

BRIC Bilateral Direct Foreign Investment Relations with South Africa: A Critical Review

Adrino Mazenda^{1,*} and Tyanai Masiya¹

¹School of Public Management and Administration, University of Pretoria, Pretoria, South Africa.

***Corresponding author:**

Adrino Mazenda, School of Public Management and Administration, University of Pretoria, Private Bag x 20, Hatfield, Pretoria 0028, South Africa.

E-mail: adrino.mazenda@up.ac.za

Abstract

This article explores the Brazil-Russia-India-China (BRIC) countries' bilateral foreign investment relations with South Africa. It analyses investment patterns through the lens of the South African Foreign Investment Policy, and provides recommendations for the country to increase foreign investment from the BRIC. The article utilises a qualitative desktop approach, drawing from extensive literature review on BRICS' foreign investment relations. The findings show that, despite the numerous foreign investment treaties signed within BRIC in South Africa's favour, investments from BRIC are lagging. To increase direct investment flows, South Africa should relax entry and offer special incentives in critical sectors; such as energy, health, food production and mining; create a more stable and transparent legal environment; establish special and industrial economic zones as well as a clear foreign investment policy.

Keywords

Foreign direct investment (FDI) policy, FDI investment relations, BRIC, South Africa

Introduction

In lower-middle income countries, Foreign Direct Investment (FDI) is considered as one of the main drivers of development, national investment and long-term growth (Singh and Mukamba 2015). Microeconomic and macroeconomic theories elaborately document the benefits of FDI. Microeconomic FDI theories are firm-specific with ownership and internalisation rewards in tax income, and foreign exchange revenue. These theories include the Eclectic theory (Dunning 2001); the Monopolistic Advantage theory (Hymer 1976) and the Production Cycle theory. Macroeconomic FDI theories stress country-specific factors mostly on trade and international economics. These macroeconomic theories include the Capital Market Theory (Aliber 1971) and the Institutional FDI Fitness Theory (Wilhems and Witter 1998). The benefits of macroeconomic theories are growth and development in the long-term as well as several spillover effects such as technological innovation and research and development (Farole and Winkler 2014; Nistor 2015; Knoerich 2017).

This article explores the Brazil-Russia-India-China (BRIC) bilateral foreign investment relations with South Africa. It analyses the investment patterns through the lens of the South African Foreign Investment Policy and makes recommendations for increasing foreign investment from BRIC. BRIC is an acronym for the economic bloc of countries consisting of Brazil, Russia, India, and China. The group has collective strength by way of consultation and

cooperation on economic issues of mutual interest as well as topical global issues (Sabha 2018). South Africa joined the group in 2010 with the aim of growing the economy through improved trade and investment. However, extant literature reveals that there has been limited intra-BRICS investment owing to numerous challenges—mostly relating to policy, regulations and cooperation (Maryam 2020). Various BRICS summits have discussed these challenges with the aim of enhancing a conducive investment climate for member countries. The outcomes of these summits have not had any effect on South Africa. With the exception of China, at number six, the top 10 investors in South Africa are not members of BRICS (Santander 2019, South African Reserve Bank [SARB] 2019). This article answers the question: Why is there limited impact of BRIC integration on foreign investment promotion in South Africa? To address this, question this article utilises a qualitative desktop research approach, with the aid of extensive review of documents. The article is structured as follows; First it reviews literature on FDI determinants. Second, it discusses South Africa's Foreign Investment Policy. Third, it analyses South Africa's FDI position within the BRIC. Fourth, the article reviews South Africa's Mergers & Acquisitions (M&A) within BRIC. Finally, it recommends strategies on improving foreign investments into South Africa.

Methodology

The article utilises a qualitative desktop approach to examine BRICS' foreign investment relations. The study used document analysis to methodically interpret and explain documents such as books, journals, magazines, policy documents, key agreements, trade and policy briefs on bilateral foreign investment relations within the BRICS and subsequent FDI into South Africa. The analysis was useful in determining how direct investment flows into South Africa can be increased as well as special incentives that can be provided to promote investment in critical sectors such as energy, health, food production and mining. Document analysis also revealed how South Africa and the BRICS can further create a more stable and transparent legal environment; establish special and industrial economic zones, as well as a clear foreign investment policy to promote growth and development.

Literature Review

The irrational behaviour of firms embedded in the general theories of transnational corporations contains a misconception on firm-specific and oligopolistic advantages as prerequisites for FDI (Eclectic theory—Dunning 2001 and Monopolistic Advantage theory—Hymer 1976). Theories following this ideology are of the view that firms have a competitive and ownership advantage in entering the host economy, such that they exploit the host economies regarding resource ownership and asset acquisition. This is supported by studies conducted by Li (2007) and Fosfuri and Motta (1999).

Consequently, research on transnational corporations has departed from the microeconomic FDI theories' focus of ownership, localisation and internalisation to macroeconomic theories which postulate that firms engaged in off-shore investments also seek asset acquisition instead of asset exploitation (Capital Market Theory—Aliber 1971; Institutional FDI Fitness Theory—Wilhems and Witter 1998). Under these theories' assumptions, companies investing abroad will build competitive advantages through linkages, leverage and learning (LLL) (Child and Rodrigues 2005, Fosfuri and Motta 1999, Gammeltoft, Barnard, and Madhok 2010).

Empirical evidence on the resource-seeking motive (Barney 1991, Barney and Hesterly 1996) found an increase in off-shore investment from transnational

companies in lower-middle income countries with weak institutional systems. Congruently, the knowledge-seeking motive (Kogut and Zander 1993, Hedlund 1994) found an increase in knowledge assimilation of emerging countries from transnational companies. Finally, regarding the asset-seeking motive, FDI was found to be positively related to *growth and output* (Basu , Barik, and Arokiasamy 2013; Herzer 2008, 2010; Mishra and Agarwal 2017; Reza et al. 2018), *exports* (Surugiu and Surugiu 2015), *employment* (Rasoulinezhad and Jabalameli 2018), *productivity and efficiency* (Agrawal 2015; Ezemenari, Tiruneh, and Wamboye 2016; Nistor 2015; Saleena 2013; Su and Liu 2016; Wahiba 2014) and *technical know-how* (Asongu 2015; Cebula 2011; Haydaroglu 2016; Herstad and Jónsdóttir 2006; Sala and Trivin 2014,, Tamilselvan and Manikandan 2015).

The above studies share a common thread in that they generally discuss the spillover effects of FDIs. They do not explicitly share the contribution of each sector or how the investment policy influences FDI's reception within the host economies, in particular, South Africa in BRIC. This chapter adds to the literature by analysing South Africa-BRIC FDI patterns, FDI policy, and M&As to explore the impact of BRICS integration on South Africa's investment promotion.

South Africa's Foreign Investment Policy

Investment and investment facilitation are an important area of cooperation in BRICS (BRICS 2017). Investment can promote sustainable development and inclusive growth while investment facilitation promotes investment, stimulates the industrialisation process and structurally transforms the host economy. BRICS countries have signed various agreements/treaties to promote intra-trade and investment. Key of these agreements are: the Trade and Investment Cooperation Framework, 2013; BRICS Trade and Investment Facilitation Action Plan, 2014; and the BRICS Economic Partnership, 2015, amongst others. The benefits from the BRICS intra-trade investment treaties have not been realised in South Africa. This section discusses.

There are however no collaborative outcomes to realise this potential in South Africa (BRICS 2017). The reasons for this failure point to some challenges in the South African Foreign Investment policy. This section explores the South African Foreign Investment policy as a key strategy for investment promotion in explaining South Africa's FDI position with the BRIC.

The FDI attractiveness of South Africa is high, compared to its BRIC counterparts yet its performance is relatively weak. Despite leading the FDI influx in Africa, the country's FDI contracted by 41 per cent between 2016 and 2017 (UNCTAD, in the World Investment Report 2018). Domestic demand, which is lower than investor expectations, is one of the key factors to blame for this decline (Santander 2018).

Considerations for Investment

South Africa has a large market potential, a well-developed infrastructure and a competitive domestic economy. The country's democracy is also well-established and the rule of law is observed. The country has put into place economic reforms, which have led to macroeconomic stability, as well as tax and customs reductions.

South Africa has many attractive advantages for investors, such as readily available labour, a diversified, competitive and upper-middle income countries, plentiful natural resources, a stable legal system and political stability. However, the country suffers from high crime rates, growing social discontent (strikes and protests), high levels of corruption

and systemic challenges in service delivery (housing, electricity and water) (Santander 2018).

Investors are worried about the lack of clarity concerning policy and structural reforms. Investment potential is hampered by certain legal uncertainties which discourage foreign investors, despite the promulgation of the Protection of Investment Act in December 2015, which reinforces legal guarantees for foreign investors (Santander 2018).

Policies and Measures to Attract Foreign Investment

Nearly all business sectors are open to foreign investors. Government approval is not required and there are few restrictions on how or how much foreign entities can invest. Additionally, the government has put in place various measures to encourage foreign investments, including simple tax rules, investment incentives, a better regulatory policy on competition and protection of intellectual property (Department of Trade and Industry [DTI] 2016). Below is a list of the key investment measures as reported by the DTI (2016).

1. The Foreign Investment Grant (FIG) is a cash grant, which provides up to 15 per cent of the value of new machinery and equipment. The Grant compensates qualifying foreign investors (foreign investors that have been approved for the Manufacturing Investment Program [MIP]), for costs incurred in moving qualifying new machinery and equipment (excluding vehicles) from abroad to South Africa.
2. The Skills Support Program provides up to 50 per cent of training costs and 30 per cent of workers' salaries.
3. The Industry Policy Project/Program offers tax allowances. This project comprises of:
 - i. The Agro-Processing Support Scheme (APSS) which aims to stimulate investment in the South African agro-processing/beneficiation (agribusiness) enterprises.
 - ii. The Aquaculture Development and Enhancement Program (ADEP), available to South African registered entities engaged in primary, secondary and ancillary aquaculture activities in both marine and freshwater categorised under SIC 132 (fish hatchery and fish farms) and SIC 301 and 3012 (aquaculture fish production, processing and preservation). The grant is provided directly to approved applications for new, upgrading or expansion projects.
 - iii. Business Process Services (BPS) incentive programme (from January 2011) to lure investment and generate job opportunities in South African offshore activities. Since its inception, the incentive has led to the creation of approximately 9,077 new jobs with an annual growth rate of 26 per cent over the period 2011–2014.
 - iv. Capital Projects Feasibility Program (CPFP), a cost-sharing grant that contributes to the expense of feasibility studies aimed at projects that will improve local exports and promote the South African capital goods and services market.
 - v. Clothing and Textiles Competitiveness Program (CTCP) forms a core part of the implementation of the Customised Sector Program (CSP) for the clothes, textiles,

footwear, leather and leather goods industries. The main objective of the CTCP is to help the industry to upgrade processes, products and people and to mobilise South Africa to compete effectively against other low-cost producing countries as well as to upgrade equipment.

vi. Medium and Heavy Commercial Vehicles Automotive Investment Scheme (MHCVAIS) designed to grow and develop the automotive sector through investment in new and/or replacement models and components that will increase plant production volumes, sustain employment and/or strengthen the automotive value chain.

vii. The Manufacturing Competitiveness Enhancement Program (MCEP) is a key action programme of the Industrial Policy Action Plan (IPAP) 2012/2013–2014/2015 which provides enhanced manufacturing support aimed at encouraging manufacturers to upgrade their production facilities in a manner that sustains employment and maximises value-addition in short to medium-term.

Foreign Investment Incentives

The DTI provides financial support to qualifying companies in various sectors of the economy. Financial support is offered for various economic activities, including manufacturing, business competitiveness, export development and market access, as well as FDI. This section will identify a few financial assistance schemes/ incentives with a direct link to the FDI initiative (DTI 2018). Drawing from the DTI (2018), these financial assistance schemes comprise of:

1. 12I Tax Allowance Incentive (12I TAI) designed to assist Greenfield investment (i.e., new industrial initiatives that use only new and unused manufacturing resources) as well as Brownfield investment (i.e., overhaul or update of existing industrial projects). The incentive provides support for both capital investment and training.
2. The APSS, which aims to stimulate investment by the South African agroprocessing/beneficiation (agri-business) enterprises. The investment should demonstrate that it will achieve increased capacity, employment creation, modernised machinery and equipment, competitiveness and productivity improvement and broadening participation.
3. The ADEP, targeted at entities engaged in primary, secondary and ancillary aquaculture activities in both marine and freshwater classified under SIC 132 (fish hatcheries and fish farms) and SIC 301 and 3012 (production, processing and preserving of aquaculture fish). The grant is provided directly to approved applications for new, upgrading or expansion projects, with the aim of sustaining and creating jobs, increasing production and encouraging geographical spread. The programme provides a reimbursable cost-sharing grant of up to a maximum of R30 million eligible costs for machinery and equipment; bulk infrastructure; land and/or buildings; rental improvement and competitiveness improvement activities as outlined in section 8 of the ADEP Guidelines (DTI 2018).
4. The Automotive Investment Scheme (AIS), designed to grow and develop the automotive sector through investment in new and/or replacement models and components that will increase plant production volumes, sustain employment and/or strengthen the automotive value chain.

5. The Strategic Partnership Program (SPP) aims to encourage large private sector enterprises in partnership with the government to support, nurture and develop small and medium enterprises (SMEs) within the partner's supply chain or sector to be manufacturers of goods and suppliers of services in a sustainable manner. The other intention is to support the Broad-Based Black Economic Empowerment (B-BBEE) policy by encouraging businesses to strengthen the element of Enter and Supplier Development (ESD) of the Codes of Good Practice. SPP will be available on a cost-sharing basis between the government and the strategic partner(s). It is available for infrastructure and business development services necessary to mentor and grow enterprises (DTI 2018).
6. The Sector-Specific Assistance Scheme (SSAS) is a reimbursable cost-sharing incentive scheme whereby financial support is granted to organisations supporting the development of industry sectors and those contributing to the growth of South African exports. Organisations supported under the SSAS include export councils, joint action groups, industry associations and those involved in the development of emerging exporters.
7. The Critical Infrastructure Program (CIP) is a cost-sharing incentive meant to leverage investment by supporting infrastructure that is deemed to be critical, thus lowering the cost of doing business. The incentive is provided in line with the National Industrial Policy Framework (NIPF) and the Industrial Policy Action Plan (IPAP).

Protection of Investment Act

In support of the decisions taken following the review of the Bilateral Investment Treaty (BIT), the South African Government revoked its BITs with several European countries, including Germany, the United Kingdom, the Netherlands and France, and introduced the Draft Investment Promotion and Protection Bill 32 (Investment Bill) to provide a mechanism for the protection of all investments in South Africa. An initial draft of the Investment Bill was published in 2013 with an opportunity for public comment; a significantly revised version was published in July 2015 (version 34) and in November 2015 version 35 was passed by both Houses of Parliament. On 13 December 2015, President Jacob Zuma assented to the Investment Bill and on 15 December it was published in the Government Gazette as the Protection of Investment Act, no. 22 of 2015 ('Investment Act').

The Investment Act will come into operation on a date determined by the president by proclamation in the Government Gazette (UNCTAD 2018). The Investment Act confirms that South Africa remains open to FDI and provides effective protection while preserving the sovereign right of the government to pursue legitimate public policy objectives in line with constitutional requirements. In addition, South Africa is a signatory to several foreign investment investor protection treaties. Of significance are the 40 bilateral treaties with the world's upper-middle income countries, international controversies registered by UNCTAD as well as membership to the Multilateral Investment Guarantee Agency (MIGA; UNCTAD 2018).

The next section provides an in-depth analysis of the South Africa net FDI position within the BRIC.

South Africa's Net Foreign Investment Position with BRICS

The literature reviewed on macroeconomic theories of FDI emphasised productivity and growth as key FDI motives (Saleena 2013; Su and Liu 2016; Nistor 2015; Wahiba 2014). To unlock productivity and growth, FDI needs an enabling environment. This can occur with institutional mechanisms which have three components, namely Direct Tax Treaties (DTTs), BITs, Trade-Related Investment Measures (TRIMS) as well as government policies towards FDI (Mathur and Dasgupta 2013). This section presents an overview of the position of South Africa with BRIC in an attempt to explore possible avenues for improving the country's FDI position in the bloc.

As of BRICS' formation, South Africa's outward FDIs¹ with BRIC has substantially increased. This sudden increase is attributable to a variety of factors *inter alia* increased international operations by South African firms; major exchange rate relaxation in 2011, coupled with the weakening of the rand against the US dollar and the rising stock prices of foreign-listed subsidiaries.

The overall foreign investment status with BRIC shifted from a net negative balance of US\$ 261 billion to a net positive balance of US\$ 71 billion between 2001 and 2016. This indicates a higher FDI increase from South Africa in BRIC and vice versa. Since 2005, South Africa has been a net investor into BRIC with a record US\$ 82 billion in outward FDIs in 2016, while BRICS only held about US\$ 11 billion in outward FDIs in South Africa (BRICS 2018). Between 2001 and 2003, India was the largest recipient of South African investments among the BRICS countries. Thereafter, China surpassed India, holding over 70 per cent of South Africa's outward FDIs to date.

Alongside South Africa dominating investments in the BRIC, FDI inflows from BRIC have risen steadily since South Africa joined the alliance in 2010. In the seven years since South Africa joined the alliance, its fellow BRICS members have spent three times as much money in the country than in the seven years before 2011. However, a once-off investment of US\$ 6.4 billion in 2014 obscures the inward reading of FDI in preference of China (BRICS 2018).

Between 2003 and 2017, South Africa received an average of US\$ 1.2 billion annual FDI inflows from BRIC. The annual average remained below US\$ 1 billion, however rising beyond US\$ 2 billion in 2008, 2014 and 2016 per year from its fellow BRICS partners.

Between 2004 and 2007, Russia accounted for the largest share of overall BRICS investment in South Africa. However, for the remaining years (2007–2017), China and India were the most important source of FDI for South Africa among the BRIC countries. They accounted for the majority of capital investment, number of projects and employment creation while the contributions from Brazil and Russia were minimal. As of BRICS' formation in 2011 to 2017, China's FDI surpassed India as the key driver in job creation, while the number of jobs created by all the other member states declined. This confirms China's status as the principal source of investment to South Africa among the BRIC countries (BRICS 2018).

Gauteng Province is the command centre of the South African economy. As such it was the primary destination for BRIC FDI between 2003 and 2017. During this period, the province made up around 56 per cent of total capital investment, 40 per cent of FDI ventures and 31 per cent of total employment creation. However, unlike other BRICS members, India invested a large part of its investment outside Gauteng. KwaZulu-Natal was the main destination for Indian investment. The province also profited the most from job

creation as a result of Indian investment. Overall, Chinese investments have also had the greatest regional presence with projects in all provinces except the Free State (BRICS 2018).

Total Investment by Sector

Existing literature reveals that Brazil and Russia are less prominent investors in South Africa, compared with China and India. However, Russia has invested US\$ 466 million in 17 capital investment projects which is more than double the number of projects and more than six times the value of Brazil. Approximately 70 per cent of Russian capital investments were directed towards the metals industry and had the greatest impact on job creation in this industry (BRICS 2018). Brazilian and Russian investments centred on a limited number of business activities. More than 50 per cent of Brazilian capital investments were in the education and training in the aerospace and automotive sectors. 400 hundred jobs were created in the manufacturing of automobiles. On the other hand, 70 per cent of Russian investments were concentrated in the extraction industry. India directed US\$ 5.4 billion dollars into 88 capital projects. More than 50 per cent of Indian investment was in vehicle manufacturing and industrial and consumer goods manufacturing. The remaining share was in electricity, coal and renewable energy generation projects. A total of 6,341 jobs have been created, mainly from manufacturing projects.

Consequently, as opposed to India, China invested in a lower number of projects but on average it has invested twice the amount of capital per project. More than half of China's capital investment was directed at the real estate sector. A US\$ 6.4 billion construction project in the real estate sector in Johannesburg in 2014 was China's single largest business activity, accounting for more than 50 per cent of China's investment in South Africa (BRICS 2018).

In general, all BRIC countries, with the exception of Russia (extractive sector) invested in South Africa's secondary sector. BRIC investments in South Africa are more aligned with sectors and activities in the country's industrialisation programme. This has been positive in terms of job creation mostly in the industrial sector. However, this has not translated into greater manufacturing exports from South Africa to its fellow BRIC members. This, therefore, confirms that the investments are market seeking and not targeted at improving South Africa's export competitiveness (BRICS 2018).

The next section provides an in-depth analysis of South Africa's FDI composition by exploring the M&A component, an FDI component not often explained in FDI literature.

Mergers and Acquisitions FDI in South Africa

South Africa membership in BRIC is considered a key platform for attracting FDIs through M&A. South Africa's investment policy does not distinguish between local and foreign investment; therefore domestic companies have the same operational arrangements as foreign investors. However, domestic companies have preferential treatment through Black Economic Empowerment (BBBE). With regards to the preferential treatment of domestic companies over foreign investors, in comparison to the preferential treatment of BRIC investors in South Africa, it is necessary to review how South African companies have merged with BRIC companies. Consequently, it must be established if there are, in fact, any acquisitions with BRIC and other world economies since 2010, when the BRICS was established (Prinsloo 2017).

From 2010 to 2016, various economic shocks in the global markets caused investors to be risk-averse. South Africa's cross-border M&As fluctuated within 14 per cent over the

period (Mandaportal 2017; Prinsloo 2017). Greenfield investment increased by 1 per cent, with transactions concentrated in the manufacture of foods, chemicals, electronics, motor vehicles, infrastructure services (electricity, information, telecommunication) and business activities (Prinsloo 2017).

On an individual BRICS country basis, from 2013 to 2017, China holds the lion's share in South Africa's M&As, posting over US\$ 100 million annually. Of significance is the US\$ 75.9 million automotive plant established by the Beijing Automotive International Corporation in 2017 (Prinsloo 2007). Consequently, India, Russia, and Brazil were in position 8 to 10 in South African M&A. India and Russia averaged US\$ 30 million between 2013 and 2017, with Russia having a small share averaging US\$ 15 million with investments starting from 2015. (Mandaportal 2017). Table 1 provides a detailed analysis of South Africa's M&As from 2013 to 2017 (Subject to data availability).

Table 1. M&A in South Africa (Million US\$)

Country	2013	2014	2015	2016	2017
United States	1,276,609	1,759,609	527,296	566,372	334,413
China	275,901	544,001	105,208	194,258	186,013
United Kingdom	195,381	267,564	345,303	86,638	72,792
Japan	132,245	148,371	30,573	31,923	49,181
Australia	115,713	140,574	50,123	24,603	29,313
France	72,509	117,397	34,866	35,485	29,178
Germany	113,966	126,423	18,866	31,663	28,396
India	53,671	73,963	16,387	30,191	25,556
Russia	183,505	131,695	27,662	42,992	25,171
Brazil	–	–	27,058	9,724	15,944
Italy	64,656	100,166	22,600	19,619	17,426

Source: Mandaportal (2017).

The US, China, the UK and Japan recorded the highest number of M&As in South Africa from 2013 to 2017. It is commendable to see the BRICS economies with positive figures, though inadequate to explain the conducive investment space created by South Africa and numerous investment platforms and for a created to encourage investments amongst the member countries (Prinsloo 2017).

The mining, agriculture, finance and manufacturing sectors, were the main targets for M&As in South Africa (Mandaportal 2017). Value addition, mineral beneficiation and processing were the key activities luring M&As from foreign companies. This is supported by Dunning, who theorised that multinational firms play a critical role in a country's development and knowledge through involvement in efficiency-oriented FDIs.

The South African companies involved in M&A were valued at US\$ 32.387 million in 2015, up from US\$ 18.252 million in 2014. The volume of deals reached 923 in 2015 and 906 deals in 2014, representing the 4th successive annual increase by volume (2011: 449 deals; 2012: 481 deals; 2013: 735 deals) (Nistor 2016; Prinsloo 2017). In November 2015, major contributions were the result of the acquisition of Medi-clinic International (a South African clinic and hospital operator) by Al-Noor Hospitals Group (United Arab Emirates) for US\$ 10.867 million (Mandaportal 2017). This transaction alone represented 34 per cent of the total M&A value. However, it was not the only sizeable deal in the 12-month period, as the top four deals were each worth over US\$ 1 billion

The M&A dwindled in 2016 due to the political and economic uncertainty of the country. There were 186 deals which culminated in a combined US\$ 4 794 billion in the second quarter of 2016, representing a 4 per cent increase in volume, while the value was significantly higher than the 179 deals worth US\$ 1 698 billion announced in the first quarter

of 2016. The value was up 11 per cent year on-year, as volume declined slightly on the US\$ 4 325 billion invested across 191 deals in 2015. M&A value was supported by one blockbuster transaction as Ackerman Investment Holdings agreed to acquire just under a 53 per cent stake in supermarket operator Pick n Pay Stores for US\$ 1 253 billion. This deal accounted for 26 per cent of total M&A value for the quarter and was the only transaction worth more than US\$ 1 billion.

The year-on-year M&A volumes declined by 17 per cent, whilst value dropped by 23 per cent in the third quarter of 2016: 219 deals worth US\$ 5 081 billion were entered into by South African firms, with the largest deal being Remgro's US\$ 676 million rights issue investment in Community Investment Ventures Holdings Proprietary Limited (CIVH) (MandaPortal 2017).

The value of M&A signed by South African companies advanced for the first quarter in 2017 on the back of three deals each worth over US\$ 1 billion which together accounted for 83 per cent of the total US\$ 13 344 billion (MandaPortal 2017). In retrospect, the second quarter deals declined to 164 (US\$ 5,247 billion) from 208 (US\$ 14,147 billion) in the first quarter. Fluctuating values exceeded into the third quarter, with an increased value of 17 per cent. Prominent deals in the quarter were Vodafone UK selling a 5 per cent stake in the Vodacom Group for US\$ 1,139 billion and Robertson Holdings' US\$ 527 million acquisition of Unilever (MandaPortal 2017).

South Africa concluded US\$ 4.3 billion worth of deals in 2018—a drop from 2017's US \$7.5 billion. There were 136 deals that were concluded in 2018 compared with 182 deals concluded in 2017. In short, investors from the US invested in 14 deals, Mauritius in 10 deals and the UK in nine deals (Manda 2018).

The market is still depressed and current M&A seen is not necessarily positive. Rather, the types of activity evident have been internal restructurings with corporates focusing on the better side of the business and distress sales to raise funds (Deal Makers 2019). The largest deal by value, announced by exchange-listed firms in 2019 was the acquisition by Naspers of 29.2 per cent in Avito (Russia) for US\$ 1.16 billion followed by the acquisition of Clover by a consortium of investors for R 4.8 billion (US\$ 265 million) (Deal Makers 2019).

It is imperative to note that despite the conducive investment environment in South Africa, as well as numerous bilateral trade and investment treaties signed with the BRICS countries, the top 10 foreign investments in M&As are mostly from the US, the UK, Austria and Japan. China remained the only major investor from BRICS, with the recent approval of China's oil giant Sinopec in buying a US\$ 900 million controlling stake in Chevron South Africa. This is indicative of the strength of Chinese companies' appetite for direct investment in the country (Joffe 2018; Merwe 2020). Consequently, South Africa shunned the BRIC market in its outbound M&A, as shown by recent trends in 2018 (UK 18 deals; Australia 11 deals; USA 8 deals; and Nigeria 6 deals) (Manda 2020).

The economic challenges in the economies of Russia, India and Brazil means the countries are also in competition for direct foreign investment. Their investments in South Africa are in minority projects which are often dominated by high-income countries that are experienced, or projects with low setup costs. Other factors include time zones, language, historical ties and familiarity as with the US and the UK companies. Inter-BRICS foreign investment laws should allow the ease of investment between member countries in comparison with other global allies.

The next section offers recommendations to South Africa towards improving foreign investment attraction, based on lessons from the BRIC.

Recommendations

Studies on transnational corporations have departed from the ownership, localisation and internalisation (OLI) paradigm of the conventional FDI theories into the new paradigm which posits that firms that engage in off-shore investments also seek asset acquisition instead of asset exploitation, as postulated in conventional theories (Dunning and Lundan 2008). These theoretical prescripts describe similar FDI intentions and effects on the host and source economies. For them to be effective, there is a need to align Foreign Investment Policy and regulations. South Africa has opened up the investment space, as evidenced by an increased number of outward FDIs in BRIC as opposed to vice versa. This is supported by the top five M&As, dominated by countries outside BRICS with the exception of China. These findings called for the following key strategies on increasing BRIC investments in South Africa.

Improve the Competence of Special Economic Zones (SEZs)

Although the South African Government established industrial development zones in 2000, its performance in attracting FDI is still poor, mainly because of the lack of incentives and targeted investment promotion. Countries like China provide incentives to companies operating in SEZs which include the reduction of corporate tax (15%), employment incentives and building and tax allowances. These policies provide a favourable investment environment for foreign investors (*Xinhua* 2017).

However, similar to the SEZs in China before its reform, project authorisation is inefficient because of the ineptitude of bureaucratic systems which result in delays and frustrations. The major drawback which countries face is the bureaucracy in governments which has led to delays to coordinating institutions and getting authorisation. Once the problems occur, it is hard to distinguish responsibilities. This causes inefficiency in project authorisation which discourages foreign investment. To address these issues, BRIC governments authorise the city governments, where the SEZs are located, to be in charge of problems relating to SEZs such as project authorisation, funding and incentives. South Africa may attempt to apply a similar policy, as it improves the efficiency of SEZs and has successfully attracted more FDI following its implementation in BRIC countries.

Establish High-tech Industrial Development Zones

The policy of establishing high-tech industrial development zones in BRIC countries has encouraged the development of the industry and successfully attracted increased FDI inflows into the high-tech industry. According to the SARB, innovation activities need to be improved. Despite the competitiveness of countries such as China, Russia, and Brazil on information technology, South Africa and India are still lagging in this respect, hence, there is a need for intra-cooperation to improve operations and efficiency. Foreign investments improve the technology level, which subsequently attracts more foreign investment, creating a cycle between FDI and technological improvements. With the advantage of well-established intellectual property rights laws, establishing high-tech zones with certain incentive policies could improve industry agglomeration and develop local high-tech industries which would promote FDI inflows in the long run.

Strike Record Database and Local Bargaining

The labour cost in South Africa is still competitive compared to that of the rest of the world but frequent strikes increase these labour costs and become significant impediments to FDI inflows. Illegal strikes account for 55 per cent of the total annual strikes in South Africa. Such strikes need to be controlled to build foreign investors' confidence. Even though China does not have much experience in dealing with strikes, it established a database to record all the strikes that have occurred since 2011, which include details such as the reason for the strikes and the people involved (Junda and Shen 2017; *Xinhua* 2017). Maintaining a database on strike and labour disputes will help solve recurring problems, by providing a reference for decision making (*Xinhua* 2017).

Establish a Clear Foreign Investment Policy

South Africa's Foreign Investment Policy is not distinct from its domestic investment policy. This has created difficulty for foreign investors since they are supposed to compete with local investors for investment opportunities. Moreover, there are challenges emanating from the selective BBB-E policy. A clear Foreign Investment Policy as in Russia and China where state critical sectors are either protected or given priority is necessary to diffuse competition between local and foreign investors; a situation necessary for a healthy economy (Liu and Guanjin 2018).

Create a More Stable and Transparent Legal Environment

China strives to create a more stable, transparent, and foreseeable legal environment for foreign investment. In light of this, China formulated a fundamental law on foreign investment which conforms to its economic development and adheres to the requirements of internationally prevailing rules. South Africa must create a more stable, transparent, and foreseeable legal environment in line with the National Development Plan (NDP) and National Growth Path (NGP) (Santander 2018; UNCTAD 2018).

Relax Entry and Offer Special Incentives in Critical Sectors

Local governments must provide incentives depending on their local needs. More so, restrictions should be limited in critical sectors (science and technology, agriculture mechanisation and other innovative sectors). Relaxing foreign entry in critical sectors limits competition with local investors who are faced with almost similar incentives and regulations as foreign investors (Joffe 2018; TMF Group 2018).

Conclusion

This article answered the question; why there is no current impact of BRICS integration on foreign investment promotion in South Africa. To address the question, the article reviewed the literature on FDI determinants, South African Foreign Investment Policy and South African FDI and M&A with BRIC. The main conclusion is that South Africa's current foreign investment performance is lower than BRIC. Investments from South Africa into BRIC indicate the country's commitment to the alliance. However, investments from BRIC (except for China) are not as expected. Consequently, M&A are mostly from countries outside BRICS. None of the BRIC countries are the top five South African M&As, except for China as mentioned. The analysis shows that this is a direct result of firstly, a lack of common Foreign Investment Policy governing all BRICS economies. Secondly, low effort on initiatives to attract foreign investment in critical sectors

and finally historical ties, time zone and familiarity with non-BRIC foreign investors.

Although it will be difficult to apply all of the FDI promotion policies implemented in BRIC, South Africa can adopt some policies to improve its foreign investment capability, namely:

- Improve the competence of SEZs;
- Establish High-Tech industrial development zones;
- Create a more stable, and transparent legal environment; and
- Relax foreign entry and offer special incentives in critical sectors.

This points to the need for reforms in both South Africa's Foreign Investment Policy and BRIC's. Therefore, establishing a common Foreign Investment Policy governing all BRICS economies is a first step in the right direction.

Declaration of Conflicting Interests

The authors declared no potential conflicts of interest with respect to the research, authorship and/or publication of this article.

Funding

The authors received no financial support for the research, authorship and/or publication of this article.

ORCID iDs

Adrino Mazenda <https://orcid.org/0000-0001-7739-9097>

Tyanai Masiya <https://orcid.org/0000-0002-0292-0674>

Note

1. Total foreign investment (Outward/Inward) includes: Direct investment, portfolio investment, financial derivatives, other investments and reserve Assets.

References

Agrawal, Gaurav. 2015. 'Foreign Direct Investment and Economic Growth in BRICS Economies: A Panel Data Analysis'. *Journal of Economics, Business and Management* 3 (4): 421–424.

Asongu, A. Simplice. 2015. *Drivers of Growth in Fast Emerging Economies: A Dynamic Instrumental Quantile Approach* (Working Paper No. 15/009). African Governance and Development Institute.

Barney, B. Jay. 1991. 'Firm Resources and Sustained Competitive Advantage'. *Journal of Management* 17: 99–120.

Barney, B. Jay and S. William Hesterly. 1996. Organizational Economics: Understanding the Relationship Between Organizations and Economic Analysis. In *Handbook of Organization Studies*, edited by Stewart Clegg, Cythia Hardy & Walt Nord, 115–147. Thousand Oaks, CA: SAGE Publications.

Basu, T., Debasis Barik and Perianayagam Arokiasamy. 2013. *Demographic Determinants of Economic Growth in BRICS and selected Developed Countries*. International Population Conference (IUSSP 2013) 26–31 August 2013 at BEXCO, Busan, Republic of Korea.

BRICS. 2017. *Outlines for BRICS Investment Facilitation*.
https://www.brics2017.org/wdfj/201708/t20170831_1829.html

BRICS. 2018. *10th BRICS Summit. A Review of South Africa's Trade and Investment Relationship with BRIC*.
https://www2.deloitte.com/content/africa/za_brics_15_year_review_july2018.pdf

Cebula, Richard J. 2011. Economic Growth, Ten Forms of Economic Freedom, and Political Stability: An Empirical Study Using Panel Data, 2003–2007. *The Journal of Private Enterprise* 26 (2): 61–81.

Child, John. and Susanna B. Rodrigues. 2005. 'The Internationalization of Chinese Firms: A Case for Theoretical Expansion?' *Management and Organization Review* 1: 381–410.

Deal Makers. 2019. *South Africa M&A Analysis: Q1 2019*. <http://www.inceconnect.co.za/article/dealmakers-south-africa-m-a-analysis-q1-2019-2019-05-17>

Department of Trade and Industry (DTI). 2016. *Annual Report 2016/2017*. Pretoria: Government Printers.

DTI. 2018. *Financial Assistance Incentives*.
https://www.thedti.gov.za/financial_assistance/financial_incentive.jsp?id=45&subthemeid=26

Dunning, John H. 2001. 'The Eclectic (OLI) Paradigm of International Production: Past, Present and Future'. *International Journal of the Economics of Business* 8 (2): 173–190.

Dunning, John H. and Marianna M. Lundan. 2008. *Multinational Enterprises and the Global Economy*. Cheltenham: Edward Elgar.

Ezemenari, Kene, Esubalew A. Tiruneh and Evelyn Wamboye. 2016. *Emerging Economies' Versus Advanced Countries' Investment Impact in Africa* (Policy Research Working Paper No. 7928). Washington, DC: World Bank.

Farole, Thomas and Deborah Winkler. 2014. Making Foreign Direct Investment Work for Sub-Saharan Africa: Local Spill overs and Competitiveness in Global Value Chains. World Bank Group.

Fosfuri, Andrea and Massimo Motta. 1999. 'Multinationals without Advantages'. *The Scandinavian Journal of Economics* 101 (4): 617–630.

- Gammeltoft, Peter, Helena Barnard and Anoop Madhok. 2010. 'Emerging Multinationals, Emerging Theory: Macro- and Micro-level Perspectives'. *Journal of International Management* 16 (2): 95–101.
- Haydaroglu, Ceyhun. 2016. 'The Effect of Foreign Direct Investment and Economic Freedom on Economic Growth: The Case of BRICS Countries'. *Research in World Economy* 7 (1): 1–10.
- Hedlund, Gunnar. 1994. 'A Model of Knowledge Management and the N-form Corporation'. *Strategic Management Journal* 15 (Special Issue): 73–90.
- Herstad, Sverre J. and Ásdis Jónsdóttir. 2006. *National Innovation Systems and Domestic Multinational Corporations*. Oslo: Norden Nordic Innovation Centre.
- Herzer, Dierk. 2008. 'The Long-run Relationship between Outward FDI and Domestic Output: Evidence from Panel Data'. *Economics Letters* 100 (1): 146–149.
- Herzer, Dierk. 2010. 'Outward FDI and Economic Growth'. *Journal of Economic Studies* 37 (5): 476–494.
- Hymer, Stephen. 1976. *The International Operations of National Firms: A Study of Direct Foreign Investment*. Cambridge: MIT Press.
- Joffe, Hillary. 2018, March 12. 'Sinopec and Chevron Deal Gets Green Light'. *Business Day*. <https://www.businesslive.co.za/bd/companies/energy/2018-03-12-sinopec-andchevron-deal-gets-green-light>
- Junda, David and Shawn Shen. 2017. 'China: China Issues New Policies to Attract Investments'. *Mondaq*. <https://www.mondaq.com/china/inward-foreign-investment/623042/china-issues-new-policies-to-attract-foreign-investments>
- Knoerich, Jan. 2017. 'How Does Outward Foreign Direct Investment Contribute to Economic Development in Less Advanced Home Countries?' *Oxford Development Studies* 45 (4): 443–459.
- Kogut, Bruce and Udo Zander. 1996. 'What Firms Do? Coordination, Identity, and Learning'. *Organization Science* 7 (5): 502–518.
- Li, P. P. 2007. 'Toward an Integrated Theory of Multinational Evolution: The Evidence of Chinese Multinational Enterprises as Latecomers'. *Journal of International Management* 13 (3): 296–318.
- Liu, Chao and Guanjun Xia. 2018. 'Research on the Dynamic Interrelationship among R&D Investment, Technological Innovation, and Economic Growth in China'. *Sustainability*, 10(11), 4260. <https://doi.org/10.3390/su10114260>
- Manda. 2019. *Part One: South Africa's M&A Activity Value Reaches \$4.3 billion in 2018*. <https://manda.co.za/article/part-one-south-africas-ma-activity-value-reaches-43-billion-in-2018>

Mandaportal. 2017. *Merger & Acquisition Report*.
<http://www.mandaportal.com.cutestat.com>

Maryam, J. 2020. 'Foreign direct Investment in BRICS. An Empirical Analysis'. *Transnational Corporation Review* 12 (1):1–9.

Mathur, Sajal and Marthur Dasgupta. 2013. *BRICS: Trade Policies, Institutions, and Areas of Deepening Cooperation* (Working Paper). New Delhi: Centre for WTO studies.
<https://wtocentre.iift.ac.in/FA/Brics.pdf>

Merwe, Morne de. 2020. *Mergers & Acquisitions Activity Declines in South Africa in First Six Months of the Year*. <https://financialmarketsjournal.co.za/mergers-acquisitionsactivity-declines-in-south-africa-in-first-six-months-of-the-year/>

Mishra, Amritkant and Amba Agarwal. 2017. Impact of FDI on Economic Growth and Employment: A Study of (BRICS) Nations. *International Journal of Management Research and Review* 7 (6): 706–714.

Nistor, Paula. 2015. 'FDI Implication on BRICS Economy Growth'. *Procedia Economics and Finance* 32: 981–985.

Prinsloo, Cyril. 2017. 'Boosting South Africa's Economic Relations with the BRICS'. *Institute for Global Dialogue* 131 (June).
<http://igd.org.za/jdownloads/Global%20Insight/Boosting%20South%20Africaa%20s%20Economic%20Relations%20with%20the%20BRICS%20By%20Cyril.pdf>

Rasoulinezhad, Ehsan and Farkhondeh Jabalameli. 2018. 'Do BRICS Countries Have Similar Trade Integration Patterns?'. *Journal of Economic Integration* 33 (1): 1011–1045.

Reza, Sultanuzzaman M., Hongzhong Fan, Tunviruzzaman Reza and Banban Wang. 2018. 'The Impact of Foreign Direct Investment Inflows on Economic Growth: Evidence from Bangladesh'. *Journal of Business and Retail Management Research (JBRMR)* 12 (2): 212–223.

Sabha, L. 2018. Question No.2487 Formation of BRICS. Ministry of External Affairs, Government of India. Media Centre. <https://www.mea.gov.in/lok-sabha.htm?dtl/30826/question+no2487+formation+of+brics>

Sala, Hector and Pedro Trivin. 2014. 'Openness, Investment and Growth in Sub-Saharan Africa'. *Journal of African Economies* 23 (2): 257–289. <https://doi.org/10.1093/jae/ejt027>

Saleena, Nirmalagiri J. 2013. 'Impact of FDI on Services Export: Evidence from India'. *Journal of Business Management and Social Sciences Research (JBM&SSR)* 2 (11): 32–38.

Santander. 2018. *South Africa. Foreign Investment*. <https://en.portal.santandertrade.com/establish-overseas/south-africa/foreign-investment>

Santander. 2019. *South Africa. Foreign Investment*. <https://santandertrade.com/en/portal/establish-overseas/south-africa/foreign-investment> .

SARB (South African Reserve Bank). 2019, June. *Quarterly Bulletin*. Pretoria: South Africa Reserve Bank.

Singh, Surendar and Chenai Mukamba. 2015. *India's Experience with Multilateral Financial Institutions: Insights for the BRICS New Development Bank* (BRICS Insights Paper No. 1). South Africa Institute of International Affairs. <https://www.saiia.org.za/wp-content/uploads/2015/03/BRICS-Insights-1REV2.pdf>

South Africa Reserve Bank. 2017. *Financial Stability Review First edition 2017*. South Africa Reserve Bank.

Su, Yaquin. and Zhiqiang Liu. 2016. 'The Impact of Foreign Direct Investment and Human Capital on Economic Growth: Evidence from Chinese Cities'. *China Economic Review* 37 (C): 97–109.

Surugiu, Marius R. and Camilla Surugiu. 2015. 'Interdependence between European Countries: Implications for Businesses and Marketing Framework'. *Procedia Economics and Finance*, 32: 131–138.

Tamilselvan, Manickam and Subramanian Manikandan. 2015. 'A Study on Impact of Foreign Direct Investment on Gross Domestic Production in India'. *International Journal of Academic Research in Business and Social Sciences* 5 (10): 224–232.

TMF Group. 2018. *Top Challenges of Doing Business in Brazil*. <https://www.tmf-group.com/en/news-insights/articles/top-challenges/doing-business-in-brazil>

UNCTAD. 2018. *Investment Policy Hub*. investmentpolicyhub.unctad.org

Wahiba, Nasfi F. 2014. 'Impact of Foreign Direct Investment on Economic Growth in Tunisia'. *Academic Research International* 5 (2): 186–195.

Xinhua. 2017. *China Unveils Tax Exemption to Attract Foreign Investment*. http://www.xinhuanet.com/english/2017-12/28/c_136858149.htm#:~:text=BEIJING%2C%20Dec.,re%2Dinvest%20in%20the%20country.&text=The%20exemption%20is%20effective%20from,this%20year%20will%20be%20refunded