programme and is overseen by the national Department of Social Development (DSD), and

administered by DSD at the provincial level. Applications are taken and payments are made at the local level (DSD, 2006).

There are just under 12 million people receiving social grants of which over seven million are beneficiaries of the child support grant. South Africa's social grants are well targeted and account for a substantial share of the income of poor households: the old age pension is available for the elderly; disabled adults and children may receive disability grants; relatively small child support grants are targeted at poor children; foster care grants may be received by those legally fostering the child of other parents. Grants are associated with a greater share of household expenditure on food and hence improved nutrition. Official data shows that, thanks to the child support grants, the proportion of households where children often or always went hungry decreased from 6,7 per cent in 2002 to 4,7 per cent in 2005 (Manuel, 2007).

Owing to the immense contributions of the grant system to the alleviation of poverty, the South African government has allocated more funds in its 2007 budget to increase certain categories of grants. The state old age pension, disability and care dependency grants will rise by R50 to a maximum of R870 a month. In the same vein, the Child support grants will increase by R10 to R200 a month and the foster care grants will rise to R620 a month (Manuel, 2007).

The South Africa social grant system is not without its deficiencies. With the exception of the old age pension, the uptake of some of the grants is hampered by complicated administrative processes that prevent many of those eligible from accessing the grants. In order to access the grants identity documents and birth certificates in the case of children are amongst the documents required by district level welfare offices. However, many of those living in rural areas do not have these documents, which are obtainable from the inefficient Department of Home Affairs. Unlike the welfare offices, the Department of Home Affairs is not

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decentralized, although more recently efforts are being made to reach rural areas through the use of mobile units (Hunter et al., 2003).

These shortcomings not withstanding, the social grant system can be said to have contributed immensely to the alleviation of poverty. The net impact of this poverty reduction strategy can best be inferred from the report of the Committee of Inquiry into a Comprehensive Social Security System. The report indicates that in the absence of social assistance transfers, 58 percent of South African households would fall below the subsistence level of R401 per adult equivalent. Moreover, the same report notes that existing social security programmes reduce the average poverty gap by 23 percent (CICSSS, 2002:59).

2.1.2.3 Poverty Reduction through improved access to Services and Facilities

According to Van der Berg (1999), improved access to other social services such as sanitation, health services, nutrition and housing also contributes greatly to poverty reduction. A number of such programmes are run in the provinces. Foremost among these are efforts to expand and improve the educational system to reduce earnings differentials and in turn improve the earnings potential of the poor, improve access of the poor to available job opportunities and accelerate growth. The CICSSS (2001) report mentioned above documents various initiatives by South African provincial governments, which aim to reduce poverty by increasing access to education, health and nutrition by poor and vulnerable communities.

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A related strategy to reduce the poverty of South Africans has been that of investing in infrastructure. As argued by Aliber (2002), the investment in infrastructure and facilities has been one of the most successful anti-poverty initiatives in post-apartheid South Africa. Much of this has directly benefited the rural and urban poor, especially in improving access to electricity and safe

water, and the building of new schools and health clinics. One of the most remarkable achievements is the building and transfer of low-cost housing through the National Housing Programme. As of 2001, more than 1.1 million units had been delivered, accommodating 5.7 million people (Department of Housing, 2001).

2.1.2.4 Poverty Reduction through a Developmental Local Government

One of the challenges that face the South African government in its fight against poverty is that of scarce resources. In a bid to maximize the benefits from the use of these resources, the notion of developmental local government was adopted, placing the mandate for service delivery and poverty alleviation on local government. Subsequently, legislation and policies have been adopted that redefine the role of local government as an agent of delivery focused on the proactive management of local resources (Hadingham, 2003). Within this context, municipalities are required by law to develop Local Economic Development (LED) strategies and Integrated Development Plans (IDP) as engines to promote job creation and poverty eradication (MSA, 2000). According to the Department of Provincial and Local Government (DPLG): 'IDPs are local versions of the Reconstruction and Development Programme (RDP), grounded in infrastructural planning and development, upon which rests the crucial linkage between meeting basic needs and fostering more economic activities'(DPLG, 2000).

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A major strength of the IDPs is that they are built on a consultation process through which local government structures engage with local residents to understand their needs and priorities. However, as a tool for promoting poverty eradication, the IDP process has thus far been implemented with varying successes owing to the erratic capacity of municipal structures. According to the DPLG (2001), rural municipalities with high rates of poverty are often the least capable of undertaking the IDP process successfully. Similarly, it has

been observed that until recently, local economic development (LED) initiatives have been unsuccessful in integrating their plans with poverty reduction programmes. This is largely attributable to the lack of appropriate experience and capacity at the local government level, which has had an effect on the roll-out of these programmes (SARPN, 2003).

2.2 The Millennium Development Goals (MDGs)

The Millennium Development Goals (MDGs) are the world's time-bound and quantified targets for addressing extreme poverty in its many dimensions. The MDGs were initiated in 2000 when the leaders of the world met at the United Nations and signed the Millennium Declaration. This declaration has been described as a solemn pledge to free all men, women and children from the abject and dehumanizing conditions of extreme poverty and provides a bold vision rooted in a shared commitment to universal human rights and social justice backed by clear time-bound targets. Expected to be met by the year 2015, the MDGs provide a crucial benchmark for measuring progress towards the creation of a new, more just, less impoverished and less insecure world order (UNDP, 2005). Broadly, the MDGs are eight in number and range from the eradication of extreme poverty to the halting of the spread of HIV/AIDS and the provision of universal primary education. Each of these goals is briefly discussed here.

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2.2.1.1 Eradicate Extreme Poverty and Hunger

Top on the list of the MDGs is the eradication of extreme poverty and hunger. This goal is informed by the fact that extreme poverty remains a daily reality for more than 1 billion people who subsist on less than $1 a day. Hunger and malnutrition are almost equally pervasive: more than 800 million people have too little to eat to meet their daily energy needs. More than a quarter of children under age 5 in developing countries are malnourished. Here, the targets are to

halve, between 1990 and 2015, the proportion of people whose income is less than $1 a day and those who suffer from hunger (MDGs Progress Report, 2005).

2.2.1.2 Achieve universal Primary Education

The second goal seeks to address the problem of education, which is considered to be key to breaking the cycle of poverty. It is argued that education gives people choices regarding the kind of lives they wish to lead. It enables them to express themselves with confidence in their personal relationships, in the community and at work. Besides, education, especially for girls, is seen to have social and economic benefits for society as a whole. Educated women have more economic opportunities and engage more fully in public life. As mothers, they tend to have fewer and healthier children who are more likely to attend school. Unfortunately, more than 115 million children of primary school age in the Third World are being denied this human right. These are mostly children from poor households, whose mothers often have no formal education either. The target therefore is to ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling (MDGs Progress Report, 2005).

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2.2.1.3 Promote Gender Equality and Empower Women

Gender equality has been identified as a prerequisite to overcoming poverty, hunger and disease. This entails equality at all levels of education and in all areas of work, equal control over resources and equal representation in public and political life. It is postulated that achieving parity in education is critical if women are to engage fully in society and the global economy. Among the numerous benefits of quality education is the security that comes from paid employment. However, in too many countries, while girls are left behind in education, women are relegated to insecure and poorly paid positions. Although women have increased their share in paid non-agricultural employment, they remain a small minority in salaried jobs in many regions,

while they are overrepresented in the informal economy. Besides, although women's representation in national parliaments has been steadily increasing since 1990, women still occupy only 16 per cent of seats worldwide. These constraints not withstanding, it remains a fact that if women and girls are made to have an equal voice in the decisions that affect their lives, they are bound to be empowered. A target was therefore set to eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015 (MDGs Progress Report, 2005).

2.2.1.4 Reduce Child Mortality

It is estimated that every year, almost 11 million children die before their fifth birthday. Most of these children live in developing countries and die from a disease or a combination of diseases that can be prevented or treated by existing inexpensive means. Sometimes, the cause is as simple as a lack of antibiotics for treating pneumonia or of oral rehydration salts for diarrhoea. Malnutrition contributes to over half these deaths. To this effect, the governments of the world pledged to reduce by two thirds the under-five mortality rate between 1990 and 2015 (MDGs Progress Report, 2005).

2.2.1.5 Improve Maternal Health

For more than half a million women each year, pregnancy and childbirth end in death. In 2000, the average risk of dying during pregnancy or childbirth in the developing world was 450 per 100,000 live births. In countries where women tend to have many children, they face this risk many times. Thus, the chances of dying during pregnancy or childbirth over a lifetime are as high as 1 in 16 in sub-Saharan Africa, compared with 1 in 3,800 in the developed world. This lifetime risk could be substantially reduced if women had the family planning services they desire. Once a woman is pregnant, it is essential that she has good medical care and access to emergency obstetric-care facilities in case of unexpected complications. Meeting this goal would require governments to

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reduce by three quarters, between 1990 and 2015, the maternal mortality ratio (MDGs Progress Report, 2005).

2.2.1.6 Combat HIV/AIDS, Malaria and other Diseases

In the 25 years since it was first reported, AIDS has become the leading cause of premature death in sub-Saharan Africa and the fourth largest killer worldwide. More than 20 million people have died around the world since the epidemic began. And by the end of 2004, an estimated 39 million people were living with HIV. In addition to the incalculable human suffering that AIDS has wrought, the epidemic has reversed decades of development progress in the worst affected countries. Almost no country has escaped its wrath. In most developing countries, other treatable diseases such as Malaria and Tuberculosis continue to pose a serious threat to the life expectancy and sustainable development. It is hoped that by 2015, the spread of these diseases would have been halted and efforts would have begun to reverse the spread of AIDS and the incidence of malaria and other diseases (MDGs Progress Report, 2005).

2.2.1.7 Ensure Environmental Sustainability.

The concern with environmental sustainability in the Millennium Declaration is connected to the current patterns of resource consumption and use. Land is becoming degraded at an alarming rate. Plant and animal species are being lost in record numbers. The climate is changing, bringing with it threats of rising sea levels and worsening droughts and floods. Fisheries and other marine resources are being overexploited. To make matters worse, those who are most immediately affected turn out to be the rural poor because their day-to-day subsistence and livelihoods more often depend on the natural resources around them. Overcoming these and other environmental problems will require greater attention to the plight of the poor and an unprecedented level of global cooperation. Within the framework of the MDGs, this would entail integrating the principles of sustainable development into country policies and programmes

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and reverse the loss of environmental resources by 2015. More specifically, targets were set to halve, by 2015, the proportion of the people without sustainable access to safe drinking water and basic sanitation, and to have achieved by 2020, a significant improvement in the lives of at least 100 million slum-dwellers (MDGs Progress Report, 2005).

2.2.1.8 Develop a Global Partnership for Development.

At the heart of the MDGs is the understanding that fighting poverty is a collective undertaking and that all countries have a stake in the results. The primary responsibility to achieve the Goals rests with developing countries, but international support is critical, especially for the poorest countries and for countries handicapped by geographical isolation. Moreover, in an interdependent world economy, open avenues for trade, international financial stability and the spread of technology are needed to enable developing countries to seize opportunities for accelerated and sustained development. The Millennium Declaration therefore also makes provisions for a meaningful partnership between rich and poor countries, with a view to engendering development in the latter and ensuring a stable and secure world (MDGs Progress Report, 2005).

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2.2.2 Progress, Challenges & Prospects for Achieving the MDG of Poverty Reduction in Africa

According to the 2002 Global Poverty Report, of all the developing regions, sub-Saharan Africa has made the least progress in and faces the greatest challenge of meeting the MDG of poverty eradication. Only the five countries of North Africa are thought to be on course to meet the MDGs. Though progress has been made by some Sub-Saharan African countries on some of the social development goals, it is unlikely that any of these countries would meet the poverty reduction goal fully. Rather, it is estimated that the number of poor people in the region is likely to increase (Global Poverty Report, 2002). This

trend is confirmed by a 2002 UNDP/UNICEF Report, which asserts that between 1990 and 1999, the number of poor in the region increased by one-quarter, or over 6 million per year. The Report further suggests that if current trends continue, Africa will be the only region where the number of poor people in 2015 will be higher than in 1990.

A number of factors have been identified as the major obstacles to the realization of the MDG of poverty reduction in Africa. Chief among these is the region's weak economic performance in the past decades. While average growth improved in sub-Saharan African countries in recent years, the annual average rate for the entire decade was a low 2.1 percent. Economic performance was also highly uneven across countries: twenty countries with more than half the region's population are actually poorer now than in 1990, while per capita incomes grew at less than 1 percent a year in a further six countries. In only five countries was growth greater than 3 percent during the decade (UNDP & UNICEF, 2002). Even in the 14 countries that registered average growth rates of more that 5 percent during 1995-2001, it is unlikely that the poverty goal will be achieved completely (Global Poverty Report, 2002).

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Progress in reducing poverty is further complicated by sub-Saharan Africa's highly skewed income distribution. In countries like Equatorial Guinea, Gabon, Guinea Conakry, Kenya, Lesotho, Senegal, South Africa, Zambia, and Zimbabwe high levels of inequality have been noted not only to inhibit economic growth, but also to neutralize and even cancel out whatever positive impacts growth could have on poverty reduction. In the face of these inequalities, the prospects for translating any gains from economic growth into shared prosperity and meaningful poverty reduction will remain dim (UNDP & UNICEF, 2002).

Another challenge faced by African countries in the realization of the MDG of poverty reduction centers around the adoption of market-oriented reforms.

According to Bayliss and Kessler (2006), this has given rise to privatization and commercialization, thereby reducing the role of the state in the delivery of basic services essential for reducing poverty and improving the quality of life. They argue that while the adoption of market-based frameworks may improve financial performance, they nonetheless create an incentive framework that undermines, rather than strengthens, the accountability and capacity of the state to provide accessible and affordable services. The central argument here is that market-led policies fail to contribute to the MDGs and often reduce the likelihood of achieving them. This is because achieving the MDGs requires governments to make explicit commitments to fund public services, as well as to improve the accountability of public sector providers to citizens. With an emphasis on efficiency and full cost-recovery, market-led policies usually result in a situation where issues of equity and social justice are largely neglected or treated as having secondary importance (Bayliss & Kessler, 2006).

2.2.3 Progress, Challenges & Prospects of Achieving the MDG of Poverty Reduction in South Africa

The 2005 South Africa Millennium Development Goals Country Report clearly indicates that South Africa is well on course to meet all the MDGs and targets. According to the report, the current assessment of South Africa's performance suggests that South Africa has already met some of the MDGs. This, it attributes to the fact that when the new democratic government came into being in 1994, it set itself many targets similar to those articulated in the Millennium Declaration. With regards to the eradication of extreme poverty, the report argues that the proportion of poorest South Africans has been decreasing. Using national estimates of poverty and inequality in South Africa in 2000, the report states that 11% of the people were living on less than US$1a day and 34% were living on less than US$ 2 a day. However, as the report claims, this has dropped drastically thanks to measures put in place to address extreme poverty and hunger. These include: cash transfers in the form of social

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assistance grants, the Expanded Public Works Programme; the establishment of the Agricultural Starter Pack Programme and the Comprehensive Agricultural Support Programme (SA MDG Country Report, 2005).

A 2004 study by the Human Sciences Research Council however refutes claims that South Africa is making progress in the reduction of poverty. The study argues that there was no significant change in the proportion of people living in poverty in South Africa between 1996 and 2001. On the contrary, those households living in poverty have sunk deeper into poverty and the gap between rich and poor has widened (HSRC, 2004). An analysis of the HSRC study further reveals that the national poverty figures do in fact conceal the actual state of poverty in the different regions of the country. It suggests that while the poverty situation in some regions can be said to have improved, others have however moved from bad to worse. For example, it contends that in 2001the proportion of the population living in poverty in the Western Cape and Gauteng was 32% and 42% respectively. As table 1 shows, this sharply contrasts with an appalling 77% and 72% for the Limpopo and Eastern Cape provinces, respectively. Similarly, the figures show that while the proportion of people living below the poverty line in the Stellenbosch and Saldanha Bay municipalities stands at 23% and 25% respectively, in the Ntabankulu municipality however, a wallowing 85% of the residents live below the poverty line (HSRC, 2004).

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Table 1: Poverty indicators by province in South Africa

Province	No. of poor persons (million)	% of population in poverty	Poverty gap (R billion)	Share of poverty gap
Eastern Cape	4.6	72%	14.8	18.2%
Free State	1.8	68%	5.9	7.2%
Gauteng	3.7	42%	12.1	14.9%
KwaZulu-Natal	5.7	61%	18.3	22.5%

Limpopo	4.1	77%	11.5	14.1%
Mpumalanga	1.8	57%	7.1	8.7%
North West	1.9	52%	6.1	7.5%
Northern Cape	0.5	61%	1.5	1.8%
Western Cape	1.4	32%	4.1	5.0%
South Africa	**25.7**	**57%**	**81.3**	**100.0%**

Source: Human Sciences Research Council, 2004

Perhaps the most important point highlighted in the HSRC study has to do with the degree to which those households considered to be living below the poverty line have actually sunk deeper into poverty over the years, unnoticed. As the study argues, the practice in South Africa has always been to measure the proportion of a region's population living below the poverty line without giving any indication of how far below the poverty line poor households are. Using the *poverty gap measure* (a measure that measures the required annual income transfer to all poor households to bring them out of poverty), however, the HSRC study was able to establish that the poverty gap has grown from R56-billion in 1996 to R81-billion in 2001 indicating that poor households have sunk deeper into poverty over this period (HSRC, 2004).

It is evident from these findings that inequality in the South African society remains a prime challenge to the realization of the MDG of poverty reduction. According to the HSRC (2004), South Africa's Gini coefficient (a measure used to measure inequality) rose from 0.69 in 1996 to 0.77 in 2001, indicating a highly unequal distribution of income (see table 2). Worse still, while in the past inequality in South Africa was largely defined along race lines; today it is increasingly defined by inequality within population groups. The gap between the rich and the poor within each group has increased substantially. For instance, as table 2 indicates, the Gini coefficient for the African population has risen from 0.62 in 1991 to 0.72 in 2001, a level of inequality that is comparable only to the most unequal societies in the world (HSRC, 2004).

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Table 2: Gini coefficient by population group in South Africa

	1991	1996	2001
African	0.62	0.66	0.72
White	0.46	0.50	0.60
Coloured	0.52	0.56	0.64
Asian	0.49	0.52	0.60
Total	**0.68**	**0.69**	**0.77**

Source: Human Sciences Research Council, 2004

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2.3 Foreign Direct Investments (FDI).

O'Brien and Williams (2004) define Foreign Direct Investments (FDI) as investments made outside the home country of the investing company in which control over the resources transferred remains with the investor. It consists of a package of assets and intermediate goods such as capital, technology, management skills, access to markets and entrepreneurship. The emphasis this definition puts on control over resources serves to distinguish FDI from Foreign Indirect or portfolio investments. In the case of the latter, only financial resources are transferred between two independent economic agents through the modality of the market, and control over the resources is relinquished by the seller to the buyer.

A distinction is usually made between Greenfield FDI and Merger and Acquisition (M&A) FDI. While the former is used to denote investments that involve mostly new assets, the latter basically entails a transfer of ownership of existing assets from local to foreign firms (Mwilima, 2003). Although M&As offer the best mode of investment for companies wishing to enhance their competitiveness, concerns have been raised about their suitability for Third

World development. According to the United Nations Conference for Trade and Development (UNCTAD), compared to Greenfield investments, FDI through M&As come with little benefits for the host country, and may even trigger negative effects. Among other things, M&As do not generate employment at the time of entry into the host economy as do Greenfield investments. On the contrary, M&As may lead to lay-offs as the acquired firm is restructured (UNCTAD, 2000).

Commenting on the motivations FDI, Balaam and Veseth (2001) write that these investments are usually carried out by large firms possessing some particular competitive advantage that they do not want to share with competitors. These firms tend to become multinational so they can enjoy the advantages of locating in a foreign site. Such locational advantages include getting under trade barriers, operating close to large markets, and access to raw materials inexpensive labour. However, Balaam and Veseth (2001) contend that as more and more firms become multinational, discussions of FDI have concentrated less on their motivations and focused more on how these firms behave as multinationals. In other words the major debate on FDI centers around their impact on the host country.

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The controversy over the merits of FDI is a battle of words between economic liberals and dependency theorists. The former posit that as part of a free market system, FDI have a positive developmental effect on Third World economies. They argue that among other benefits, FDI come with much needed capital and technology, contribute to employment and skills development, and also help to integrate the local economy with the global marketplace (Balaam and Veseth, 2001). This view is not shared by dependency theorists who consider FDI together with foreign trade and aid as mechanisms for entrenching the dependency and exploitation of the Third World. More specifically, they argue that FDI contribute to capital flight from the

host country, destroy the local economy, exploit workers, and exacerbate income inequality (Mwilima, 2003; Gray, 2002).

Without seeking to downplay the arguments highlighted above, the study leaned towards the approach advocated by Modern Mercantilists. This optimistic but cautious approach attempts to strike a balance between the views of economic liberals and those of dependency theorists. As reflected in subsequent sections of the literature review, this approach theorizes that FDI have the potential of contributing to poverty reduction in Africa, but only under certain conditions. It argues that a fairly developed local industry and a strong government to oversee the activities of multinational companies are prerequisites for the realization of the benefits of FDI in the Third World (Jackson and Sorensen, 2003: 209).

2.3.1 Foreign Direct Investments, Inequality and Poverty Reduction

The linkages between FDI and poverty reduction is quite complex. While the overall benefits of FDI for developing country economies have been well documented, the consensus in the literature however is that such benefit can only be maximized under appropriate host-country policies and a basic level of development. In fact, Obwona and Mutambi (2004) argue that in principle there is no direct link between FDI in Africa and poverty reduction. In other words, FDI may result in significant poverty reduction effects only if a number of prerequisites are in place. If not, the FDI effects may be zero or even negative. This position is echoed by Addison and Mavrotas (2004) in their assertion that FDI can contribute to the MDGs by generating employment and via its revenue effects. However, they caution, these potentially strong development benefits of FDI can only be realized if the host country has a clear vision of how FDI fits

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into its overall development strategy. By implication, FDI is a useful, but not a miracle, ingredient for development.

While acknowledging and emphasizing the fact that many FDI impacts are inherently difficult to measure, Tambunan (2004) has outlined three concrete ways in which in the contributions of FDI to poverty reduction in developing countries can be measured: through labour-intensive economic growth, through transfer of new technology, knowledge or other intangible assets, or through the allocation of tax revenues collected from foreign firms.

2.3.1.1 Poverty Reduction through FDI-induced Labour Intensive Growth[3]

The presumed relationship between FDI and poverty reduction through the creation of employment is represented in Figure 1 below. This approach to measuring the contributions of FDI to poverty reduction has as its starting point the highly contested trickle-down effects of economic growth .It posits that, other things being equal, a larger presence of FDI is associated with a faster economic growth, and the latter is associated with a faster growth of employment, and a rapid reduction of poverty. According to this model, however, FDI-induced economic growth on its own would not automatically generate benefits for the poor. The effective way to transfer the benefits of FDI to the poor would be through labour-intensive or employment-creation economic growth (Tambunan, 2004).

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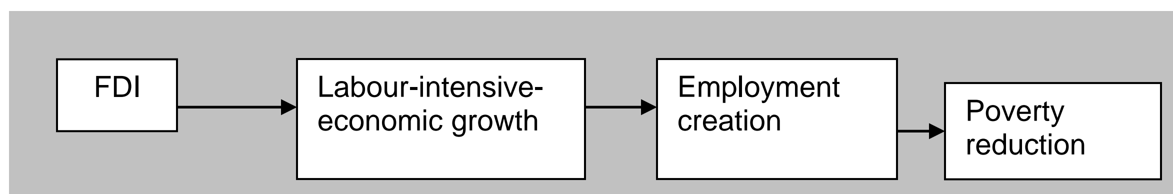
[3] All the diagrams in this section are adapted from *Tambunan (2004).*

Figure 1: Relation between FDI and Poverty Reduction through Economic Growth



The contribution of FDI-led growth to poverty reduction through employment is not always simple as suggested in the sketch above. The works of Gardiner (2000); Jenkins and Lynne (2002) and Te Velde and Morrissey (2002) highlight the fact that in some cases even if foreign firms do succeed in creating employment, the benefits may not be evenly distributed, thereby exacerbating inequality. Their works come with an important conclusion that when it comes to employment in developing countries, foreign firms tend to pay attention only to skilled workers, to the exclusion of those with less skill. These firms tend to promote the interests of a small number of local factory managers and relatively well paid modern-sector workers against the interests of the rest of the population.

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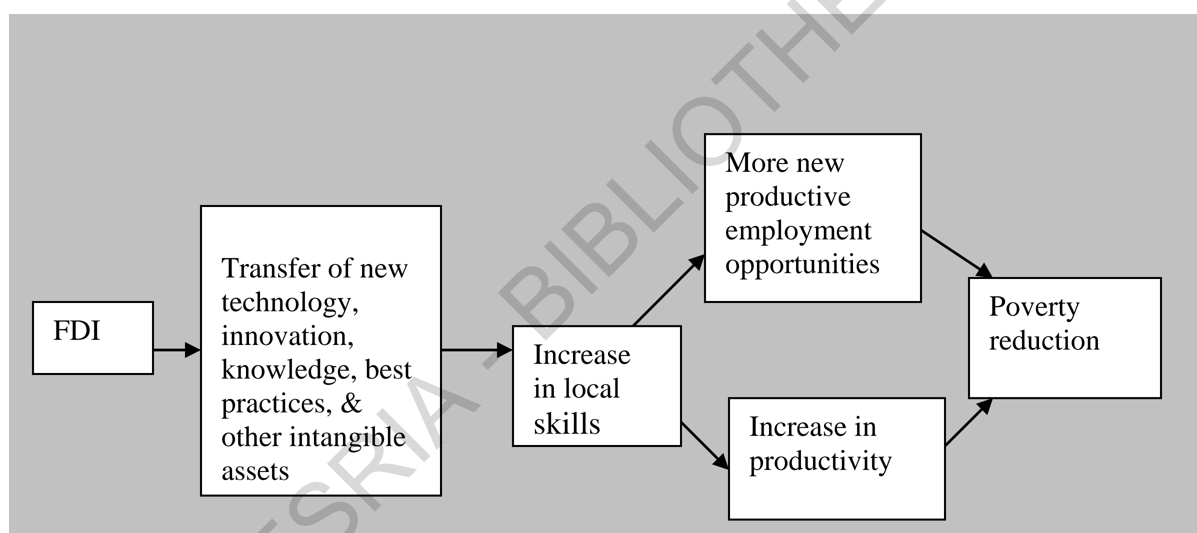
2.3.1.2 Poverty Reduction through FDI-Transferred Technology, Knowledge, and other Intangible Assets

Figure 2 depicts the assumed relationship between FDI and poverty reduction through the transfer of intangible assets such as skills. It is believed that theoretically, the diffusion of new technologies, innovations, knowledge, new best practices and other intangible assets from FDI will increase efficiency and productivity, and hence income per worker in the host country. Jenkins and Lynne (2002) for example, assert that if FDI serves to multiply job opportunities in host countries, this will not only help to address unemployment and raise

wages, but would also encourage investment in human capital through the transfer of skills and knowledge to the local workforce via both on-the-job and specialized training. According to them, one way in which skills may be transferred from FDI-based foreign firms to locals is via joint ownership of assets. That is, if foreign firms permit domestic investors to hold a share of the equity, this would not only result in the sharing of profits, but would also lead to the diffusion of human capital.

Figure 2: Relation between FDI and Poverty Reduction through the Diffusion of New Technologies, Innovations, Knowledge, Best Practices, and Other Intangible Assets



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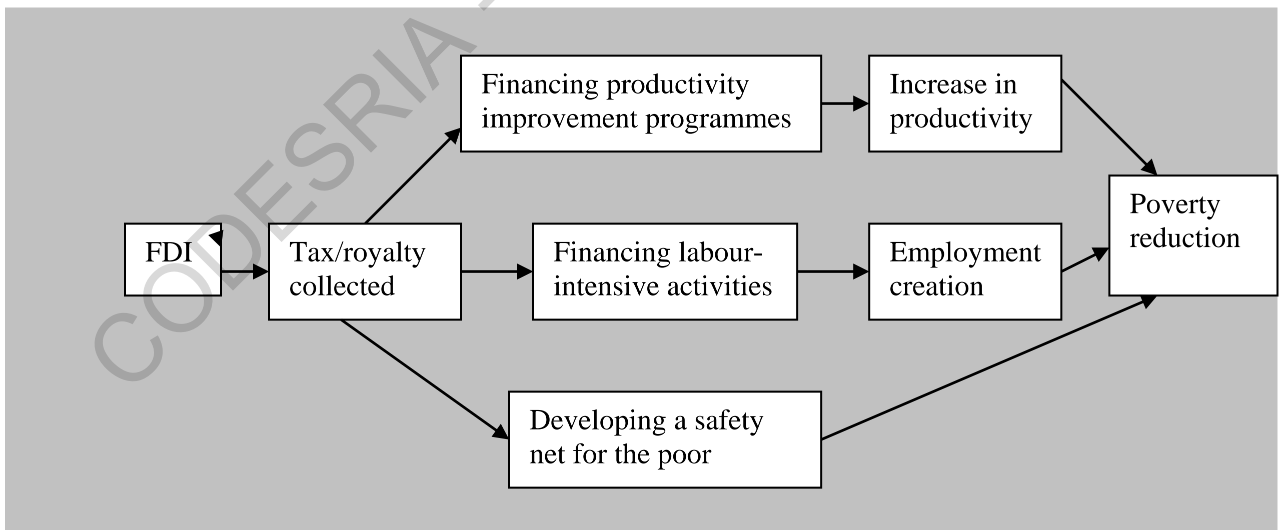
Unfortunately, the concern of inequality highlighted above is very much present here, also. This is highlighted in the writings of Cockcroft and Riddell (1991) and those of Te Velde (2002) who contend that in most developing countries, particularly in Africa where there is an abundance of low-skilled labour, the diffusion of technology and other best practices by FDI does not work very well. This is attributed chiefly to the fact that many foreign firms in developing countries are capital-intensive. These firms tend to introduce new and skilled-biased technologies that push the low-skilled out of the job market. The message that seems to emerge from these analyses is that in order to effectively measure the impact of FDI on poverty reduction via its contribution to

human capital formation, the main focus should be on the degree to which skills development programmes benefit the less-skilled workers.

2.3.1.3 Poverty reduction through the Allocation of FDI-generated Tax Revenue

A third linkage between FDI and poverty reduction is made possible through taxation of foreign subsidiaries, which raises government revenues, which in turn can be used to fund various social development programs. Such programmes include productive improvement and development of labor-intensive economic activities or poverty alleviation-oriented projects. The relationship between FDI and poverty reduction via tax revenue collected from foreign firms is sketched in Figure 3 below.

Figure 3: Relation between FDI and Poverty Reduction through Tax Revenue collected from FDI-based firms.



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The indirect contributions of FDI to poverty reduction through its tax revenue effect would definitely depend on two major factors: the policies and agreements that are in place to ensure that tax revenues are effectively

collected and how the government in place actually distributes these resources. In the first instance, the UNCTAD (1999) has noted that the issue of transfer pricing and other corrupt practices by MNCs remains a major concern for developing countries, robbing governments of much-needed resources for poverty reduction. In the second instance, Tambunan (2004) points out that the correlation between FDI-generated revenue and poverty reduction can only become potent if the collected tax from FDI is in effect used for financing employment creation or poverty reduction programmes. These could take the form of developing labor-intensive projects or small and medium enterprises. Alternatively, such revenue could be employed to support the development of a safety net for the poor, say, in the form of social security grants.

2.3.2 Trend and Characteristics of Foreign Direct Investments in South Africa

A review of the literature on the history of FDI in South Africa reveals that foreign corporations from the US, the UK and the rest of Europe were present in South Africa as early as the 1920s. While initial foreign investments were directed almost exclusively to the mining sector, by the early 1970s, 40 per cent of the FDI stock was in manufacturing and 25 per cent in financial and business services, with only 15 per cent in mining (Gelb and Black, 2004). The flow of FDI into South Africa was temporarily slowed down by the growing international campaign against apartheid. However, this trend was reversed with the establishment of a multiracial government in 1994 and the lifting of sanctions. Specifically after 1994, South Africa witnessed an increase in the inflow of FDI. It is estimated that the number of multinationals with direct investments or employees in South Africa increased by over 20%. By 1997, total foreign direct investment (FDI) exceeded $18 billion. Inward FDI flows increased to $1.5 billion in 1999 and to $888 million in 2000 (Arvanitis, 2005).

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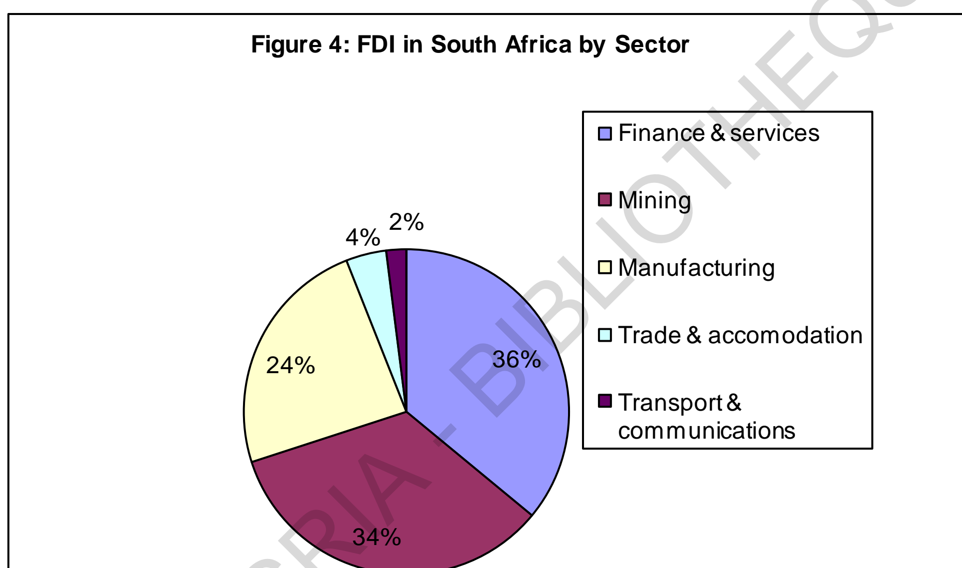
In terms of sectoral distribution, the FDI inflows have been relatively diversified. Contrary to what one would expect, the role of natural resources is less important despite South Africa's large mineral reserves. Figure 4 shows that non-mining activities have drawn more than two-thirds of the FDI inflows, suggesting that the main aim of foreign investment in South Africa has been to capture domestic and regional markets. Despite having some of the world's richest resources, and a well-developed mining industry, South Africa attracted more FDI into business services and telecommunications than mining between 1994 and 2002 (Business Map Foundation, 2002).

Figure 4: FDI in South Africa by Sector



Source: South African Reserve Bank, Quoted in Arvanitis, 2005

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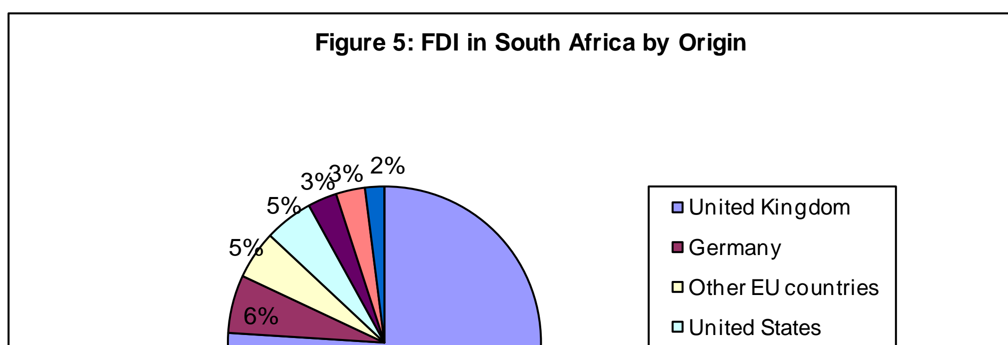
With regards to the origin of investments, the European Union (EU) has been the largest investor, accounting for about 90 percent of total FDI inflows. As Figure 5 clearly illustrates, investment from the United Kingdom outstrips investment from all other countries and accounts for three-quarters of the total. The United States and Asian countries complete the list of investors in South Africa (Arvanitis, 2005).

Figure 5: FDI in South Africa by Origin



Source: South African Reserve Bank, Quoted in Arvanitis, 2005

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With regards to the forms of FDI, a large part has been investment in existing assets. Cross-border mergers and acquisitions are increasingly prominent, accounting for more than 60 percent of the total. The major Merger and Acquisition deals since 1994 have included the investment by Petronas in Engen, Dow Chemicals in Sentrachem, Coca Cola in SA Bottling, and the takeover of De Beers by Anglo American. The restructuring and divestiture of state assets has been an important lever to attract FDI, as evidenced by the sale of government shares in Telkom in 1997. Greenfield investment is relative uncommon in South Africa (Arvanitis, 2005).

2.4 Theoretical Framework

This section of the research report attempts to develop a theoretical framework that can be used to interpret the findings of the study. The aim here is not to rehearse the claims and counter claims of the different theories, but rather to highlight those logical conclusions that have shaped the diverse opinions with regards to the role that foreign direct investments can play in the reduction of poverty in Africa.

When it comes to the role that should be ascribed to FDI in the fight against poverty in Africa, two opposing schools of thought vie for authority. These are Economic Liberalism and the Marxist or Structuralist approach. Economic

liberals or modernization theorists underscore the need for an open economy, free of political interference, to help generate the large amounts of investment that is required to foster sustained economic growth and development (Lal, 1983). According to this school of thought, close market relations with the developed countries have a positive developmental effect on Third World economies. Proponents of this theory therefore articulate a strong argument in favour of unrestricted foreign trade and the promotion of foreign direct investments in developing countries. They posit that foreign direct investments in the Third World by Multinational corporations brings in much needed modern technology and production skills (Jackson & Sorensen, 2003: 204). Arguments like these have influenced economic policies in most African countries like South Africa, where much is being done to make the business climate more attractive to foreign investors.

Structuralists or Marxist theories sharply disagree with the assumptions and arguments of economic liberals. Structural scholars build their argument on the assumption that it is in capitalism's nature for the finance and production structures among nations to be biased in favour of the owners of capital. They therefore see FDI not as agents of development, but rather as instruments for the expansion of global capitalism (Balaam and Veseth, 2001). The Structuralist perspective has many variants in the modern world, with the most relevant to this study being the neo-Marxist underdevelopment theory, which is also known as the dependency theory. Coming as a radical critique to economic liberalism, the dependency theory is built on the view that the structure of the global political economy essentially enslaves the less developed countries of the South by making them dependent on the nations of the capitalist core of the North. Dependency theorists like Yash Tandon (2000) argue that underdevelopment is not a condition which once characterized all countries. Rather, it is a process within the framework of the global capitalist system to which Third World countries have been subjected to. In other words, Third World countries have been underdeveloped as an intentional by-product

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of the development of the West. Simply put, global capitalism in one single process generates development and wealth in the industrial world, and underdevelopment and poverty in the Third World (Jackson and Sorensen, 2003: 205).

Thus, in contrast to the economic liberal view of MNCs being engines of growth that bring progress to the Third World, dependency theorists frequently consider MNCs, together with trade and foreign aid, as the very devils that entrench dependency and exploitation. Radical dependency theorists have therefore called on Third World countries to cut off, or at least severely limit, their ties to the capitalist world market. They argue that through reliance on their own strength, as well as mutual cooperation, real economic development can become possible, outside the reach of capitalist world market exploitation (Jackson and Sorensen, 2003). This perspective therefore clearly derides the idea that the realization of the MDGs in Africa depends to a larger extent on its ability to attract FDI.

An insight into the claims and arguments of these opposing schools of thought leaves behind the impression that both theoretical traditions have some merits and weaknesses. For example, there is little doubt that liberal economic policies can stimulate growth and revitalize shrinking economies. However, economic liberals have not been able to clearly account for the dismal economic performance of African countries despite long years of adhering to liberal economic policies and attracting huge inflows of FDI. Similarly, even though there is some merit in the claim of dependency theorists that the underdevelopment of Africa is partly a function of the predatory activities of Northern economies, the argument for disengagement espoused by some scholars in this tradition is unrealistic in the current environment of globalization and complex interdependence. By implication, a theory that seeks to explain the role of FDI in poverty reduction must be able to reconcile the diverging

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positions of economic liberalism and Marxist theories. This is exactly the foundation of the Modern Mercantilist perspective.

Modern mercantilism seeks to strike a balance between economic liberal and dependency views, and is therefore favoured in the study. Whereas economic liberals argue in favour of world market integration in order to promote development, and dependency theorists argue for delinking, modern mercantilists suggest a middle road. A core area of development where the mercantilists strike a balance concerns the role of FDI. Modern mercantilists argue that FDI have the potentials of benefiting the Third World, but only under certain conditions. They argue that while in stronger states with some local industry, MNC investment can assist in developing the host economy, in weak states with undeveloped local economies, foreign investments will totally dominate the host country and undermine the local industry. In other words, FDI will not bring economic development to the South on their own; there has to be a counterweight in the form of local industry and a host government strong enough to oversee MNC activity (Jackson and Sorensen, 2003: 209). This argument informs the central hypothesis of the study that, while FDI can under certain conditions be reasonably supportive in reducing poverty, left on their own however, they constitute a strong force that can undermine the process of achieving the MDGs in Africa.

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CHAPTER THREE
RESEARCH DESIGN AND METHODOLOGY

The qualitative approach was used in this study. In order to adequately address the research questions, the study made use of the case study design. The choice of this design was informed by the research problem, which required an in-depth analysis of the operations of MNCs and their bearing on the efforts of the South African government in meeting the MDGs.

Hakim (2000) defines a case study as one which takes as its subject one, or more selected examples of a social entity. This may be a community, an event, an organization, an institution or a country, which is studied using a variety of data collection techniques. The case under study is usually bounded by parameters, shows a specific dynamic and relevance, and reveals information that can be captured within these boundaries. In this context, the approach was to investigate the impact of FDI on efforts at achieving the MDG of poverty reduction, using South Africa as the case study.

According to Hakim (2000: 59), case studies have their strength in the ability to focus on the subject under study. More importantly, by using a variety of data collection techniques and methods, a case study can produce a more rounded, holistic study than any other design. In other words, the use of multiple sources of evidence, which is characteristic of case studies, makes the case study one of the most powerful research design. Hence, the choice of the design for this study, which entailed a descriptive, exploratory and illustrative analysis of the impact the operations of MNCs have had on South Africa's attempts at achieving the MDG of eradicating extreme poverty by 2015.

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3.1 Methods of data collection

As indicated above, a major strength of the case study design is rooted in its ability to produce a more rounded, holistic study using a pool of primary and secondary sources of information. The researcher maximized this advantage by collecting both primary and secondary data from a wide range of sources.

In actual fact, the research drew largely from **secondary data** collected from a mix of **documents, research findings** and **surveys** published by government departments, research institutes and other organizations. These included among others:

- The South African Department of Labour;
- The South African Department of Finance;
- The South African Revenue Service (SARS);
- The South African Reserve Bank (SARB);
- The Human Science Research Council (HSRC);
- The Southern African Regional Poverty Reduction Network (SARPN);
- The EDGE Institute;
- Action Aid International;
- The American Chamber of Commerce in South Africa;
- The British Chamber of Business in Southern Africa; and
- The Southern African- German Chamber of Commerce and Industry.

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Information collected from secondary sources was corroborated with **primary data** collected mainly through **interviews** with resource persons from the EDGE Institute, the HSRC, SARPN and COSATU. Attempts to secure interviews with relevant government departments and foreign business chambers were unsuccessful.

3.2 Method of data analysis

The study was designed in such a way that the data analysis process ran concurrently with the data collection process. The rationale here is that new analytical steps informed the process of additional data collection, and new data collected in turn shaped subsequent analyses.

Both primary and secondary data were analyzed using the constant comparative method. This method of analyzing qualitative data involved comparing segments of data within and between categories in order to develop conceptualizations of possible relations between various pieces of data (Mouton, 2000). More specifically, the data was searched for themes, constructs and patterns hidden in documents, research reports, and interviews. This formed the groundwork for a more robust interpretational, descriptive and reflective analysis. The analysis also made use of both the theoretical and conceptual frameworks developed in the literature review, to establish the nature of the correlation between the operations of FDI and efforts at realizing the MDG of poverty reduction in South Africa.

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3.3 Limitations of the Study

The major limitation of the study has to do with the failure of the researcher to secure interviews with some prospective sources. These included representatives of government departments and foreign business chambers. The impact of this setback on the research was however mitigated by the success in collecting relevant and reliable secondary data from these same sources.

3.4 Ethical Considerations.

Few ethical issues were entailed in the research given the fact most of the data was collected from secondary sources and all those interviewed did so out of informed consent. The researcher, however, avoided all forms of research misconduct, fabrication, falsification, or plagiarism, including misrepresentation

of credentials in proposing, performing, or reviewing research, or in reporting research. The researcher has also pointed out the limitations of the findings and has acknowledged all assistance, collaboration of others, or sources from which information was borrowed.

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CHAPTER FOUR
PRESENTATION AND ANALYSIS OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

4.1 Presentation and Analysis of Findings

The impacts of FDI on the host country under study are many and varied. However, for the purpose of this study the investigation was biased towards those economic processes that have a direct bearing on poverty reduction efforts in the country. Hence, aspects such as the environmental, health, cultural and political impact of FDI were left out of the investigation. The researcher acknowledges that the aspects left out do also impact on poverty, considering the multi-faceted nature of the concept. However, the decision to leave them out was informed by the consideration that these issues are treated as separate goals in the Millennium Declaration and it is beyond the scope of the study to investigate all these goals.

Besides, it was discovered in the course of the study that some major multinationals devote some percentage of their turnover to supposedly community projects as part of their corporate investment and corporate social responsibility programmes (South Africa Foundation, 2000; Ogadhoh, 2004). This aspect of the findings is also not reported here, as the existing methodology was judged inadequate to test the exact impact of these projects on poverty reduction in the country. It is worth noting here that some observers and analysts view these projects more as public relations ploys aimed at improving the image of MNCs rather than as sustainable community projects that can lift the people out of poverty (Menne, 2003). The actual implication of these projects for poverty reduction in South Africa is therefore judged a subject for further research.

The literature highlighted three broad ways in which FDI could contribute to the fight against poverty in the host country, provided there are mechanisms in

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place to harness the potential benefits. These include through labour-intensive economic growth; through transfer of new technology, knowledge or other intangible assets; or through the allocation of tax revenues collected from foreign firms. Bearing this framework in mind, this section presents the key findings of the link between FDI and poverty reduction in South Africa.

4.1.1 FDI contribution to employment and income poverty reduction in South Africa has been marginal.

The first area the study looked into was the connection between FDI and the reduction of income poverty via the creation of employment. It was found that in the South African context, the contributions of FDI to poverty reduction through labour-intensive growth has been quite insignificant since the end of apartheid. Foreign investment by firms entering South Africa since the 1990s has had little impact on employment growth. Uncontested figures contained in the recent surveys of both the American Chamber of Commerce[4] and the British Chamber of Business[5] in South Africa do indeed portray a positive outlook of the contribution of their respective firms to job-creation in the country. However, as Gelb[6] notes, most of these jobs were created prior to the democratic transition. He argues that very few jobs have been added to the labour force by foreign firms over the last fifteen years, especially as most investments that have come

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[4] The American Chamber of Commerce in 2006 conducted a survey on the business activities of its membership, which aimed at quantifying the extent of US business activity in South Africa in terms of employment, turnover and corporate investment. Among other things, the 2006 survey revealed that 147 US companies in South provide direct and indirect employment to more than 277 000 people in the country.

[5] The findings form part of a joint business survey conducted in 2006 by the British, Italian and Swedish chambers of commerce in South Africa, aimed at establishing viewpoints on various issues affecting the business, political and economic operating environment of their members in South Africa. According to the survey results, the British companies surveyed employ over 30 000 people, and 67% of respondents claimed they had created more jobs in 2006 than in 2004.

[6] Professor Stephen Gelb is the Executive Director of the EDGE Institute in South Africa, and is also Visiting Professor of Economics, University of Witswaterands. Prof. Gelb has carried out extensive surveys on FDI in South Africa. The researcher interviewed him on Thursday, June 21st 2007 at 09: 15 am at the EDGE Institute in Johannesburg.

into the country during this period have been in the services and mining sectors, which are not labour intensive. Besides, he argues, most EU and North American companies that form the bulk of new FDI inflow into South Africa are medium-size companies that have not been able to create large-scale jobs, as is the case in the emerging economies of Asia.

According to Gelb[7], the failure of FDI to contribute to substantial employment in South Africa can be attributed primarily to the strength of trade unions that has resulted in huge wage gains for workers relative to low productivity in the manufacturing sector. This situation has therefore made the South African environment less attractive to those foreign firms that would have loved to take advantage of the pool of low-skilled labour the country has to offer.

This argument of marginal employment by foreign firms in South Africa is further sustained by evidence from a qualitative survey conducted amongst the members of the Southern African-German Chamber of Commerce and Industry in 2000[8]. The results of the survey reveal that since 1995, the majority of respondents (70%) indicated that they had not been creating any new jobs. It also indicated that a vast majority of German firms in South Africa employ less than 100 employees. Just like Gelb, the survey results further suggest that the activities of labour unions and low labour productivity have been prime barriers to job creation by German firms in South Africa. About 53% of German firms surveyed indicated that labour market regulations do indeed restrict further employment of local labour.

A study by Bhorat and Poswell (2003) provides a related explanation to the marginal contributions of FDI to employment-creation in South Africa. It

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[7] ibid

[8] The findings of the sixth survey of German enterprises in South Africa by G. Pabst are discussed in Gilroy et al. (eds.) (2005) *Multinational Enterprises, Foreign Direct Investments and Growth in Africa: South African perspectives.* New York: Physica-Verlag. It should be noted however that the recent survey conducted by Dr. G. Pabst on German firms in South Africa in 2006 claims there's been an addition to the labour force by German firms, though no figures are given. The issues of labour regulation and low labour productivity are still identified as barriers to employment in the 2006 survey.

concludes that the type of foreign direct investment South Africa has received since 1995 has not been of the kind that would stimulate economic development. Rather, South Africa's FDI flows appear to be more likely either to have no impact on employment or to lead to short-term job losses. Shedding light on this trend, Altman[9] highlights that most foreign firms that have entered the country during this period did not establish new operations in the form of Greenfield operations. A greater part of foreign investments has been in the form of partial or full acquisitions as firms have sought to benefit from the large size of the market and at the same time mitigate the risks of investment associated with strong labour regulations.

Thus, as Gelb and Black's (2004) study show, most affiliates of foreign firms in South Africa have been found to be outsourcing substantial shares of their operations while restricting their own activities to strategic management, marketing and technical services. Similarly, others are engaging in service provision, in contrast to the production activities of other affiliates of their parents elsewhere or in contrast to their original intention on entering the South African market. Such practices have had little effect on employment-creation in the country.

Further evidence for the lack of employment-creation by foreign firms in South Africa has also come from Jenkins and Lynne (2002). They argue that foreign firms in the country increasingly adopt capital-intensive modes of production, using technologies developed abroad with other markets in mind. The increasing use of capital-intensive modes of production in South Africa is, however, not limited to foreign firms. Evidence from the 2007 South African Investment Climate Survey[10] suggests that both local and foreign enterprises in South Africa are relatively capital intensive due both to firms adopting capital-

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[9] Dr. Miriam Altman is the Executive Director of the Employment, Growth & Equity Initiative of the HSRC. The researcher interviewed her on Thursday, June 21st 2007 at 13: 30 pm at the HSRC in Pretoria.
[10] The investment Climate Survey (ICS) was carried out by Citizen Surveys and was commissioned by the World Bank in partnership with the South African Department of Trade and Industry.

intensive production methods and an expansion of firms in capital-intensive sectors. This has created a situation where South African firms have about twice as much capital per worker (about $3,500 per worker) as firms in Lithuania, Brazil, and in the most productive areas of China.

Foreign Investments into South Africa over the years have followed and perhaps perpetuated this trend, thereby making little addition to the labour market. A number of reasons have been advanced for increasing use of capital-intensive modes of production by foreign firms entering into South Africa. These include the need for increased efficiency and lower unit costs; a shortage of skilled labour and therefore a need to use labour-saving techniques; the need to reduce dependence on increasingly expensive and militant labour; and the tendency for the parent company and its subsidiaries to use uniform production techniques all over the world (Jenkins and Lynne, 2002).

The indirect contributions of FDI to growth and employment through spillovers to domestic firms cannot really be established in South Africa. This is because no close and comprehensive study has been undertaken on the linkages between foreign and domestic firms in the country. Limited evidence from sectoral analysis, however, points to a mixed bag of positive and negative spillovers in the IT and metal industries, respectively. A study by Gelb[11] discovered evidence of horizontal spillover in the IT sector. It established that South African firms had improved their competitiveness and thus increased their market share following the entry of foreign firms. On the contrary, the same study records the experience of a Chinese manufacturing company that was able to take over 80% of the market share of metal coil within two years of its entry into South Africa. While the first case represents an addition to the labour force, the latter case undoubtedly led to the shedding of jobs as local firms that could not compete with the foreign investor were forced to close up.

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[11] The information was sourced from Prof. Gelb during interview with the latter in Johannesburg on the 21st of June 2007.

There is perhaps no better way to summarize the impact FDI have had on job-creation in South Africa than to rehearse the conclusions of the London Business School/EDGE Survey[12] on the subject. The survey results conclude that the majority of new foreign investors entering South Africa during the 1990s established small or medium size affiliates with limited impact on employment creation and capital inflows. As already seen above, nearly half the entrants acquired existing operations, rather than setting up new enterprises via Greenfield and many investors mitigated risk by limiting the irreversibility of their investment, by outsourcing production or focusing on service provision rather than more capital-demanding manufacturing operations.

The LBS/EDGE survey results further argue that most new FDI in South Africa have not had impact on the globalizing of production, in the sense of output being exported into global production networks. Rather, foreign firms have focused on domestic and regional markets. Thus, the integration of domestic production processes into global networks, a process that is believed to spur labour-intensive growth, remains limited[13]. In a nutshell therefore, the contribution of FDI to savings, investment and thus employment-creating growth has been low.

Putting these findings into context, it is evident that policy objectives of increased output and employment from FDI have not been met in South Africa. In other words, for a country like South Africa with unemployment rates in

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[12] This is a survey on Foreign Direct Investments in conducted in four Emerging Economies (South Africa, Egypt, Vietnam and India) by the London Business School (LBS) in partnership with the EGDE Institute. The results are reported in full in S. Estrin & K. Meyer (ed.), 2004, *Investment Strategies in Emerging Markets*. Edward Elgar, Cheltenham UK & Northampton MA USA,

[13] This position is supported by the findings of Gilroy et al. (eds.), 2005,op.cit, p. 203, which argue that only 4% of all German firms questioned in their survey engaged in foreign trade, suggesting that German MNCs are in South Africa to service the domestic market and that the country may not be seen to be attractive as a platform for international production.

excess of 40%, the benefits of FDI in reducing poverty need to be found elsewhere than in their potential to engender growth that would absorb the poor into the active labour force and provide them with some means of income

4.1.2 FDI-transferred technology and human capital upgrading is biased and exacerbates income inequality in South Africa.

Informed by the literature, the study also investigated the claim that FDI can contribute to poverty alleviation through the upgrading of human capital. To recall, the underlying assumption here is that FDI transfer new technologies, innovations, knowledge, new best practices and other intangible assets to the host country. This will then encourage investment in human capital through the transfer of skills and knowledge to the local workforce via both on-the-job and specialized training. At least theoretically, the diffusion of all these intangible assets will increase efficiency and productivity, and hence income per worker in the host country.

Empirically, the results of skills surveys conducted on American and German firms in South Africa paint a positive picture of the contributions of foreign firms to skills development in South Africa. For example, a skills survey conducted by the American chamber of commerce concludes that US companies trained nearly 60,000 people in the past 12 months, training on average 170 people per company and spending over R139 million on the training.[14] Similarly, it is reported that between 1997 and 1999, German firms spent about R1.56million on training of employees.[15]

Data from the LBS/EDGE survey[16] seem to support this trend as it suggests that foreign affiliates in South Africa indeed spend a larger proportion of

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[14] The findings are contained in a Skills survey summary published by the American chamber of commerce in South Africa in April 2007.
[15] Gilroy et al. (eds.) (2005); op. cit, p. 202.
[16] Estrin & Meyer, 2004, op. cit.

revenue on training than domestic firms and affiliates in other emerging economies such as Egypt, India and Vietnam. It also indicates that in most cases this training is complemented by exposure to modern production principles and new technologies transferred from the parent firm. Though the training spending and technology transfers provide an indication of firms' investment in their labour force, they do not in themselves tell anything about the quality of skills upgrading and the implications for poverty reduction. In actual fact, according to Gelb and Black (2004), while FDI has contributed to skills upgrading, particularly amongst high-skilled blacks, in doing so, it may have also worsened the skills bias in the labour market.

Bhorat and Poswell (2003) substantiate this argument with the contention that the technological changes and training that accompany foreign direct investment in South Africa are biased against the poor and only serve to strongly reinforce the inequitable distribution of household income in the country. They argue that the introduction of new technologies by foreign investors reinforce a trend whereby employment and training is skewed towards and concentrated on highly skilled labour, generally at the expense of those with few skills. According to Craven,[17] the effect of this trend on inequality has been made worse by the fact that foreign direct investments into South Africa have persistently been attracted to capital intensive sectors that can only make use of a highly qualified workforce.

Over the past decades therefore, formal sector unskilled jobs have been lost, while the demand for scarce skilled labour and capital has risen. As such, as Samson, MacQuene, and van Niekerk (2001) have indicated, recent economic growth in South Africa has mainly benefited sectors that rely more on relatively skilled labour. Unskilled workers and those in poor households have undoubtedly borne the brunt of the adjustment costs associated with FDI

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[17] Patrick Craven is the National Spokesperson of the Congress of South African Trade Unions (COSATU). The research held a telephone interview with him on Friday, July 6 2007 at 15:32 p.m.

transferred technologies, knowledge and training. For example, evidence points to the fact that in 1999 employees of German firms in South Africa were paid an average monthly wage of R29 609, an amount that is significantly higher than the average South African monthly wage. It is reported that these very high wages are used to attract and retain very skilled employees.[18]

Evidence from the 2007 South African Investment Survey also confirms this trend. It shows that compared to other countries, wages appear to be relatively higher for managers and skilled workers in South Africa than wages for unskilled workers are. For example, the median monthly wage for an unskilled production worker in South Africa in 2002 was about $240 per month. In comparison, an unskilled worker in Poland earns about $250 per month and an unskilled worker in Brazil earns about $167 per month. The median monthly wage for a manager in South Africa is about $1,850 per month—over twice as high as in Poland ($740 per month) and over three times as high as in Brazil ($540 per month). Thus, a claim suggesting that wages are high in South Africa appears to mainly be due to high wages for managers and professionals—not high wages at the bottom of the income distribution.[19]

The interview with Gelb produced the same evidence albeit with a twist in the degree to which the biased training can be held responsible for the deepening inequality and poverty in the country. He reaffirms the argument that FDI contribution to skills development in South Africa has been concentrated at the top end of the skills ladder, particularly in the service sector. For instance, he argued that there has been a considerable development in the skills and expertise of workers across the board in the telecommunication, banking and business services industries which already had a relatively high skills base. For industries like tourism with a relatively low skills base, however, training has been concentrated on those at the top. Gelb, however, asserted that unlike in

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[18] Gilroy et al. (eds.) (2005); op. cit, p. 202.
[19] Investment Climate Survey (ICS), 2007, op. cit. p. 10

countries like China where a massive influx of FDI has entrenched inequality in the society, it would be pretty unfair and misleading to consider FDI as major drivers of inequality in the South African context. The forces that drive inequality in South Africa are much more complex and are of much significance than the operations of FDI.[20]

It is clear from the preceding evidences that foreign firms that have invested in South Africa after apartheid have played a significant role in the development of the skills of the locals. Unfortunately, owing to the dismal state of human capital inherited as part of the legacy of apartheid and the dictates of modern production techniques, not all segments of the South African labour force have benefited from this skills upgrading. While a few skilled workers have had their productivity and income boosted by exposure to modern technologies and methods of production, the majority of the labour force, which happen to be unskilled, have remained the same, and in some cases have even become redundant. Though, as Gelb argued, FDI are not the major driving force behind the rising inequality in South Africa, their preference for highly skilled labour that is commensurate with the advanced technologies they bring into the country nonetheless fans the flames of inequality. The unintended consequence of their biased skills development has therefore turned out to be a tacit endorsement of the redundancy and poverty of the unskilled majority.

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[20] Interview with Prof. Stephen Gelb; June 2007.

4.1.3 Tax revenues from foreign firms are a significant source of funding for skills development and poverty alleviation programmes in South Africa.

Perhaps the only area where the contributions of FDI to poverty alleviation in South Africa were noted to be undisputable is in their ability to generate huge sums of tax revenues for the government. Though it was difficult to get information on the exact revenue collected exclusively from foreign firms,[21] the overall performance of both foreign and domestic companies in terms of revenue-generation has been quite phenomenal. Over the last decade the amount of income tax paid by South African companies has expanded at a very rapid rate. The only exception was in 1998/1999 when, following the Asian crisis, economic growth and company profits plummeted. Since that time, Company Income Tax (CIT) increased very rapidly. CIT has increased as a share of total tax revenue consistently over the last decade and now exceeds 20%. As a share of GDP, CIT has increased from around 3% in the mid-1990s to 5% in 2003/2004.[22]

Despite the significant reduction in the corporate tax rate from 35% in 1998 to 29% in 2005, tax revenues increased substantially. From a base of 100 in 1995, revenue derived from taxes on companies doubled to 200.8 in 2000-2001 and then more than doubled to 410.9 in 2003. The South African Revenue Service has attributed this robust growth in Company Income Tax mainly to an increase in company profitability, as well as to improved enforcement and compliance and a considerable increase in the company register (South African Revenue Services, 2004).

In addition to Company Income Tax, South African companies pay taxes on the profits that they distribute known as Secondary Tax on Companies (STC).

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[21] Attempts by the researcher to solicit this information from the South African Revenue Service (SARS) turned out to be futile.

[22] National Treasury, 2004. Cited in *Chambers of Commerce and industry South Africa (Chamsa), 2004, Economic and Intelligence Quarterly, Issue 1 Fourth Quarter. p. 10*

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While payments fluctuated considerably, the overall trend is for STC to increase its share of tax revenue from about 1% in the mid-1990s to a little over 2% in recent years. As a share of GDP, STC increased from around 0.2% in the mid-1990s to 0.5% in 2003/2004 (South African Revenue Services, 2004:16).

Thanks to this robust growth in company tax revenues, of which foreign companies have been significant contributors, there has been a boost in the South African government's poverty reduction programmes such as the social grants system and the extended public works programme. For example, the social grants system that was developed as a safety net for the poor and is considered by many as the most efficient poverty alleviation means in the country, has witnessed a tremendous enlargement in the past years. The number of social grant beneficiaries has increased significantly, in particular the child support and disability grants. According to the 2007 Budget Speech, the state old age pension, disability and care dependency grants will rise by R50 to a maximum of R870 a month. Child support grants will increase by R10 to R200 a month and foster care grants will also rise to R620 a month (Manuel, 2007).

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Besides, it was found that in addition to the Company Income Tax and the Secondary Tax on Company, foreign firms in South Africa like their domestic counterparts are required to pay a skills development levy. This levy is paid by all companies with an annual payroll in excess of R250 000 and is equivalent one percent of the total amount of remuneration paid to employees. Of the total amount collected, 80% is distributed to the relevant Sector Education and Training Authority (SETA) and is used to support the training programmes of qualified employers in the form of grants. The remaining 20% is paid to the National Skills Fund which is then used to fund skills development projects not within the scope of SETAs. In this way, the skills development levy serves as a mechanism to improve on the productivity and employability of the pool of

unskilled workers in South Africa and thus reduce poverty and inequality (Department of Labour, 2000).

4.1.4 FDI-led privatization and commercialization of services in South Africa exacerbates poverty and inequality

A major area where FDI operations in the country were found to be detrimental to efforts at achieving the MDG of poverty eradication is in that of privatization and commercialization of the delivery of basic services. As highlighted in the literature, Bayliss and Kessler (2006) argue that the adequate access to basic services is essential to reducing poverty and improving the quality of life. Achieving the MDG of poverty eradication therefore requires governments to make explicit commitments to fund the provision of basic services, as well as to improve the accountability of public sector providers to citizens.

In South Africa, however, the study found out that following advice from the World Bank and IMF, the government in 1996 embarked on a strategy of liberalizing the provision of basic services such as water and sanitation. Though this experiment did not augur well and some contracts between municipalities and foreign firms had to be repealed, research conducted by ActionAid[23] in 2005 established that EU companies such as Vivendi, SAUR, Suez and Biwater still manage the supply of water – in partnership with government – of more than five million people in Johannesburg and the Eastern Cape. The study showed that the logic of cost-recovery and the need to make profit by UK-based multinational, Biwater and French-based multinational, Suez are having a disastrous impact on the rights of poor people. Price hikes and disconnections have hit poor families and many vulnerable people have lost access to adequate water supplies. In the Kanyamazane township of

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[23] ActionAid International is a unique partnership of people who are fighting for a better world – a world without poverty. The research work was commissioned as part of its Trade Justice Campaign.

Mpumalanga, it is reported that after Biwater installed new water meters in 2001, household water bills rose dramatically from a previous flat rate of 7 Rand to 300 Rand a month – a rise of 4,185%. Many poor residents soon found themselves in arrears and were subsequently disconnected. In nearby Matsulu Township, also covered by Biwater, there were reports of a cholera outbreak in January 2004 after a shortage of water forced poor families to draw water for themselves from the Crocodile River (ActionAid, 2005).

A similar experience is shared by residents of the impoverished townships of Phiri and Orange Farm in Soweto, Johannesburg who are supplied by the French multinational Suez. In Phiri for instance, since Suez entered into a joint venture with Johannesburg Water Management in 2001, local residents have had to choose between open standpipes or prepaid water meters – some costing up to 1000 Rand to install, with tariffs of up to 272 Rand for 50 extra kilolitres of water per month. The introduction of meters has severely reduced households' daily access to water, most of whom are unemployed and rely on meager old age pensions. As one resident interviewed in the ActionAid study notes, people tend to use less water because they cannot afford to pay and are usually faced with the difficult choice of either buying food or saving the money to buy water (ActionAid, 2005).

It is clear from the above examples that the intrusion of foreign private companies in the delivery of services in South Africa has exacerbated the inequality in infrastructure and services in some of the poorer parts of the country. Many already impoverished communities find themselves deprived of the very basic services on which life depends. Instead of bearing the fruit of efficiency and improved quality of services[24] for which it has always been acclaimed in neo-liberal circles, foreign capital in this case has become a tool

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[24] 71% of residents surveyed in a 2000 study of water privatization in Queenstown said that the service had worsened or stayed the same but bills had become more expensive. The results of the study are reported in full in *Timms, J., 2000, A case study of Private, Public Partnership, Queenstown. Water, Engineering and Development Centre, Loughborough University*.

for entrenching inequality and poverty in some parts of the country. The implications for achieving the MDGs cannot be overemphasized; if the government continues to relinquish its responsibility for serving the people to profit-minded foreign investors, those households that cannot afford would only find themselves sinking deeper and deeper into poverty.

4.2 Conclusion

In a complex environment like that of South Africa, establishing the impact of foreign direct investments on the local economy is a task that cannot be concluded with full certainty. This becomes even more difficult when attempts are made to link the spin-offs of these investments to poverty reduction efforts. Going by the preceding analyses however, a number of developments can be underpinned.

To begin with, FDI have not been a successful catalyst for large-scale job-creation in South Africa to match the spiraling levels of unemployment experienced in the country. This trend can be attributed mainly to the characteristics of the investments the country has attracted during this period, but also to the poor state of human capital and the attempts by investors to mitigate the risks of investment. Besides, efforts by foreign investors to improve on the country's human capital and thus boost employment and productivity have also been met with mixed results. The bulk of the benefits in this regard have accrued to a few skilled workers thereby ushering or deepening a new wave of inequality, particularly among blacks. According to the 2004 study by the Human Science Research Council (HSRC), while in the past inequality in South Africa was largely defined along race lines; today it is increasingly defined by inequality within population groups. The gap between the rich and poor within the black group, especially, has increased substantially (HSRC, 2004).

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The implications of these developments for the realization of the MDG of poverty eradication in South Africa cannot be overemphasized. Considering that FDI have over the years contributed little to assuage unemployment in the country, their being ensconced as an integral part of the South African government's pro-poor growth strategies is a major call for concern. Contrary to the stated hypothesis, in the South African context FDI on their own may not necessarily constitute a serious threat to achieving the MDG of poverty reduction, after all. However, as part of the government's overall master plan to engender pro-poor growth, they may end up frustrating the aspirations of the South African masses if the present conditions prevail. As could be discerned from the findings, whatever growth has been stimulated by foreign investments over the past decade has failed to adequately trickle down to the poor. Among others, the skills constraints coupled with infrastructural problems in labour-intensive sectors of the economy have created a situation where the net impact of FDI has been a contribution to the already unacceptable high levels of inequality in the country. Thus, considered from the framework of Fuentes' (2005) contention that the time horizon of poverty reduction increases considerably if inequality rises, FDI might just be one of the ingredients that would make it difficult to significantly reduce the number of poor people in South Africa by 2015.

Much to the chagrin of critics of foreign investments, these conclusions fall short of categorically styling FDI in South Africa as inherently agents of poverty and inequality, neither do they undermine their potential contributions to poverty alleviation in the country. Rather, as Zulu[25] argues, the inability to reap the benefits of FDI in South Africa stems primarily from the deficiencies in government policies. These have manifested themselves especially in the areas of inadequate skills development programmes and the disharmony in government policies. For instance, the outsourcing of the provision of water to

[25] Jack Zulu is the Manager of the Economics Dimension Programme of the Southern African Regional Poverty Network (SARPN). The researcher interviewed him on June 20th 2007 at 9: 30 am at the SARPN office in Pretoria.

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foreign firms in some municipalities discussed above clearly contradicts the government's strategy of reducing poverty by accelerating the provision of basic services through the agency of a developmental local government. In the absence of adequate mechanisms to protect the vulnerable, policies like these have left the poor at the mercy of foreign enterprises that must minimize cost and maximize profits.

Besides, as proponents of the modern mercantilist school of thought would argue, the inability of FDI to adequately contribute to poverty reduction in South Africa lies in the absence of the necessary political will to properly direct these investments. This conclusion is partly informed by Craven's[26] contention that the benefits of FDI in South Africa would have been widespread if the government had not relied too much on market forces to dictate the direction of the economy. This weak state intervention, for example, has resulted in a situation where most foreign investments are channeled into capital-intensive sectors while little incentive is provided for investments in those sectors with potentials for large-scale job creation.

4.3 Recommendations

Informed by the conclusion that the prevailing environment in South Africa has made foreign direct investments less beneficial to the cause of poverty reduction, the following are offered as way of recommendations:

- Efforts should be made by the South African government to accelerate and improve on the quality of its skills development programmes. Such programmes should target especially the low-skilled who are usually biased by the training priorities of the private sector. The increased

[26] Interview with Patrick Craven op. cit, 2007.

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productivity of the labour force would boost employment in FDI-related businesses and thus help reduce income poverty.

- More importantly, there should be much focus on attracting FDI into labour-intensive sectors of the economy such as tourism, clothing, electronics assembling and call centers. One way to do so is by ensuring that the operating environment is attractive enough to foreign investors who would want to do business in these sectors. For example, by setting call rates for call centers, the government is able to keep telecommunication rates low and thus attract prospective foreign investors into this highly labour-intensive sector. Similarly, with all its potential for massive job-creation especially for the low-skilled, the bourgeoning tourism sector can be made more attractive to foreign investors if infrastructural issues such as the conditions of airports, hotels, public transport in cities and safety and security are addressed.

- A cautious review of labour regulations is also required as part of measures to reduce the propensity of FDI to exacerbate income inequality in South Africa. In a country like South Africa with a pool of low-skilled labour, robust labour regulations have only served the interest of a few skilled workers, guaranteeing those high wages and job security. Evidence presented above suggests that stringent labour laws and a militant labour union have scared away foreign investors and prevented those already in the country from reinvesting and expanding their businesses so as to create more jobs. A cautious relaxation of labour regulations would therefore serve as a pro-poor growth strategy, which will ensure that the benefits of FDI do not accrue only to those at the top of the skills ladder or those already employed, but are also shared by the low-skilled unemployed.

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- In its drive to reduce poverty considerably by 2015, the government must also take full responsibility of the provision of basic services such as water and sanitation. This should not be dictated by profit motives, less alone be placed under the control of foreign firms. In cases where a partnership with the private sector is warranted, say because of the lack of capacity, mechanisms must be put in place by the government to ensure that poor communities that cannot afford to pay for the cost of services are catered for.

- Finally, though what is true for South Africa is to a larger extent also true for most of the continent, the country's history and level of development puts it at variance with most Sub-Saharan African countries. In order to come up with a rich analysis of the intricate relationship between FDI and the realization of the MDG of poverty reduction on the continent, a case is made here for further research into the phenomenon. It is recommended that such research should take the form of a comparative study, adopting the same framework used in analyzing the South African case to study this complex phenomenon in other African countries with somewhat different characteristics.

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