

**Rationalization of government structures concerned with
foreign direct investment policy in South Africa**

KABELO BOIKUTSO MOETI

SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE
DEGREE DOCTOR ADMINISTRATIONIS: PUBLIC ADMINISTRATION

IN THE

FACULTY OF ECONOMIC AND MANAGEMENT SCIENCES

AT THE

UNIVERSITY OF PRETORIA

PROMOTER: PROFESSOR P.A. BRYNARD

CO-PROMOTER: PROFESSOR S. VIL-NKOMO

2005

I would like to dedicate this work to my loving wife, Dipuo and our precious daughter Hope. These are the two persons I hold dearest to my heart and whose love, laughter and inspiration gave me the passion to endure and succeed.

Acknowledgements

I would like to acknowledge the following persons:

My promoter, Prof. Petrus A. Brynard for his excellent advice and guidance, as well as for his much valued friendship.

My co-promoter Prof. Sibusiso Vil-Nkomo for cultivating my interest in pursuing my doctoral studies with the University of Pretoria, as well as for the support provided with my thesis.

My HOD, Professor Jerry O. Kuye for his patience and understanding and for all his assistance in ensuring that I had every possible resource needed to complete my thesis.

Refilwe, my sister and Lebone, my brother for always being there for me.

I would also like to express sincere appreciation and thankfulness for the assistance provided by the following institutions:

The Mellon Foundation for believing in the merits of my proposed thesis, and for the financial assistance provided in support of the study's research related activities.

Joint Universities Public Management Educational Trust (JUPMET) for sponsoring my study related activities at the Institute for Social Studies (ISS) in the Netherlands, as well as for the financial support provided to me in my capacity as a JUPMET intern lecturer.

implementation and control of the inward foreign direct investments of multinational enterprises, where it could firstly be shown that such an administrative unit is indeed needed. The arguments made in the study were framed in the form of a null hypothesis and a single research question. The null hypothesis of the study being: H_0 = there is a necessity to formalize a government administrative structure for policy setting and implementation of multinational enterprise regulations in South Africa. The hypothesis was examined in terms of being accepted or rejected based in part upon first resolving the research question of the study which is: Is there a need for foreign direct investment policies that apply exclusively to multinational enterprises? As the thesis was of a qualitative rather than quantitative nature, the methodological approach primarily examined theoretical, empirical and anecdotal evidence to ascertain whether the hypothesis should be supported or rejected. Given that the null hypothesis was not disproved and the research question was answered in the affirmative, the thesis concluded and recommended the establishment of a small specialized unit of experts to serve as part of the public service but independent of any other governmental department or unit. The proposed unit should work to provide support to other government agencies in the areas of research, advice and coordination services. As the environment within which such an organizational unit operates can be expected to be relatively stable over time, and the work of the unit highly specialized, it is envisioned that decision making in the unit will be more centralized than de-centralized. The thesis ended by exploring optional organizational designs with the aim of recommending the appropriate hierarchical arrangements to be established for the proposed organizational unit. More specific answers with respect to, for example, the number of people to be employed, their job descriptions, and the remuneration scales to be applied to their positions are recommended by the thesis for further study.

TABLE OF CONTENTS

Chapter 1 - Introduction

	page
1.1 Introduction	1
1.2 Point of departure	3
1.3 Problem statement	4
1.4 Significance of the study	5
1.5 The hypothesis and research question	6
1.6 The objectives	6
1.7 Methodology	7
1.7.1 Research methods and research approach	8
1.7.2 Target population	9
1.7.3 Perceived constraints	9
1.8 Scope	10
1.9 Sequence of the presentation	11
1.10 Key concepts and terms	13

Chapter 2 - A Survey of the Theory of Multinational Enterprises

	page
2.1 Introduction	16
2.2 Perfect Market Assumption Theories	17
2.2.1 Differential rates of return	18
2.2.2 Portfolio diversification	19
2.2.3 Currency differential	19
2.3 Imperfect Market Theories	21
2.3.1 Ownership specific advantages	22
2.3.1(a) Market power approach	22
2.3.1(b) Oligopolistic explanation for foreign direct investment	23
2.3.1(c) The product life-cycle theory	25
2.3.1(d) Some empirical evidence on ownership-specific advantages	28
2.3.2 Location-specific advantages	30
2.3.3 Internalization advantages	31
2.4 The Eclectic Paradigm	32
2.5 The Economic Effects of Foreign Direct Investment on the Host Country	34
2.5.1 Economic effects of foreign direct investment of multinational enterprises associated with development	35
2.5.1(a) Foreign direct investment and output growth	37
2.5.1(b) Direction of causation between foreign direct investment and economic growth	40
2.5.1(b)(i) Granger-causality technique	40
2.5.1(b)(ii) Investment development path	42
2.5.2 Economic effects of foreign direct investment associated with employment	47

2.5.2(a) Choice of technology and employment	48
2.5.2(b) Exports and employment	49
2.5.3 Foreign direct investment and economic development in the South African context	50
2.5.4 Economic effects of multinational enterprises' foreign direct investment associated with competitive markets	52
2.5.4(a) Foreign direct investment of multinational enterprises and industry structure	53
2.5.4(b) The technology of multinational enterprises and industry structure	55
2.5.4(c) Form of multinational enterprise market entry and industry structure	56
2.5.5 Policy implications of regulating multinational enterprises to ensure competitive markets	58
2.5.5(a) Anti-trust regulation	58
2.5.5(b) Regulating technology transfer	60
2.5.6 Balance of payments effects of foreign direct investment	62
2.6 CONCLUSION	65

Chapter 3 - Historical Perspective of South Africa's Investment Climate

	page
3.1 Introduction	69
3.2 Agricultural, Mining and Manufacturing Investment and development	71
3.2.1 Agricultural Investment and Development	73
3.2.1.1 Indigenous agriculture	73
3.2.1.2 European settlement and agriculture	74
3.2.1.3 Modern agricultural Policy	76
3.2.1.3 (i) Apartheid-era policy and development	76
3.2.1.3 (ii) Post-Apartheid agricultural policy and development	79
3.2.1.3 (ii)(a) Marketing	80
3.2.1.3 (ii)(b) Credit and assistance	81
3.2.2 Mining Investment and Development	81
3.2.2 (i) The importance of mining - Strategic Minerals	81
3.2.2 (ii) The importance of mining - Beneficiation	84
3.2.2.1 Indigenous Mining	85
3.2.2.2 Apartheid-era mining industry development	87
3.2.2.3 Modern mining - Economy and Policy	90
3.2.2.3 (i) Role of mining in the national economy	90
3.2.2.3 (ii)(a) Modern mining policy - Privatization	91
3.2.2.3 (ii)(b) Modern mining policy - Mining Rights	92
3.2.3 Manufacturing Investment and Development	95
3.2.3.1 Outward-oriented industrial policy	99
3.2.3.2 Disinvestment, trade sanctions and the economy	100
3.3 Conclusion	107

Chapter 4 - Global Foundations for Establishing a Need for the Regulation of
Multinational Enterprises

	page
4.1 Introduction	110
4.2 International Perspective on the Justification for MNE regulation	112
4.2.1 Stages of evolvement of multinational enterprises	113
4.2.1(a) The stages of transition from feudalism to capitalism	115
4.2.1(b) The stages of competitive capitalism	116
4.2.1(c) The stages of imperialism	116
4.2.1(d) Transitional capitalism	117
4.2.2 Post-war foreign direct investment policy	118
4.2.2(a) Europe	119
4.2.2(b) Japan	119
4.2.2(c) The United States of America	120
4.2.2(d) Africa	120
4.3 Contemporary thinking on the regulation of Multinational Enterprises	123
4.3.1 Six factors that influence foreign direct investment policy	123
4.3.1(a) Growth and proliferation of multinational enterprises	124
4.3.1(a)(i) Significance of the Industrial Revolution	126
4.3.1(a)(ii) Multinational enterprises in search of raw materials	127
4.3.1(a)(iii) Overcoming tariff barriers	128
4.3.1(b) Social effects associated with inward foreign direct investment	129
4.3.1(c) National Sovereignty	132
4.3.1(c)(i) Central and Latin America	132

4.3.1(c)(ii) Middle East and Islamic States	134
4.3.1.(c)(iii) The Former Soviet Union and Eastern Europe	136
4.3.1(d) Multinational enterprises, corporate responsibility and international law	137
4.4 Conclusion	141

Chapter 5- Critical Survey of Existing Policies on Foreign Direct Investment in South Africa

	page
5.1 Introduction	142
5.2 Public policy defined	143
5.3 Public policy and change	144
5.3.1 Policy Innovation	144
5.3.2 Policy succession	144
5.3.3 Policy maintenance	145
5.3.4 Policy termination	145
5.4 Public Policy Determinants	145
5.4.1 Public policy role players	146
5.4.2 Public policy formulation	146
5.4.3 Rationalization within the public policy process	147
5.5 Review of FDI/MNE policies - South Africa	148
5.5.1 Department of Trade and Industry	149
5.5.1(a) Manufacturing industry	150
5.5.1(b) External trade and investment relations	151
5.5.1(c) Company Register Office	152
5.5.1(d) Department of Trade and Industry - Directorate: Technology Promotion	153
5.5.2 Competition Commission	154
5.5.3 South African Reserve Bank (SARB)	155
5.5.4 Department of Minerals and Energy	156
5.5.5 Department of Environmental Affairs and Tourism	160
5.6 Alternative policy options reviewed	163
5.6.1 Screening laws	164

5.6.2 Indigenization laws	165
5.7 Conclusion	166

Chapter 6- Rationalization of Foreign Direct Investment Policy Structures in the South African Government

	page
6.1 Introduction	168
6.2 Defining rationalization, organization and organization theory	169
6.2.1 Defining rationalization	169
6.2.2 Defining organization and organization theory	171
6.3 Evolvement of organization theory	175
6.3.1 Classical organization theory	175
6.3.1(a) The bureaucratic approach	176
6.3.1(b) Scientific management	178
6.3.1(c) General Management Theory/Administrative Theories	180
6.3.2 Neo-classical organization theory	182
6.3.3 Contemporary Organization Theory	186
6.3.4 Optimum hierarchical structure recommended	188
6.4 Measurement of Organizational Performance and Structure	191
6.4.1 Public versus private sector program and project evaluation	192
6.4.2 Complexities of public sector evaluation	193
6.4.3 Methods of evaluation	195
6.4.4 Benefits and costs to include in cost-benefit analysis	201
6.4.4(a) Allocative expenditure programs	202
6.4.4(b) Distributive expenditure programs	203
6.4.4(c) Human investment programs	204
6.4.4(d) Regulatory programs	204
6.4.5 Time value considerations in cost-benefit analysis	205
6.4.6 Appropriate discount rate	207
6.4.6(a) Gross before-tax rate of interest on private investment	208

6.4.6(b) Weighted average rate of return	209
6.4.6(c) Social discount rate	209
6.4.7 Cost-benefit adjustments	210
6.4.7(a) Cost effectiveness	210
6.4.7(b) Monetizing costs and benefit	211
6.4.8 Efficiency considerations in cost-benefit analysis	211
6.4.8(a) Pareto efficiency principle	212
6.4.8(b) Kaldor-Hicks efficiency principle	212
6.4.9 Evaluation methods in the South African public service	213
6.4.10 Summary - Measurement of performance and structure	214
6.5 Regulation and Structure	216
6.5.1 Developing a regulatory framework for the regulation of multinational enterprises	217
6.5.1(a) Neo-classical market analysis	218
6.5.1(b) The orthodox post-war economic perspective	219
6.5.1(c) The Marxist perspective	219
6.5.1(d) The Nationalist perspective	220
6.5.1(e) The Environmental perspective	221
6.5.1(f) Global consumerism	221
6.5.2 Normative jurisdictional levels of regulation	222
6.5.2(a) National level of regulation	222
6.5.2(b) Regional level of regulation	224
6.5.2(c) International level of regulation	225
6.6 Conclusion	225

Chapter 7- Summary, Conclusions and Recommendations

	page
7.1 Introduction	228
7.2 Summary of conclusions of each chapter	230
7.2.1 Chapter 1 – Introduction	231
7.2.2 Chapter 2 – A Survey of the Theory of Multinational Enterprises	231
7.2.3 Chapter 3 – Historical Perspective of South Africa’s Investment Climate	231
7.2.4 Chapter 4 – Global Foundations for Establishing a Need for the Regulation of Multinational Enterprises	232
7.2.5 Chapter 5 – Critical Review and Analysis of Existing Policies on Foreign Direct Investment in South Africa	233
7.2.6 Chapter 6 – Rationalization of Foreign Direct Investment Policy Structures in the South African Government	234
7.3 Recommendations	234
7.4 Issues For Further Study	236
7.5 Conclusion	237
Bibliography	239

LIST OF FIGURES

Figure	page
2.1 The pattern of the investment development path	43
6.1 Maslow`s Hierarchy of Needs	183
6.2 A simple open system	188
6.3 Consumer surplus	196
6.4 Demand curve and consumer surplus	196
6.5 Net social benefit of consumers and producers	198
6.6 Cost-benefit analysis to include government	200
6.7 Basic-needs approach to include government	200

LIST OF TABLES

Table	page
3.1 Major Trade Sanctions against South Africa, 1986	104
3.2 South Africa`s Major Exports and Imports in 1986 (US\$ in millions)	105
3.3 Flows of Sanctioned South African Exports	106
5.1 Summary of FDI related policies as per responsible institution	162
5.2 Liberal versus conservative policy options	163