Monarch Business School
Professional Doctoral Research Plan

Foreign Direct Investment In South Africa: A Comparative Analysis Of Successful Country Level Programs For The Manufacturing Sector

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CANDIDATE:	Mr. Scott Farrell
RESEARCH PLAN REVIEWER:	Dr. Khalil du Plessis, D.Phil.

- Final Draft For Consideration Of The Administration -

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

LIST OF ABBREVIATIONS

FDI	Foreign Direct Investment
GDP	Gross Domestic Product
USD	United States Dollars

ABSTRACT

Foreign Direct Investment (FDI) is widely regarded as one of the engines for social economic growth, employment, skills and technology transfers (Lessmann, 2013; Akalpler & Hemn, 2017; Hazelhurst, 2011; Tuomi, 2009). More specifically, Mallampally & Sauvent (1999) highlight that FDI can make a considerable contribution to the economic progress of developing countries. A large number of developing countries lack significant domestic savings in order to achieve their internal investment goals, therefore FDI appears to provide a means for this requirement (Levine, 2005; Dupasquier & Osakwe, 2006; Wentzel & Steyn, 2014). The positive social and economic results of FDI are desperately needed by South Africa (Tuomi, 2009). However, Anoosha & Nieuwenhuizen (2019) observe that South Africa has underperformed regarding FDI inflows in comparison to other developing countries. Jordaan (2016) notes that in 2012 South Africa was seen as an attractive investment destination, yet by 2015 had recorded significant declines in FDI by 74%. Moreover, South Africa does have an established FDI program covering special economic zones, reduced corporate tax rates, building and employment allowances (Department of Trade, Industry and Competition, 2021). According to Habanabakize & Muzindutsi (2018), the manufacturing sector remains a key economic area of the South African economy contributing 11.8% in 2019 towards the total GDP of USD 351.4 billion (World Bank, 2021). According to South African Market Insights (2020), the manufacturing sector is seen to be a significant driver for employment and could benefit from increased levels of FDI.

The contemplated research examines the above through an analysis of seminal literature related to theories of Social Justice, Corruption and Foreign Direct Investment. The research will attempt to construct a new FDI framework with specific emphasis on increasing FDI inflows to South Africa. Furthermore, the research will analyse the positive effects that FDI could have on economic growth, employment, skills and technology transfers. The above will be researched utilizing a triangulated research method by reviewing existing academic literature along with the analysis of various governmental and company data coupled with interviews of key stakeholders in public and private sectors, the foreign business chambers, commercial banks and companies within South Africa.

Keywords: *Social justice, foreign direct investment, corruption, economic and employment growth, skills development, technology transfers.*

Mr. Scott Farrell
Doctor of Business Administration Research Plan
Monarch Business School Switzerland

1.0 INTRODUCTION & BACKGROUND

Foreign Direct Investment (FDI) can be defined as international capital flows where a foreign firm invests in another country and maintains control over the capital invested (Alfaro & Chauv, 2017; Ngwakwe & Dzomonda, 2018). FDI is widely regarded as an engine for social and economic growth, employment, skills, technology transfers and increased tax revenues (Lessmann, 2013; Akalpler & Hemn, 2017; Hazelhurst, 2011; Tuomi, 2009). According to Mallampally & Sauvent (1999), FDI can make a considerable contribution to the economic progress of developing countries. A large number of developing countries lack significant local savings necessary to finance their internal investment goals and are therefore reliant on external sources of financing (Levine, 2005; Dupasquier & Osakwe, 2006; Wentzel & Steyn, 2014).

Success factors in attracting FDI do portray similarities particularly for countries such as China, Singapore and Mauritius, who have achieved high levels of FDI inflows (World Bank, 2021). Increased trade openness, quality of infrastructure, labor productivity, exchange rate policies, low levels of corruption and tax incentives have been highlighted as instrumental factors that attract FDI in greater quantities (UNCTAD, 2011; Swain & Wang, 1997; Wei & Lui, 2001; Zhang, 2002; Seetanah & Rojid, 2011; Ibi Ajahi, 2006; Akalpler & Hemn, 2017). The positive social and economic aspects as a result of FDI are desperately needed by South Africa (Tuomi, 2009). According to Anoosha & Nieuwenhuizen (2019), South Africa has underperformed regarding FDI inflows in comparison to other developing countries.

Mr. Scott Farrell
Doctor of Business Administration Research Plan
Monarch Business School Switzerland

Jordaan (2016) highlights that South Africa was considered an attractive investment opportunity in 2012, yet by 2015 had recorded significant declines in FDI of 74%. In contrast, South Africa does have in place various measures to attract FDI. These range from special economic zones (SEZs), reduced corporate tax rates, building allowances, and employment incentives (Department of Trade, Industry and Competition, 2021). Seemingly, there remains the question as to why South Africa has not been able to attract greater amounts of FDI based on an already established FDI program.

As noted by Habanabakize & Muzindutsi (2018), the manufacturing sector remains a key economic area of the South African economy contributing 11.8% or USD 41.4 billion in 2019 towards the total GDP of USD 351.4 billion (World Bank, 2021). The manufacturing sector is South Africa's fourth largest economic sector and is seen to be a significant driver for employment which could benefit from increased levels of FDI (South African Market Insights, 2020). According to the World Bank (2021), the manufacturing sector's relative contribution to GDP was 19.3% as recorded in 1994. Since the turn of the millennium a progressively downward trend is observed showing an average 1.5% economic growth rate from 2003 up until 2019 (World Bank, 2021). In summary, it is argued that South Africa requires greater amounts of FDI in order to grow its economy and support an increasing population. In 2019, GDP growth was recorded at 0.153% in comparison to a population growth of 1.01% (World Bank, 2021). Again, while South Africa does have an FDI program in place, the results of inward FDI remain below expectations (Anoosha & Nieuwenhuizen, 2019).

With the above in mind, the contemplated research will attempt to:

1. Gain a deeper understanding of nexus within the academic literature relating to theories on FDI and the various methods used around the world, theories relating to corruption and its impact on an economy and theories of social justice in relation to the importance of economic development and promoting inclusion and opportunity for all citizens;

2. Investigate the effects of the current FDI framework on the economic development of South Africa, and;

3. Develop a new conceptual FDI framework that may help to generate greater inflows of FDI and in so doing assess the positive impacts that increases in FDI could have in growing the manufacturing sector within South Africa.

It is believed that the scope of this research does not appear to have been completed elsewhere which provides an opportunity to contribute original knowledge to the domain of Foreign Direct Investment research in South Africa.

2.0 PROVISIONAL RESEARCH QUESTION

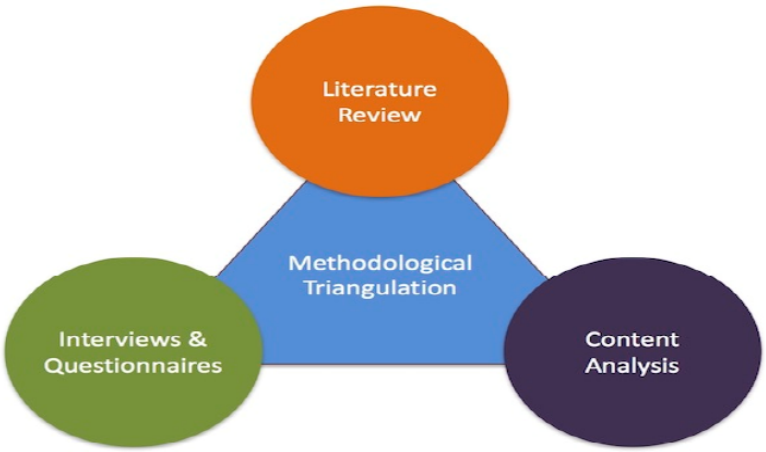
Given the above discourse a provisional research question has been developed as:

> "What are the characteristics of a new conceptual FDI framework for the manufacturing sector of South Africa that may help to increase FDI inflows and create a more prosperous country for all citizens?"

3.0 RESEARCH METHODOLOGY

Figure 1 shows that the aim of the contemplated research is to respond to the provisional research question by way of a triangulation of research data, being: 1. Literature review of existing seminal academic authors (desk research); 2. Content analysis of existing corporate data (desk research), and; 3. Interviews with primary stake holders in industry (field research).

Figure 1
Methodological Triangulation



Source: Monarch Business School Switzerland

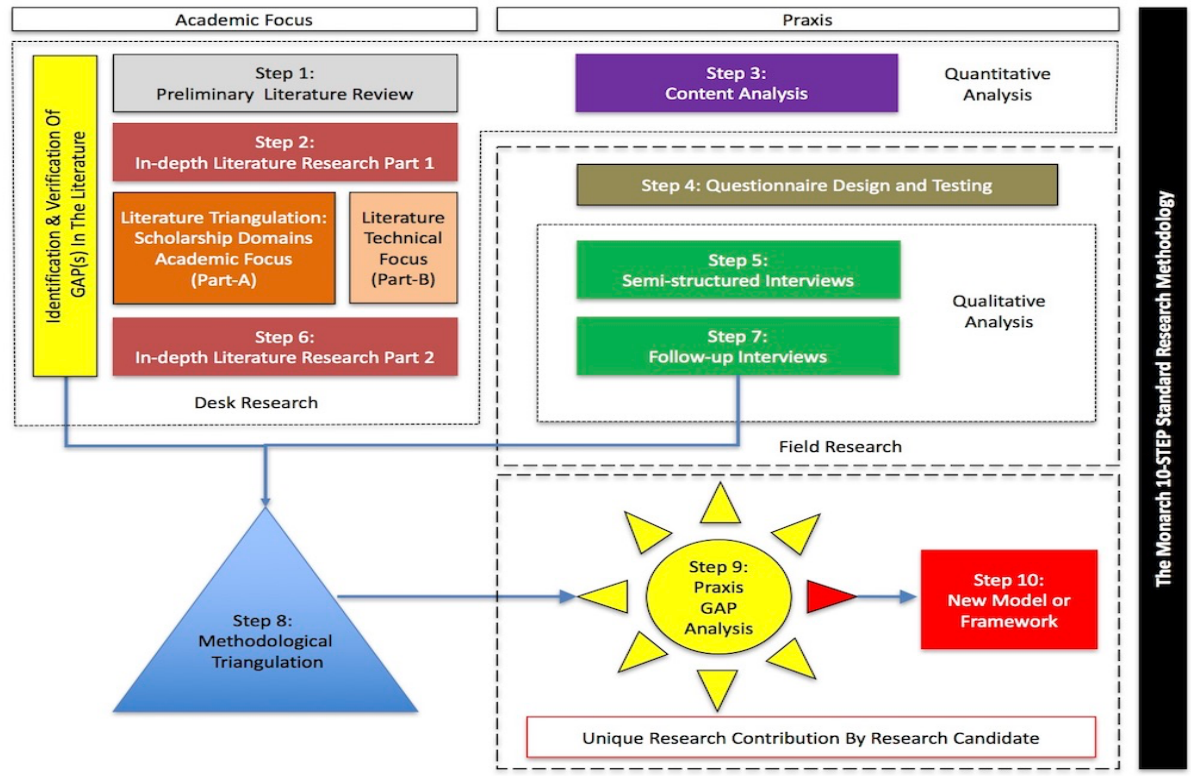
Figure 2 illustrates the 10-steps within the Monarch Standardized Research Process Flow that will be followed within the contemplated research, as:

Step 1: Preliminary Literature Review. The research begins with a survey and review of the works of the seminal authors within the aforementioned academic scholarship domains. The preliminary literature review provides a framework to the

contemplated research, identifies key concepts and theories, and develops a better understanding of the nexus of the academic scholarship domains.

Step 2: In-Depth Literature Review – Part 1. An in-depth review and critique of the works of the seminal academic authors and quasi-academic works within the three academic scholarship domains identified in Section 5.0 will be completed to provide a solid academic foundation to the contemplated research. The "Gap in the Literature" will be presented and clearly identified in relation to the Provisional Research Question.

FIGURE 2
Monarch Standard Research Process Flow



Source: Monarch Business School Switzerland

Step 3: Content Analysis. A content analysis of publicly available data will be completed. The content analysis will respond to the Provisional Research Question and use annual reports, white papers as well as information found in professional journals and like documents.

Step 4: Questionnaire Design & Testing. The development of the questionnaire will be informed by the review of the academic literature and technical documents. The questionnaire will be tested with several volunteers in advance to perfect the questionnaire from a flow and timing standpoint and ensure that questions are clear, concise and have a direct bearing on the focus of the contemplated research.

Step 5: Semi-Structured Interview Process. All interview participants are expected to be knowledgeable with respect to the contemplated research. A total of 50 face-to-face interviews will be conducted with participants representing a sample from each selected stakeholder group, see Table 1.

Step 6: In-Depth Literature Review – Part 2. To add more specificity to the research analysis, a second in-depth literature review will be completed. The Part 2 literature review will also be informed by the interview responses.

Step 7: Follow-Up Interviews. To achieve a more specific view informed by the first interviews and the second literature review, a sub-set of 20 respondents from the first-round interview sample will participate in follow-up interviews.

Steps 8 and 9: Triangulation of the Data and Gap Analysis. A triangulation of the research data informed by the literature review, content analysis and interview responses will be completed. This will assist in determining whether the existing academic knowledge is congruent with the practical application in the field. The result of this analysis should determine whether a Praxis Gap exists between the academic (theoretical) and the practical (applied) domains.

Step 10: Development of Framework And Recommendations. Building on the Gap Analysis completed in Step 9, an analysis of the existing frameworks within the academic domain will be considered. This analysis will evaluate whether the frameworks sufficiently address the requirement for practical application within industry and government or whether they should be improved or modified. A list of managerial recommendations will be developed based on the findings of the research.

4.0 STAKEHOLDER SCHEMA & PARTICIPANTS

The field research component consists of a two part semi-structured interview process. Due to limitations with respect to timing and resources the field research component and interviews will be limited to the Meso sub-group as shown below

TABLE 1
Level of Analysis and Stakeholder Schema

Level	Type	Group 1	Group 2	Stakeholders
MACRO	Societal	-	-	State, Municipal, Government Agencies.
MESO	Organizational /Institutional	50	20	Corporate Executives, Foreign Business Chambers, Commercial Banks, Think Tanks and State Owned Entities (eg: InvestSA)
MICRO	Individual	-	-	Small Businesses
Total Respondents→		50	20	

Source: Monarch Business School Switzerland

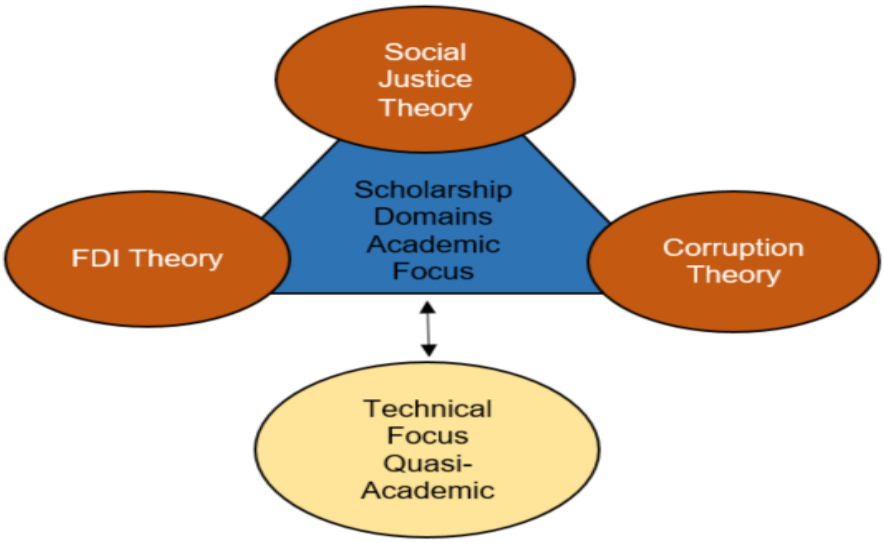
Participants for the Meso sub-group will be individuals considered knowledgeable within the study domain of FDI with a minimum of 5 years active participation in the related industry focus. The research will focus on examining those countries with successful FDI policies and characteristics and applying these to South Africa's current framework.

5.0 LITERATURE TRIANGULATION

The theoretical framework will be structured utilizing an integrative literature review approach as shown in Figure 3. The selection of this distinctive form of research will aid in gathering new knowledge for South Africa's current FDI model.

Simultaneously, an assessment of the positive economic and social impacts that FDI can have on the manufacturing sector in South Africa will be evaluated. The academic areas considered critical to the research question are: Theories on FDI, Theories of Corruption and Theories relating to Social Justice.

FIGURE 3
Literature Review Integration



Source: Monarch Business School Switzerland

5.1 THEORIES ON SOCIAL JUSTICE

According to Bankston (2010), social justice rests on two main principles. Firstly, social justice is primarily regarded as redistributing goods and resources to improve the circumstances of the disadvantaged. Secondly, the redistribution is not offered as a matter of compassion but rather as a right of the disadvantaged to make claims on the rest of society. South Africa's income distribution remains among the most unequal in the world (Scott, Amos & Scott, 1998). As of 2014, South Africa's Gini Coefficient was 0.63 (World Bank, 2020) confirming the country's ranking as having

one of the most unequal income distributions in the world. According to Frunza (2013), the Gini coefficient is defined among economists as the average absolute difference between the incomes of two randomly selected individuals. The result reflects the income inequality within the population. The closer the score gravitates to 1 the worse the income distribution or higher the concentration of wealth. According to the World Bank (2020), approximately 18.7% or ten million people of South Africa's total population in 2014 survive on only USD 1.90 per day, thus living in abject poverty. According to Taylor-Dormond (1997), unequal income distribution hinders economic and political development, introduces a sense of injustice in the social system and provokes frustration and resistence amongst citizens who are disadvantaged. The theory of distributive justice provides that a country's laws and policies ultimately result in a distribution of benefits and burdens across all members of the society (Stanford University, 1996).

Various theories or approaches have developed in respect to social justice theory. These include the Rawlsian theory of justice (Bankston, 2010; Hosseini, 2010), Libertarianism (Nozick, 1974), Marxism (Martin & Pimentel, 2014; Woodfin & Zarate, 2009), Utilitarianism (Hosseini, 2010; Sen, 1987; Velasquez, 1998) and Egalitarianism (Whaples, 2017). The degree to which FDI inflows can have a positive economic effect on a country and its citizens are somewhat dependent on the various social justice theories that are adopted. Ultimately, FDI inflows should make a contribution to the reduction in income inequality and assist in providing a greater opportunity for all citizens.

5.2 THEORIES ON CORRUPTION

According to Huntington (1989) corruption can be defined as behavior of public officials which deviates from accepted practices in order to aid in gains for private means. Hoinaru, Buda, Borlea, Vaidean & Achim (2020) conclude that higher levels of corruption are evidenced within low levels of economic and sustainable development. Corruption hampers productivity and economic growth while simultaneously leading towards lower tax revenues and increased public expenditures (Hoinaru et al., 2020). According to the World Bank (2009) corruption remains one of the greatest obstacles to economic growth, social development and reduction of poverty. According to Transparency International (2019), the Corruption Perception Index ranked South Africa 70th out of 180 countries. In 2004, South Africa's ranking was 44th out of 180 countries. Therefore, a substantial increase in corruption and an erosion of social equity has been experienced.

According to De Graaf (2007) there are six groups of theories which identify the causes of corruption. These are Public Choice theory, Bad Apples theory, Organizational Culture theories, Clashing Moral Values theory, The Ethos of Public Administration theory and Correlation theory. Other theories such as the Becker-Stigler theory of corruption posit the idea that simply selling various government privileges at auction would direct these privileges to the most efficient resources (Tullock, 1996). Garoupa & Klerman (2002) clarify that Becker-Stigler argued that it could be advantageous to extend private enforcement to the criminal law. Becker-Stigler's principle argument is that public enforcement creates an incentive for bribery, however if enforcement is privatized, competitive private enforcers will be

rewarded with the fines that offenders pay. As noted by UNCTAD (2011), Swain & Wang (1997), Wei & Lui (2001), Zhang (2002), Seetanah & Rojid (2011), Ibi Ajahi (2006) and Akalpler & Hemn (2017) levels of corruption within a country are identified as one of the key factors in influencing and attracting FDI. Understanding the different theories which cause corruption could assist South Africa in addressing its own challenges regarding corruption and in turn improve the ability of the country to attract greater amounts of FDI.

5.3 THEORIES ON FACTORS AFFECTING FDI

According to Meyer & Habanabakize (2018), FDI inflows have played an important role in the economic growth of South Africa since 1994. Jordaan (2016) observes that South Africa was considered an attractive investment opportunity occupying 11th position on the AT Kearney FDI confidence index in 2011. However by 2015, South Africa experienced significant declines in FDI of 74% and no longer featured on the list. Xing (2016) highlights that the decline in FDI is mainly the result of political and macroeconomic uncertainties in the country. Walsh & Yu (2010) found macroeconomic factors such as market size and growth, and political and financial market liberalization to also affect FDI inflows.

According to Fredderke & Romm (2004), policy factors such as labour market arrangements, and economic and political stability played a role regarding FDI inflows. Notably, Busse & Hefeker (2007) found that democratic accountability of government, corruption, and law and order were further factors affecting FDI. A common theory used within FDI studies is the Eclectic Paradigm theory formulated

by Professor Dunning (Peng & Beamish, 2008). According to Peng & Beamish (2008), the theory provides that a firm will invest overseas for the reasons such as ownership, location and internationalization.

A triangulation of successful FDI programs and their success factors regarding China, Mauritius and Singapore showed certain key characteristics which generated greater FDI inflows. South Africa's FDI strategy could benefit from an understanding of how these characteristics were assessed, implemented and managed to assist in increasing FDI inflows. Characteristics common to China, Mauritius and Singapore included increased levels of trade openness, quality of infrastructure, labor productivity, exchange rate policies, low levels of corruption and tax incentives as instrumental factors that attracted FDI in greater quantities (UNCTAD, 2011; Swain & Wang, 1997; Wei & Lui, 2001; Zhang, 2002; Seetanah & Rojid, 2011; Ibi Ajahi, 2006; Akalpler & Hemn, 2017).

6.0 TIMELINE & BUDGET

The proposed research is expected to be 36-months in duration. The research includes a field research interview process from June 2022 to August 2022 for stage 1 and March 2023 to May 2023 for stage 2, after which time the data will be analyzed and the manuscript completed. Each face-to-face interview should last a maximum of 40 minutes at a location and time that is amenable to participants. Telephone or Skype-like interviews will be used if face-to-face interviewing is not

possible. Interviews will be conducted in South Africa in the cities of Johannesburg, Pretoria, Cape Town and Durban.

TABLE 2
Provisional Research Timeline

		Year 1				Year 2				Year 3			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
PART A	Initial Literature Search	■	■										
	Main Literature Search - Part 1			■	■	■							
	Research Plan		■										
	Section 1 - Background			■									
	Section 2 – Supporting Literature				■	■							
	Content Analysis				■	■							
	Official Submission of Chapters 1, 2, 3 and Slide Presentation To Obtain Authorization To Continue On To Field Research												
PART B	Interviews Part 1						■						
	Main Literature Search - Part 2							■	■	■	■		
	Interviews Part 2									■			
	Section 3 - Synthesis									■	■		
	Section 4 - Recommendations									■	■		
	Manuscript Perfecting &									■	■	■	■
	Submission												■

Source: Monarch Business School Switzerland

Although every effort will be made to implement the steps within the research timelines, variation in the plan may be encountered due to variables beyond the control of the researcher. Variables that may have a significant effect on the research timeline which are beyond the control of the researcher are resource availability, accessibility and availability of participants. These variables could result in a modification of travel schedules and prolongation of the field research stages.

A breakdown of the time allocation by the different phases of the research is outlined in Table 2. The research will be privately funded. The total budget of the project is

approximately 6,400 Euros. No additional resources or funding will be requested of Monarch Business School Switzerland. The budget is presently funded and research may begin immediately upon approval.

TABLE 3 Research Budget	
	In Euros
Books and articles purchases	800
Questionnaire production	400
Travel & Hotel expenses	3,500
Manuscript publication	400
Statistical software	500
Miscellaneous	800
TOTAL	6,400

7.0 RESEARCH PLAN APPROVAL

The contemplated research has been approved by the Administration and the Candidate may commence the research immediately. The Candidate is not to deviate from the proposed research plan unless expressly confirmed by both the Supervisor and the Administration in written form.

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Approved by The Administration on
29-June-2021 in Zug-Switzerland
By: Dr. Jeffrey Henderson, D.Phil.

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