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„Choice of Foreign Direct Investment Mode of Multinational Enterprises when entering the emerging market of South Africa and its impact on the South African labor market"

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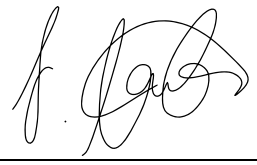

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Content

I List of Abbreviations

BRICS ..... Brazil, Russia, India, China, South Africa
CPI ..... Corruption Perception Index
EMCs ..... Emerging Market Countries
FDI ..... Foreign Direct Investment
HDI ..... Human Development Index
IB ..... International Business
IMF ..... International Monetary Fund
MEM ..... Market Entry Mode
MFP ..... Multifactor Productivity Growth
MNEs ..... Multinational Enterprises
OECD ..... Organization for Economic Co-operation and Development
R&D ..... Research and Development
SSA ..... Sub-Saharan Africa
UNCTAD ..... United Nations Conference on Trade and Development
WISE ..... World Indicators of Skills for Employment
ZA ..... South Africa

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1 Introduction

Due to an increasing globalization of economies, multinational enterprises (MNEs) as well as domestic firms are pressured to internationalize their businesses in order to stay economically competitive. Many recent global events indicate an increasing opponency against a functioning global economy as for instance the announcement of Great Britain to leave the European Union in 2016 or the increasing trade conflict raised by the American President Donald Trump in 2018. These events make it hard to ensure a functioning global economic trade.

Since the 2000s, emerging markets have increasingly received foreign direct investment (FDI) inflows (Asiedu 2002). Although many opportunities and benefits are associated with FDI, choosing the right investment location can constitute an obstacle itself since each market is unique and determines a firm's strategy and thus its performance (Peng et al. 2008). Market inefficiency, availability of resources, costs of market transaction and political instability in a given investment location comprise some factors amongst many influencing the choice of foreign investors market entry mode (MEM).

Within this context, the literature focuses on three main theories MNEs consider when formulating their strategies when globalizing their businesses:

Theory 1 – Institutional View: contemplates formal and informal institutions of countries which constitute the *"rules of the game"* (North 1990, p. 3; Peng et al. 2008).

Theory 2 – Resource-based Theory: centers the link between a firm's strategy and firm-specific resources and capabilities in a given external environment (Grant 1991).

Theory 3 – Transaction Cost Theory: focuses on the internal organization of firms in which transaction costs and efforts, which arise from economizing, are central (Williamson 1981).

This Master's thesis focuses on Theory 1 in order to answer the first of two hypotheses which is as follows:

Hypothesis 1 (H1): MNEs are more likely to choose joint ventures as entry mode to the ZAn market since institutions in the (host) country are weak, as opposed to wholly-owned subsidiaries (acquisitions/greenfields).

Over the past decade, the institutional set-up of a country has gained in importance. Institutional strength has developed to be a crucial variable, impacting a firm's strategy and performance (Peng et al. 2008). An entry strategy might work in one country, but not in another. Hence, FDI strategies have to be tailored to the particular target market (Meyer 2001) as factor markets differ significantly and institutional environments diverse enormously. Due to extreme social, political and economic changes, South Africa (ZA) constitutes an interesting market especially since the emerging country has been struggling to provide market-supporting institutions for investors.

Scholars have focused on different regions examining the impact of FDI and the choice of MEM such as in Sub Sahara Africa (SSA), Latin America or China (Asiedu 2002; Treviño and Mixon 2004; Wei et al. 2005). Yet, these findings cannot simply be transferred on other countries, even if economic, cultural or political similarities exist.

Only few scholars have examined the relation between ZA's institutional environment and the best choice of entry strategy for MNEs, which aims to achieve *"the highest risk-adjusted return on investment in the feasible set"* (Anderson and Gatignon 1986, p. 3). This thesis intends to fill the gap examining specifically the region of ZA and MNEs' intension to start operations in this particular foreign market. In this context, this Master's thesis focuses on the following MEMs MNEs can choose from: greenfields, acquisitions and joint ventures.

It seems logical that increasing FDI to a country enlarges its foreign business community. Thus, host countries can take advantage from arising benefits such as knowledge transfers (e.g. skills and technologies) which can improve labor skills and hence positively influence the labor market and its productivity (Ahmed 2012; Zhang et al. 2010). However, literature proposes that those benefits can only be absorbed if the country possesses a minimum standard to process, use and integrate these benefits (Girma 2005; Alfaro et al. 2004). This effect has been discussed with respect to industrial and developed countries (Borensztein et

al. 1998), whereas the question remains if this effect also applies to the emerging market of ZA which leads to the second hypothesis of this thesis:

Hypothesis 2 (H2): FDI inflow to the emerging market of ZA has a positive impact on its labor market.

The topics presented above lead to the following research question of this Master's thesis:

How does ZA's institutional set-up influence MNEs' entry strategies and does ZA's labor market benefit from increasing FDI inflows?

This thesis is structured as follows: First, basic definitions are given. Subsequently, motives for FDIs as well as its modes and forms will be presented to provide sufficient clarification of key terms. Section 3 will describe ZA's market and FDI development since 1994 to give an understanding on how the economy has developed and determines the attractiveness of ZA as FDI recipient. Subsequently, this will be used to outline opportunities, uncertainties and risks for investors. With section 4, the examination of the proposed research question will begin. A literature review on the institutional theory will be conducted. Then, the institutional strength of ZA will be evaluated by combining former literature review and ZA's score within the Index of Economic Freedom, which constitutes a suitable measure when examining the strength of institutions, to conclude on the best choice of MEM for MNEs when choosing ZA as FDI destination. Next, the interrelation between increasing FDI to ZA and the impact on its labor market will be discussed in section 5. To evaluate this interrelation the absorptive capacity of the country will be estimated to conclude if ZA is generally capable of taking advantage of spillover effects resulting from FDIs. Lastly, the final section will encompass a conclusion revising the findings of this thesis and showing limitations and implications.

2 Foreign direct investment

"Recent estimates suggest that for two-thirds of world merchandise trade, a multinational company is involved on at least one end of the transaction, and that about half of that share is conducted in the form of intrafirm trade"

(IMF 2003, p. 10).

2.1 Definitions

Direct investments relate to the objective of an investor residential in one country, attaining a lasting interest in another firm inhabited in another country. A lasting interest refers to a durable relationship between the investing party and the invested firm as well as a specific level of control the investor exerts over the latter, usually in form of management influence (by the apportioned share of voting rights). This sort of investment commences with the first transaction initializing the cooperation between both parties and covers every later asset transaction amongst them, and further enterprises in a (direct) investment affiliation, regardless if incorporated or not (UNCTAD 2003).

The Organization for Economic Co-operation and Development (OECD) (OECD 2008) and the International Monetary Fund (IMF) (IMF 2005) define a *direct investor* as

- a person or a group of persons (who have to be related),
- trust, estate or other societal organizations,
- governments,
- a private/public enterprise or a group of related private/public enterprises (regardless if incorporated or not) or,
- a combination of the above

holding a (share of) direct investment enterprise, operational in a country other than in the country of the direct investor's residence.

Direct investment enterprises are owned by at least 10%, within their voting or ordinary shares by a direct investor (OECD 2008).

Within this thesis, direct investors are MNEs. An MNE is defined as *"an enterprise that controls and manages production establishments – plants – located in at least two countries"* (Caves 2007). In this context, control refers to an MNE managing a specific amount of assets of another foreign (residence different to the MNE's residence) enterprise.

MNEs are entitled as direct investors if they own at least 10% of another firm's equity capital. This delimitation of equity share is seen as separating *portfolio* from *direct investments* (UNCTAD 2003):

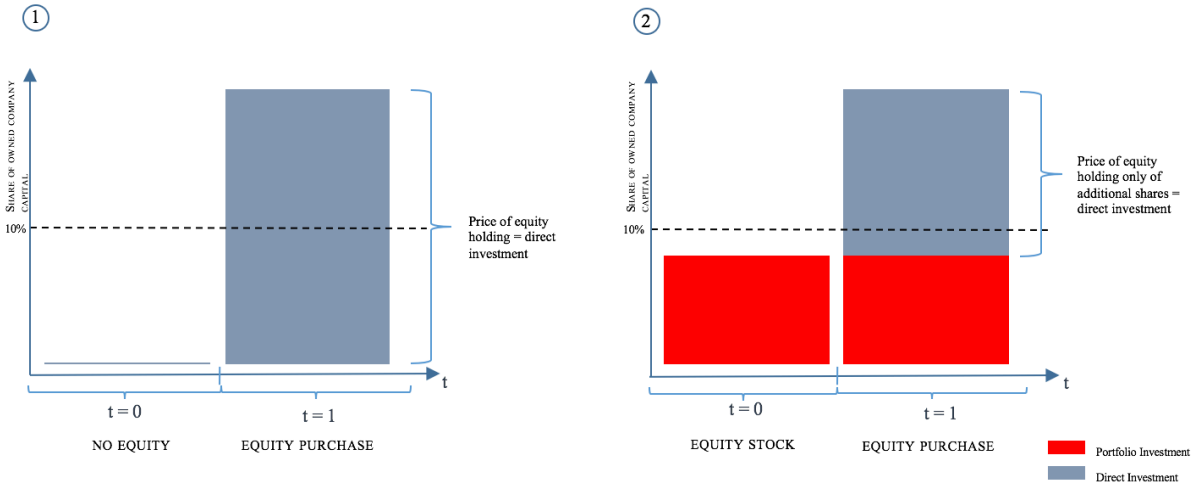


Figure 1 Direct vs portfolio investment

If a direct investor acquires 10% or more equity share of another firm residential in a different country without having prior equity of the firm, the acquired shares and any further transaction between those parties are considered *direct investments* (figure 1, picture 1). Investors already possessing less than 10% equity of the foreign firm (in form of portfolio investments) and acquiring additional stocks leading to a total investment above 10% (figure 1, picture 2), only the additionally acquired shares are considered direct investments within the balance-of-payments (IMF 2005).

The basic instrument of FDI is the *direct investment capital*. This represents the capital by investors to a host country entity, or capital received from an enterprise by a foreign direct

investor. Hereby, the United Nations Conference on Trade and Development (UNCTAD) states that direct investment capital can be:

(1) Equity capital
(2) Reinvested earnings
(3) Intra-company loans / debt

(1) encompasses that the foreign investor acquires shares of associates and subsidiaries or equity of branches in the host country. (2) refer to the investors share (specific amount, proportionate to the direct equity possession) of profit (excluding dividends and revenues not remitted to investment) from affiliates. (3) comprise funds, with focus on long- or short-term lending or borrowing. This form can be used between parent enterprises or affiliates. The value of the possessed stock of FDI by a foreign investor is thus the value of (capital-) shares and reserves ascribable to the parent entity, but also the coherent amount of the affiliate's debts (UNCTAD 2003).

2.2 Motives

There are many reasons why countries and MNEs favor FDIs. MNEs choose to globalize their capital in order to reach or intensify their competitive advantages in a highly globalizing market. *"FDI can […] add to fixed capital formation and have a positive balance-of-payments impact without the risks of debt creation or the volatility associated with short term portfolio capital flows"* (Kobrin 2005, p. 73).

Investors are thoroughly aware of benefits deriving from FDIs. Just as well as they are aware of the determining impact of each investment location (Bevan et al. 2004; Dunning 2000; Tong et al. 2008). The same argumentation is applicable for countries. National economies have a great interest in receiving international capital inflow (Kobrin 2005).

In the following, countries motives for receiving FDIs will be presented very briefly since benefits of FDI to emerging market countries (EMCs) are thoroughly examined in section 5.3. Subsequently MNEs' motives for engaging in FDIs will be described in more detail.

Host country motives for receiving FDIs

FDIs are associated with economic growth, creation of jobs and increasing market competitiveness in the host country (Ahmed 2012; Blomstrom and Kokko 1998). Increasing economic globalization of markets fosters the transfer of knowledge and technologies between countries and firms (Kobrin 2005; Zhang et al. 2010). This dispersion of knowledge can be achieved by, for instance, utilizing patents or trading in an international environment (IMF 2018a). Briefly, FDI can be referred to as medium of transfer, irrespective of knowledge, technology or skills.

Furthermore, FDI constitutes as a source of finance (Treviño and Mixon 2004). It is a well-known fact that developing countries struggle to actively and competitively participate on global markets. This is understandable since the necessary financial tools, requirements and capabilities to engage in international market transactions are much less if not non-existent in less developed countries compared to developed countries. Increasing FDI inflows to EMCs facilitate their participation on global markets (Filatotchev et al. 2007).

Moreover, FDI is also known to be a source of capital especially in less developed countries as income and savings are low (Kransdorff 2010). Particularly countries in the SSA have struggled to partake in international market transactions (Asiedu 2002). FDIs are needed to

antagonize these provisions. An alternative are official loans provided for instance by the World Bank, whereas the option of choosing FDIs have outrun loans (UNCTAD 2018).

MNEs motives for FDI

MNEs used to engage in FDI in order to export products, which were formerly produced in an EMC due to low production costs. This form of International Business (IB) has shifted (IMF 2003).

Nowadays MNEs enter EMCs in order to satisfy local demand in the host country. They use FDIs due to the long-term prospect of the investment, which has a stabilizing effect if macroeconomic disturbances or other threatening incidents occur. Several financial crisis for example led to investors' preference of long-term investments, encompassing stable and mostly tangible direct investment flows (Kobrin 2005).

Scholars present different theories explaining motives of MNEs globalizing through FDI. In the following, the eclectic paradigm and the theory of vertical and horizontal integration will be used to explain international firms' motives to globalize their operations.

Eclectic paradigm

When discussing motives of MNEs engaging in FDI, the eclectic paradigm by Dunning (2000) is a popular framework within economic literature. Hereby the analytical framework consists of three main components:

(1) Ownership specific advantages:

Firms engage in international operations as they believe in possessing a competitive advantage over domestic firms in the host country. The higher the competitive advantage of the entering company – compared to other firms in the host country industry – the more likely it can operate in the foreign market successfully. Three main forms of competitive advantage within the context of (1) exist. The first is taking advantage of having a *monopolistic significance*. Exploiting these monopolistic advantages creates invisible entry barriers for competitors, who lack in those advantages. The second advantage constitutes *resources and capabilities* which, if a firm possesses, illustrate a superior standing of the company compared to others. This again represent entry barriers for competitors. The last advantage compasses *competent managers* of MNEs and their ability to detect, assess and

use foreign resources and capabilities to later successfully implement those into existing operations (Dunning 2000).

(2) Location attractiveness:

Location attractiveness implies that starting operations in a country other than the home country and combining the firm's competitive advantage and *"immobile, natural or created endowments"* (Dunning 2000, p. 164) will be more profitable used in the host country than the home country. In this scenario, firms can increase and take better advantage of (1). (2) has gained in importance within international economic literature as scholars agree that choosing the right FDI location can constitute a competitive advantage itself (Bevan et al. 2004; Dunning 2000). Complementary, an MNE can diversify its risk by operating in multiple countries (Rugman 1979). Additional locality variables within (2) have been proposed such as the importance of cultural differences, exchange rates or institutional conditions, which significantly determine MNEs' choice on investment location (Dunning 2000).

(3) Internationalization advantages:

The last variable focuses on how investing firms can take advantages of their essential capabilities by simultaneously taking advantage of host country benefits. Firms enter foreign markets to access information, technology, marketing practices or products, which cause less coordination or transaction costs than pursuing these by engaging in contracts or licensing with foreign partners (Dunning 2000). Nonetheless, MNEs have to consider that transaction costs are positively interrelated with market imperfections (Brewer 1993), which less developed countries are especially susceptible for.

However, internationalization theory attracts much criticism. It is argued to be very static, ignoring the creation of future assets and focusing on using existing assets in an ideal way. This shows a great disadvantage especially in the context of innovations, which requires a constant development of new assets instead of optimizing (the use of) existing ones. In addition, the internationalization theory focuses on transaction related activities. However, it is mandatory to consider all costs and benefits. The theory focuses on the full internationalization of firms whereas partnerships have increased, which the theory does not consider sufficiently. Concluding, internationalization theory argues that the higher the net advantages by means of international market transactions the more likely a firm will choose

foreign production (foreign investment) than engaging in franchising or licensing (Dunning 2000).

Additionally to former advantages, economic literature on the eclectic paradigm acknowledges four sorts of activities MNEs seek when partaking in FDI (Dunning 2000):

- **Market seeking activity:**
  This activity implies that MNEs enter a market to satisfy demand in this target market.

- **Resource seeking activity:**
  If MNEs follow this activity, they engage in IB by means of accessing resources exclusively available in the host county. These resources are often natural resources e.g. minerals or agricultural goods.

- **Efficiency or rationalized seeking activity:**
  This activity aims at encouraging a more effective labor division or a higher specialization of MNEs' assets, regardless whether the assets are home country or foreign assets. This activity is strongly linked to the first two activities and (normally) follows after them.

- **Strategic asset seeking activity:**
  If an MNE chooses to pursue this activity, the aim is to increase or safeguard their ownership specific advantages or reduce those of competitors.

The choice of activity heavily depends on the MNE's industry and the associated challenges and opportunities it proposes. Fast growing industries tend to show more success in the activity of market seeking (e.g. telecommunication) compared to other industries such as natural resources (Dunning 2000).

Market seeking and resource seeking activities are mainly pursued in first time FDIs as MNEs engage in direct transactions with market participants in the host country and access barriers to the market are circumvented. *Efficiency seeking activities* are especially

reasonable if MNEs already operate in another foreign country and barriers hinder trade. FDIs have contributed to the division of labor in an international context, which has encouraged an increased trade. *Strategic asset seeking* on the other hand relies on intellectual assets of the firm spread out internationally and being more efficient to produce and obtain externally than company internal. All introduced components should not be seen as exchangeable but should be considered integral (Dunning 2000).

Vertical vs horizontal integration

The way MNEs internationalize depends on their needs and objectives. Such objectives and needs can constitute for instance the reduction of factor-, transportation- or trading costs as well as reaching economies of scale and scope. The theory on vertical and horizontal integration differentiates between two complementary motives (to the eclectic paradigm) why MNEs should internationalize their businesses.

MNEs internationalizing their businesses and focusing on achieving benefits from different factor prices of countries is referred to as *vertical integration*. Within this operational approach, MNEs spread their production procedures vertically throughout different international locations to take advantage of factor price differences. Firms replicating their existing production procedures in different countries are specified as *horizontally integrated.* MNEs using this approach follow the objective of avoiding emerging costs from cross-border trade (Yeaple 2003).

These two motives can easily be distinguished theoretically as vertical integrated MNEs have the purpose of 'manufacturing' as in contrast to MNEs which are horizontally integrated 'operate' in different host countries (Conconi et al. 2016).

By firms increasing their international activities, intensively expanding and progressively increasing the number of production stages, makes it difficult to differentiate between vertically and horizontally integrated MNEs in praxis. Yeaple (2003) categorized this form as *complex integration strategy* whereas Feinberg and Keane (2006) refer to MNEs engaging in a mix of vertical and horizontal integration as *hybrids*.

Empirical findings acknowledge that most of MNEs' strategies are categorized within the complex integration strategy. This ascertainment is because vertical and horizontal FDIs do not cover the variety of MNEs' strategies, which do not allow a clear separation of those two motives (Hanson et al. 2001; Feinberg and Keane 2006).

2.3 Forms and modes

The UNCTAD (2003, 2007) splits direct investment enterprises into three main forms.

An incorporated firm in which direct investors own and control at least 50% of voting rights is referred to as *subsidiary*. Enterprises voting rights controlled between 10% and 50% by direct investors including subsidiaries of the direct investor are defined as *associates*. Lastly, unincorporated firms jointly or entirely owned are so-called *branches*.

The UNCTAD (2007) subdivides branches into four types:

1. Lasting establishment/offices of non-residential investor
2. Unincorporated business alliance/joint venture between the foreign investing party and another (or more) third business partner(s)
3. Non-governmentally owned land, structures or/and immobile equipment and objects
4. Non-operating (at least a year in the investors home country) mobile equipment

Nonresidential enterprises financing host country affiliates, branches or subsidiaries are regarded as FDI. However, host country subsidiaries, branches or affiliates financing the parent enterprise resident in another country are categorized as reduction in FDI.

All mentioned forms refer to the foreign investor purchasing equity stake and thus gaining control proportionate to the stake. However, control over business units or voting rights can also be received by another form of investment, so called non-equity forms of investment. Those forms of investments are for instance licensing, franchising, management contracts or subcontracting (UNCTAD 2007).

This thesis concentrates on three specific modes of market entry: greenfields, acquisitions and joint ventures from which MNEs deduce their entry mode under consideration of certain internal and external conditions.

In greenfield investments MNEs set up production plants in the host country from the ground. Within acquisitions MNEs acquire the entire or a part of the local firm in the target market and in joint ventures MNEs engage in cooperation with a local joint venture partner (Raff et al. 2009). Within acquisitions and joint ventures MNEs are integrated in the target firm according to the proportion of their acquired share.

When examining MEMs many scholars choose between bimodal or sequential approaches. This means that instead of choosing between greenfield, acquisition or joint venture simultaneously, this choice is made in steps. First, the decision of the degree of ownership is determined, meaning distinguishing between wholly-owned subsidiaries (greenfields/acquisitions) or partly owned subsidiaries (joint ventures). If the decision then falls on wholly-owned subsidiaries, scholars decide between greenfield and acquisition (Meyer et al. 2009). In the context of institutional set-up, the level of ownership and hence the MEM are considered *simultaneously* meaning that when examining the first hypothesis of this thesis greenfields, acquisitions and joint ventures will be considered concurrently.

3 The South African market

This chapter intends to provide an overview of ZA's market and FDI development from 1994 to 2017. This is necessary in order to provide sufficient background information to obtain an overall picture of ZA's economic history, which led to the present state of market. This overview will serve as basis to outline opportunities, uncertainties and risks of FDI to the ZAn market from which two hypotheses will be proposed.

3.1 Foreign direct investment development

The post-apartheid era in 1994 represented a political, social and economic turning point for ZA introducing a multi-racial democracy. The government introduced various political changes trying to encourage domestic competition and at the same time aimed to re-integrate ZA into the global economy (Edwards and Golub 2004). From this point on ZA went through various political reforms e.g. the Reconstruction and Development Programme or the Macro-economic Strategy (GEAR) (Wessels 1999). A milestone during this reorganization process constituted the revision of ZA's investment protection regime pushing towards a restructuring of the economy and antagonizing poverty and inequality (OECD 2014).

ZA's economic development from 1994 is illustrated in the following chart showing a constant increase in GDP per capita (ZA; and world as comparison value) and an unstable course of ZA's GDP growth. Due to the financial crisis, the years 2008 and 2009 are not considered as correlations are not referable during this time.

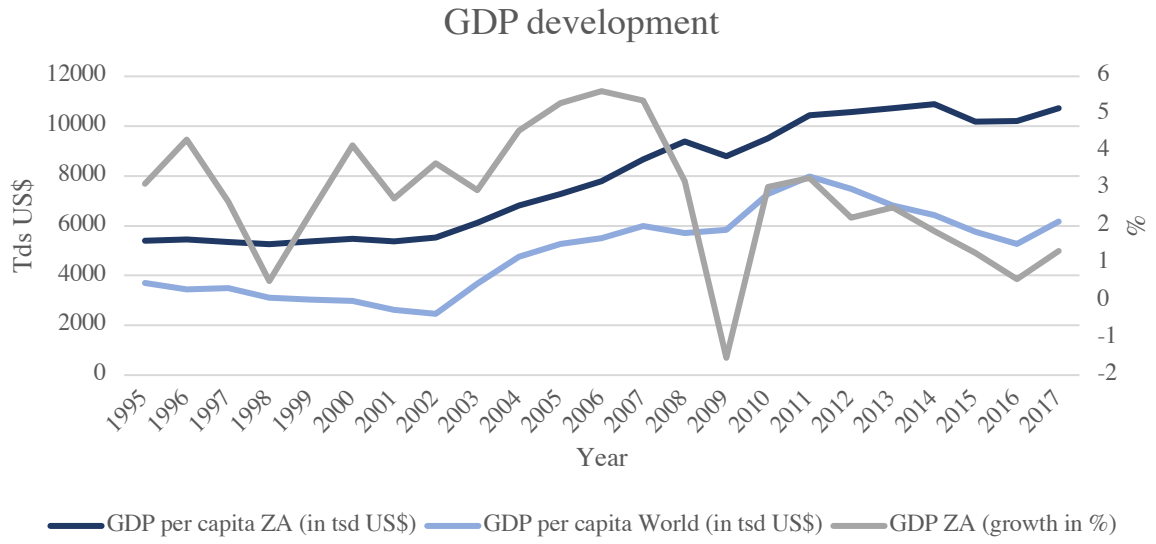


Chart 1 GDP development ZA/World (1994-2017) data provided by (Word Bank)

In the late 2000s FDIs have developed to be the main driver of growth in EMCs pushing trade aside and positioning itself as dominant form of net capital inflow. Governments (especially of less developed countries) have increased their confidence in exploiting benefits and decreased the liability of FDI. This led the early 1990s to be a 'de facto convergence' of approaches of governments in the direction of FDI (IMF 2003; UNCTAD 1994; Noorbakhsh et al. 2001; Asiedu 2002).

ZA's change to democracy in 1994 led to an increase of FDIs due to the liberalization of regulations and laws as ZA tried to revive from economic sanctions and isolation. Changes within FDI policies were in favor of investments, which had the main objective of attracting FDIs by simplifying market entries for foreign investors (Fedderke and Romm 2005).
In this way, ZA's government tried to create a stable business environment and strengthen investors' confidence in political and economic structures. By removing trade barriers and unclenching international capital flow restrictions, the globalization of ZA's economy picked up slowly. This is reflected in the fact that foreign firms are found in almost all formal sectors in ZA, acting as major players (OECD 2014).

The geographical origin of FDIs (inward) and flows (inward and outward) are calculated based on the value of assets and the foreign liabilities handed out by the South African Reserve Bank and the IMF (UNCTAD 2012).

Latest available data provided by the South African Reserve Bank (2018) show the main investing countries to ZA:

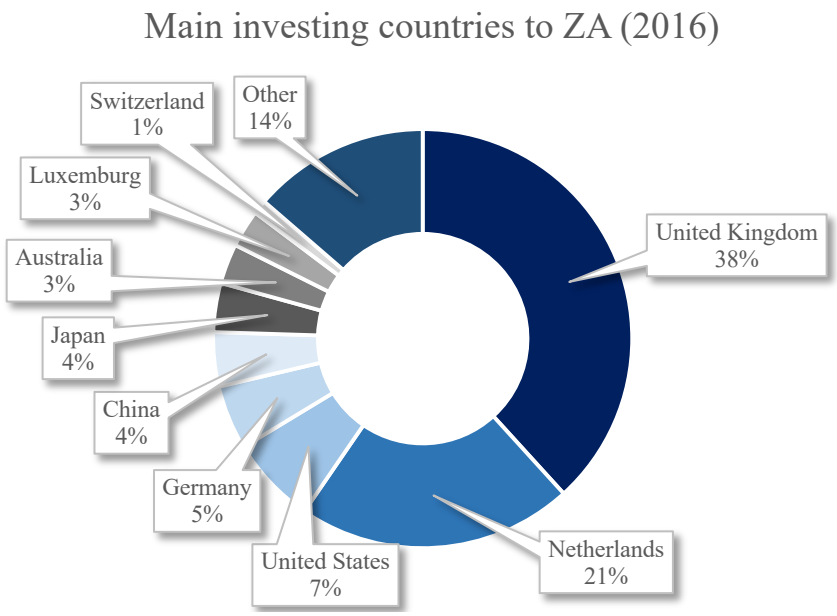


Figure 2 FDI inflows by country 2016 data provided by (South African Reserve Bank 2018)

The main sectors countries invested in were (South African Reserve Bank 2018):

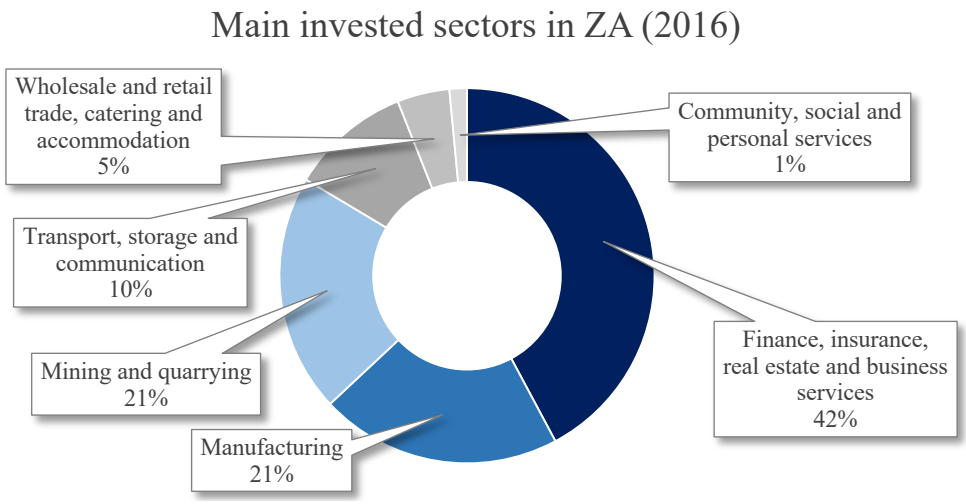


Figure 3 FDI inflows by industries 2016 data provided by (South African Reserve Bank 2018)

In most instances, ZA has shown a constant market growth, however still struggling to reach its full potential. Financial and capital markets are well established, labor costs are low, the country is enriched in raw materials and transport and communication channels are stout (OECD 2014). Due to progress in communication technology and transport, a forward leap in digitalization and information processing allows MNEs to control their businesses across

borders. Combining this with global production, embedding global supply chain processes constitute additional factors supporting FDI endeavors (Kobrin 2005). Furthermore, the ZAn market is referred to as key hub economy, which represents one of the countries receiving the most FDI projects in Africa with ZA taking the leading position of this list (Ernst & Young 2017).

ZA does not have concrete FDI policies except measures diminishing risks investors might be confronted with. In 2011 the *Companies Act 2008* was enforced moderating commercial law, providing efficiency in the registration process of companies and ensuring rescue for afflicted firms (OECD 2014).

The following diagram illustrates the progression of FDI in ZA from 1994 until 2017:

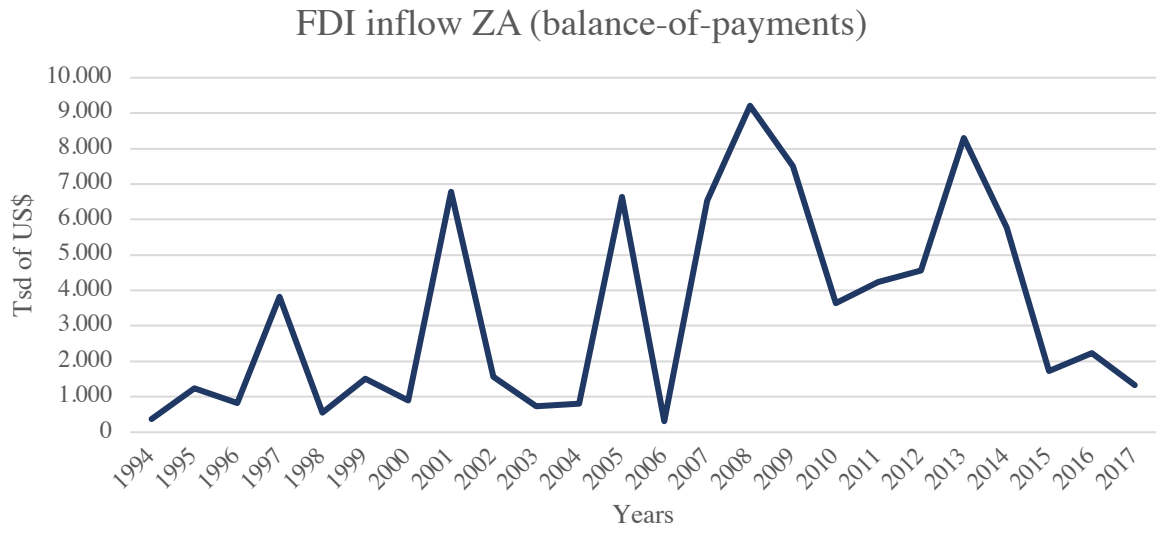


Chart 2 FDI development ZA (1994-2017) data provided by (World Bank)

ZA's FDI inflows show a very unstable course from 1994 and peaks in 1997, 2001, 2005, 2008 and 2013. Especially the financial crisis in 2007/2008 led investors to focus on long-term investments (Kobrin 2005) which is mirrored in the increase in FDIs after the crisis (starting in 2010). ZA's FDI inflows have decreased by 41% compared to 2016 obtaining a sum of only $1.3 billion in 2017. This dramatic decrease is mainly because of weak performances in the commodity sector e.g. declining oil prices, which is referred to as commodity bust (UNCTAD 2018).

In the last decades, living conditions for the African population has improved, but economic development and growth could hardly keep up this trend. Between 2011 and 2016 hardly any increasing economic activity could be recorded which represents a threat (Ernst & Young 2017), considering the constant increase in ZA's population which is illustrated in chart 3:

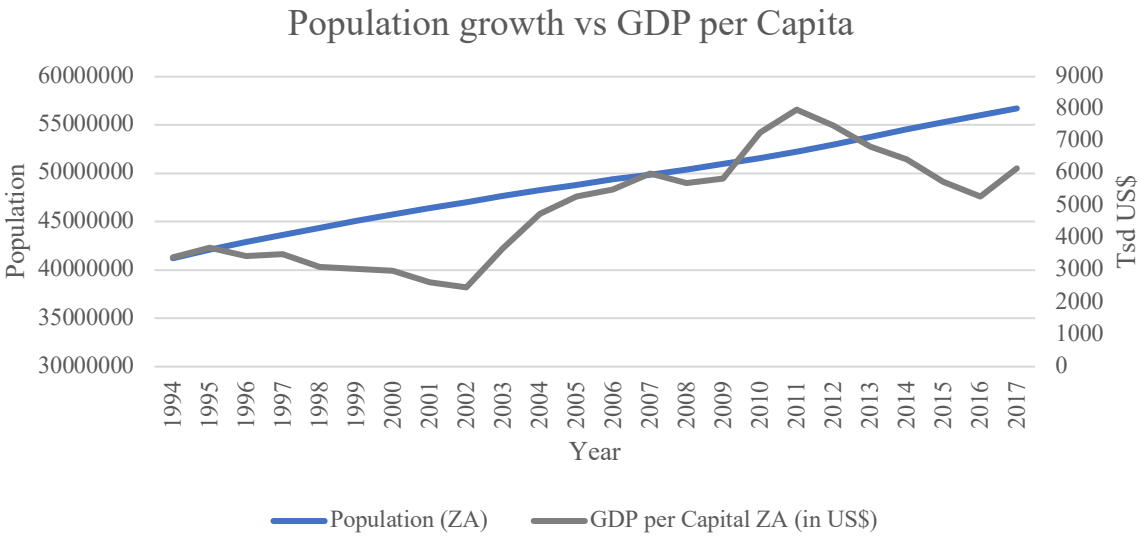


Chart 3 Population vs GDP in ZA data provided by (World Bank)

Summarizing the above-mentioned facts, ZA's GDP and FDI developments over the last 20 years have been very unstable, uneven and diverse significantly from year to year, leaving FDI inflows in a very low point in 2016 and 2017. Due to many external factors, economic growth and foreign investments could not abide nor be controlled. Especially political discrepancies affected FDI inflows negatively (UNCTAD 2018), leading to a decrease in return on investments and raising concerns of foreign investors affecting long-lasting FDI endeavors.

3.2 Opportunities, uncertainties and risks

Opportunities

Despite the fact that ZA received 41% less FDIs in 2017 the future seems positive. Growth in ZA is supposed to increase by 1.5% in 2018 and 1.7% in 2019 (IMF 2018a). The expected pickup of commodity prices and the signing of the African Continental Free Trade Agreement are expected to boost FDIs (IMF 2018b).

To enhance competitiveness, EMCs use policies and programs to improve skills and qualities and support entrepreneurship. These policies and programs are mainly for emerging industries to further encourage FDIs. ZA has introduced many incentives to attract FDIs and support its economic growth. Those incentives are not exclusively intended for foreign firms but apply in the same scope to domestic companies (OECD 2014). They aim to (OECD 2014):

- Indorse innovations
- Advance competitiveness
- Optimize existing operations
- Support and encourage manufacturing and exports

In order to reach above-mentioned objectives ZA introduced various incentives as for instance the R&D Tax Incentive Program, the Industrial Development Zones or the Critical Infrastructure Program. Supplementary to the proposed incentives by the government, ZA uses investment promotion agencies to support foreign and domestic investments and exports. This function is embodied by Trade and Investment South Africa (part of the Department of Trade and Industry) (OECD 2014).

An additional supporting tool are so called catch-up strategies, which *"focus on business linkages and supplier development programs targeting higher skills development"* (UNCTAD 2018, p. 173).

Another aspect which prognoses promising changes encouraging MNEs to increase their foreign investment undertakings to ZA are the upcoming elections of political leaders in 2019

(IMF 2018b) as the political environment is unstable and raises much uncertainty amongst foreign investors. A new political structure reduces this uncertainty luring private investments. Business confidence will raise once political environment improves, reinforcing investments (IMF 2018a).

One major benefit for investors choosing ZA as FDI destination is the openness of sectors towards investments. Almost all investments are in no need of any form of approval (excluding the banking sector). Investors are permitted to full ownership or shared ownership and land required for business operations. The repatriation of revenues and earnings are abundant. There are no set performance requirements on foreign firms in order to enter, continue operating or grow in the market, except those obligatory performance requirements embodied within national legislation. Treatment between domestic and foreign investors is almost equal (OECD 2014).

Uncertainties and risks

Despite ZA's revision of the investment protection regime to counter poverty and inequality, ZA remains the country with the highest level of inequality and poverty:

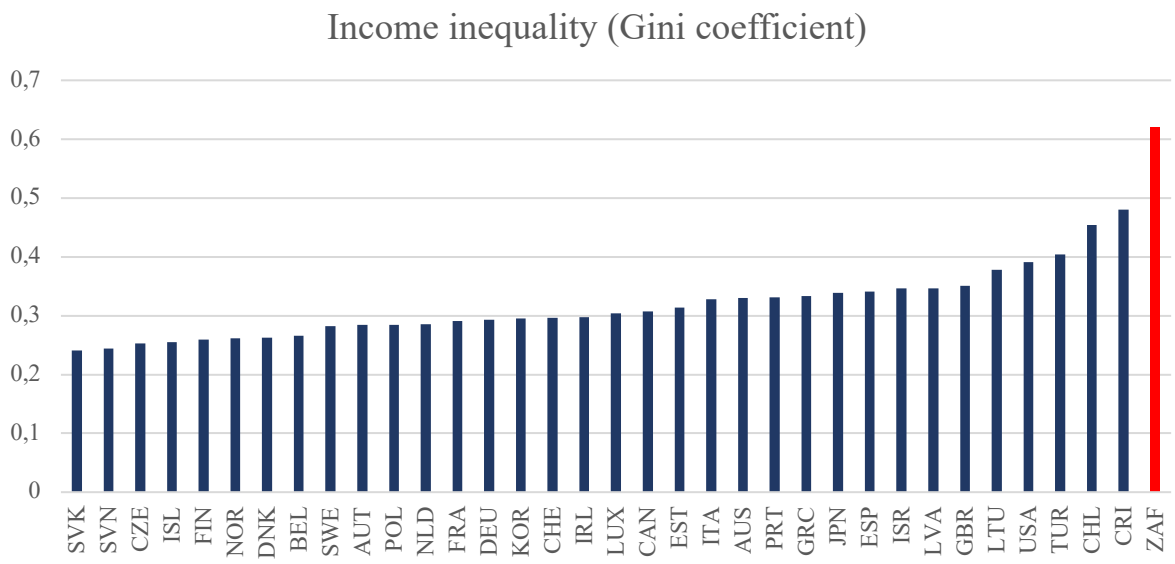


Chart 4 Income inequality (OECD members and partners) data provided by (OECD)

Most recent available data by the OECD demonstrate that ZA was not able to implement its intention as the country shows the highest rate of income inequality (chart 4). This analysis was conducted using the gini coefficient, which results from a comparison of the cumulative ratio of received income against the cumulative ratio of population. The coefficient can rank between 0 and 1, 0 showing 'perfect equality' and 1 'perfect inequality'. Also ZA denotes the highest measured total (all ages) poverty rate (proportion of amount of people falling under the poverty level) which is illustrated in the following chart:

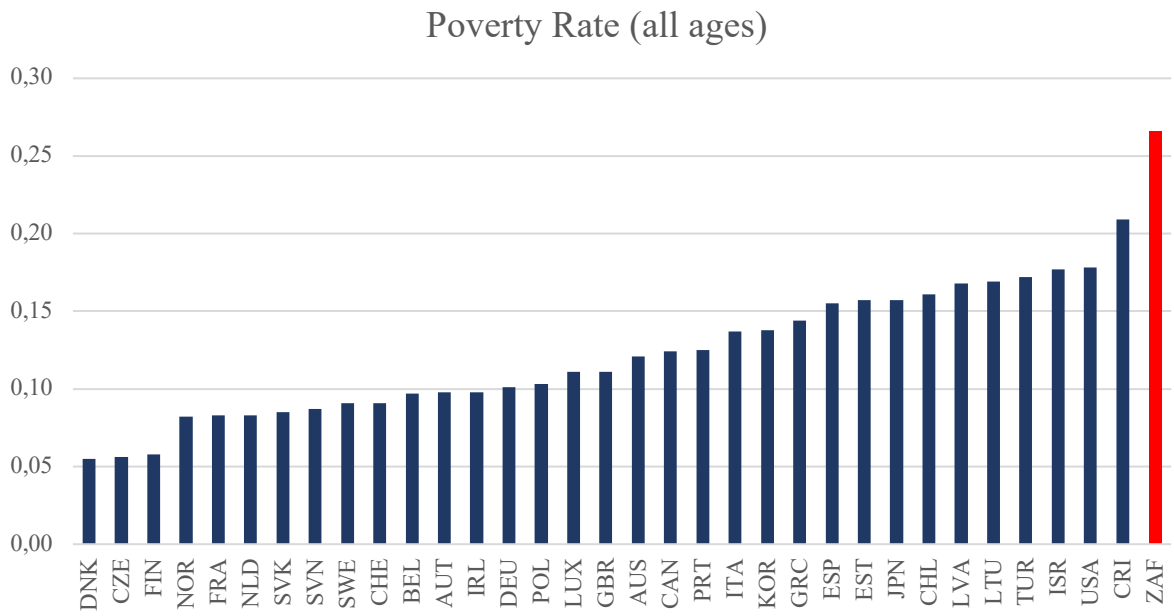


Chart 5 Poverty rate (OECD members and partners) data provided by (OECD)

Both of these variables are important for investors as they, among other factors, shape a country's social, political and economic environment. Hence the results in the charts above, with ZA showing by far the worst scores in international comparison (OECD countries and partners), constitute a high level of uncertainty for investors.

Global FDI is in jeopardy due to geopolitical threats, growing trade friction and increasing tendency leaning towards protectionist policies (IMF 2018a). Threats arising from global economic frictions are (Ernst & Young 2017):

- The United Kingdom's decision to leave the European Union (the United Kingdom being ZA's main investor; see figure 2)
- The United States of America electing Donald Trump as president

- Increasing political difficulties in Europe
- China entering a slower phase of economic growth
- The commodity bust

ZA's presidential election in 2019 represents the next political obstacle the country has to face as the nation hopes for a radical restructuring of economic processes. Although the upcoming elections constitute a big opportunity restructuring the ZAn government, these elections raise uncertainty as the last governmental restructuring in March 2017 led to a depreciation of 8% in the ZAn currency within a couple of days. This raising uncertainty in ZA's political environment is reflected in the low investment confidence, which hence lead to less FDI inflows (IMF 2017).

The biggest risks investors face when choosing ZA as investment location is the country's level of corruption. The Transparency International Organization, publishing the Corruption Perception Index (CPI) 2017, encompasses 180 territories and countries examining the level of corruption in public sectors (see Annex 1 CPI Score (2012-2017)). The level of corruption in this index is measured on a scale from 0 to 100, in which 100 is 'very clean' and 0 'highly corrupt'. In 2017, the index showed that more than 69% of all examined countries scored below 50. ZA ranked at 71 with a score of 43 (2012: score 43, 2013: score 42, 2014 and 2015: score 44, 2016: score 45). This very low score certainly discourages MNEs to enter the market.

This result is in line with the Global Competitive Index, ranking the variable corruption as the most problematic factor (considering 16 factors in total) when engaging with the ZAn market. Within this index, ZA ranks on 61 (out of 137 economies) in 2017-2018. With this score ZA dropped 14 places (from 47 out of 138) compared to 2016-2017. This is due to the almost still standing economy, which is a result of ZA's commodity bust, low GDP development and high unemployment rate. Summarizing the most problematic factors when engaging with the ZAn market, the following 16 uncertainties were disclosed (in decreasing order) (Global Competitiveness Report 2017):

1. **Corruption**
2. **Crime and theft**
9. Inflation
10. Access to financing

3. **Government instability/coups**
4. Tax rates
5. Inefficient government bureaucracy
6. Poor work ethic in national labor force
7. Restrictive labor regulations
8. Inadequately educated workforce
11. Policy instability
12. Inadequate supply of infrastructure
13. Insufficient capacity to innovate
14. Tax regulations
15. Poor public health
16. Foreign currency regulations

4 Market Entry Mode of Multinational Enterprises entering the South African market

Scholars have studied various driving, crucial and impactful factors influencing entry mode strategies MNEs have to take into account when choosing a foreign target market to expand to (Meyer et al. 2009; Habib and Zurawicki 2002; Filatotchev et al. 2007; Peng et al. 2008). Certainly, these factors do not equally dictate which MEM is the most suitable for MNEs when engaging in foreign investments, since objectives MNEs pursue when globalizing their businesses as well as investment location characteristics differ. This paper insinuates that the main intention of MNEs is to achieve a competitive advantage and high return on investments.

Markets diverse greatly with regards to their level of social, political and economic development. Therefore, entry strategies have to be evaluated and chosen depending on their suitability to the target market. Since EMCs have gained in investor's attractiveness, many opinions as well as analysis were conducted filtering which factors are considered the most significant when entering explicitly those markets. Many theoretical and empirical findings refer to components such as transaction costs, institutional set-up or resources and capabilities. Hereby scholars use theories such as transaction cost theory, the resource-based view and the institutional framework to evaluate and recommend the most suitable entry strategy for MNEs when globalizing capital through FDI (Grant 1991; Williamson 1981; Peng et al. 2008; Peng 2003; North 1990).

While usually a country's level of development is evaluated by its market size and rate of growth, many scholars claim that the most significant dimension distinguishing developed from less developed countries are the prevailing institutions (Meyer et al. 2009; Peng 2003; Kobrin 2005) whose responsibility it should be to guide human actions by setting rules (North 1990).

ZA has faced many changes and challenges in the context of its institutional framework, starting with the first democratic election in 1994 ending apartheid and continuing with serious political obstacles in the past and today.

The IMF (2003) states that the *"physical and personal security […] corruption and governance concerns […] legal system and the rule of law"* (IMF 2003, p. 18) are important factors within a foreign investment landscape. Furthermore they mention that nowadays many companies seek insurances in order to hedge potential institutional risks. Considering those events, the theory of institutions seems to be a yielding topic when investigating which factors influence the choice and strategy of MNEs entering the ZAn market.

This section focuses on the institutional view and its impact on entry strategies of MNEs. A literature analysis on the general institutional framework will be conducted and then used to evaluate the most suitable MEM for MNEs. Subsequently, this analysis will be refined when focusing on ZA's institutional framework.

In this context, the institutional strength of a country is a basic module determining which MEM is the most sensible choice for MNEs when entering a foreign country. In the following points, two distinctions within the institutional framework, namely formal and informal rules, will be explained as they define what constitute institutions (Peng et al. 2009; North 1990). Supplementary, institutional strengths will be depicted in order to categorize institutions in ZA. From this classification, strategic market entry choices of MNEs will be deduced using international literature on the institutional theory, whereas only the MEMs greenfield, joint venture and acquisition are centric.

Consequently, a hypothesis will be established with the intention to examine which mode is considered the most suitable choice for MNEs entering the ZAn market in dependence of ZA's institutional strength. In order to examine this hypothesis, ZA's institutional framework will be described by using the Index of Economic Freedom established by the Heritage Foundation (Heritage Foundation 2018). By combining former literature review on institutional theory and the evaluation of ZA's economic freedom, a significant conclusion on the established hypothesis will be drawn.

The result of the established hypothesis in this section contributes to *"the institution-based view of strategy"* (Peng et al. 2009, p. 66) for MNEs entering EMCs, particularly the target market ZA.

4.1 Literature review on the institutional theory

Literature on IB and strategy mainly focuses on two theories namely transaction cost/agency theory and resource-based theory. The institutional view has been considered a less important theoretical framework in the past. However, research on institutions has increased in the past decade, since more scholars share the opinion that studying institutional conditions contribute to a deeper understanding of strategic choices and have lost their past character as being just a background circumstance (Meyer et al. 2009). Scholars even go so far as to call the institution-based view *"the third leg in the strategy ''tripod'' (the other two legs being industry- and resource-based views)"* (Peng et al. 2008, p. 923).

Strategic choices are insofar impactful as strategy determines performance (Peng et al. 2008). The crucial influence national institutions have on entry strategies of MNEs is well agreed upon. Hence, performance is indirectly influenced and partly defined by institutions (Brouthers 2002; Estrin et al. 2009; Peng 2003; Meyer et al. 2009):

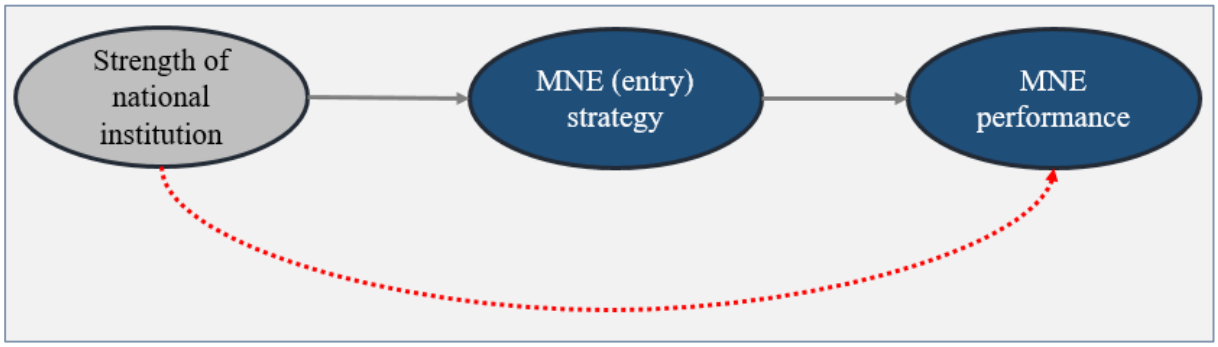


Figure 4 Interrelation between institutions, MEM and MNE performance

Therefore MNEs have to adjust their general entry strategy according to crucial institutional conditions in the host country to ensure the best possible performance.

The general economic purpose of a country's institution is to protect companies and individuals in order to enable and support efficient economic market transactions (Peng et al. 2008; North 1990). Worthy mentioning at this point is that institutions do not only impact the strategy and performance of foreign MNEs but also of domestic companies as a majority of the same regulations apply to domestic companies and individuals (Peng et al. 2008).

Institutions are considered fundamental key points MNEs have to contemplate, since institutions have a direct impact on *"what arrows a firm has in its quiver as it struggles to formulate and implement strategy, and to create competitive advantage"* (Ingram and Silverman 2002, p. 18). This fact is particularly important in EMCs, given that legal and regulatory framework show great differences compared to more developed countries (Peng et al. 2008).

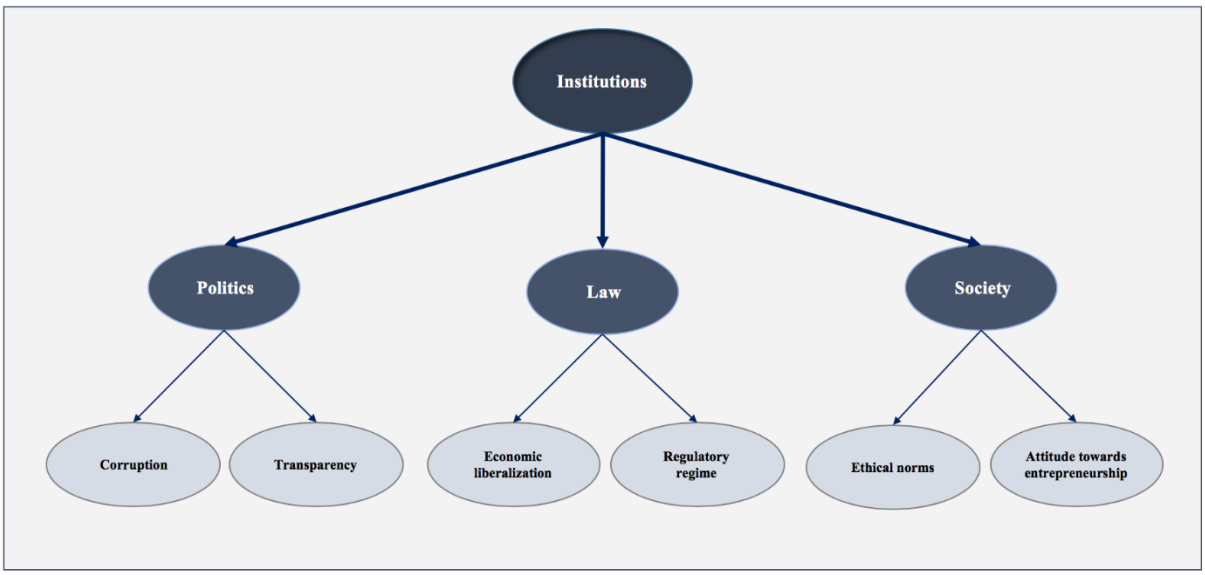


Figure 5 Components of institutions by (Scott 1995)

The aim when assessing the best MEM fit is to avoid immoderate costs and risks for MNEs. This is principally important for companies operating in various countries having to cope with challenging duties and responsibilities as for instance legal affairs or regulatory frameworks e.g. level of corruption, contract law, information transparency or (property) rights (Meyer et al. 2009). Hence, MNEs operating in various countries have to adapt their business strategies to the institutional framework of the host country (Peng 2003; Meyer et al. 2009; Estrin et al. 2009).

Instititional strengths differ in dependence of a countries level of development, hence the stage of institutional development heavily defers between countries. Developed countries are generally associated with highly developed institutions, being practically invisible. Less developed countries on the contrary are known to show notable deficiencies in their institutional framework (Meyer et al. 2009).

Moreover, in markets with similar characteristics institutional differences can prevail since competition is organized differently in every country (Peng et al. 2008). Meaning that although countries being categorized as e.g. developed, they can show different institutional strengths.

Economic literature classifies institutions into *formal* and *informal* rules (Estrin et al. 2009; Peng et al. 2008; North 1990). These rules regulate economic behavior which unavoidably modify MNEs' entry strategies in order to comply with the *"rules of the game"* (North 1990, p. 3) in the host country.

Meyer et al. (2009) describe formal rules as the allowance scale an MNE has to comply with under legal framework (regulations and laws) to enter the host country and engage in market transactions. Meaning that formal rules for example can stipulate the level of equity ownership and define what is permittable in the host country for market entrants.
This constitutes a significant impact on the MNE's choice of its FDI mode, since the level of ownership dictates the amount of decision-making (control) and accountability, which are mandatory parameters for MNEs to consider in every business activity.

Informal rules on the contrary are rules which are not formally recorded. This form of restriction has been developed over time by society's cognitions, values, norms or beliefs and are usually tacit (Meyer et al. 2009; Peng et al. 2008). North (2005) even goes so far as to call informal restrictions "*the backbone of what we should mean by the term culture"* (North 2005, p. 42).

Despite the differentiation between formal and informal institutions, both forms have to be considered when MNEs formulate their business strategies (Meyer and Nguyen 2005). Although informal rules have a less binding character compared to formally codified rules, they possess equal validity (Estrin et al. 2009). The Report of Economic Freedom by the Heritage Foundation reinforces this allegation by stating that within *"a market-oriented economy, societal norms, not government laws and regulations, are the primary regulator of behavior"*(Heritage Foundation 2018, p. 10).

Continuative, scholars distinguish between *weak* and *strong* institutions depending on the level of support institutions provide for market transactions and its participants (Meyer et al. 2009; Li and Qian 2013; Bénassy-Quéré et al. 2007).

Weak institutions cannot ensure nor provide market efficiency and lead to a malfunctioning exchange within the market. This causes additional costs and risks for market participants. Strong institutions on the other hand safeguard market efficiency and financial markets function well, supporting market transactions, providing *"transparency, predictability, and contract enforcement"* (Meyer et al. 2009, p. 64). Additionally, strong institutions are characterized as to lessen information asymmetry, a factor known to greatly contribute to market failure, inefficiency and uncertainty. Valuable information is provided which is relevant for potential entrants and their market entry strategy. An example for this kind of valuable information of strong institutions could be information about potential business partners. This knowledge can particularly turn out to be useful for MNEs intending to engage in joint ventures or acquisitions. In joint ventures and acquisitions, investors interconnect in market transactions with foreign business partners (Meyer et al. 2009).
In these scenarios, information transparency is inevitable to minimize information asymmetry and to ensure a well-functioning business relation or due diligence execution.

Weak institutions that cannot offer this kind of information increase the risk of uncertainty for MNEs, indicating market malfunctions. If institutions are weak, MNEs face high transaction costs (Brewer 1993). Due to e.g. the lack of information, insufficient protection of (intellectual) property rights or corruption, firms have to use additional resources in order to gather necessary information, as for instance mentioned in the former example information about potential business partners. This leads to high search costs, hence higher transaction costs compared to strong institutions (Meyer et al. 2009).
Especially emerging markets with proposedly weak institutions are exposed to weak stock markets, non-transparent financial data or not enough financial intermediates (Meyer et al. 2009; Khanna et al. 2008).

A parameter modifying the institutional difficulties MNEs face, is the local experience the firm already possesses in the host market when entering, even if the geographical distance between host and home country is large. *"Distance reduces familiarity; yet experience can*

create familiarity" (Estrin et al. 2009, pp. 1191–1192), meaning that institutional differences between home to host country can be positively amended depending on the experience an MNE already has in the host country or countries with similar characteristics as the target market. This in is line with the theory of *liability of foreignness* (Zaheer 1995).

Concluding, the presented literature clearly emphasizes the significance of national institutions on MNEs IB strategies. Hence, the impact of legal and regulatory frameworks on MNEs' entry strategy will be discussed in more detail. Hereby, this thesis limits the choice of MEM to three possibilities which were formally presented in 2.3: greenfield, acquisition or joint venture.

Joint venture

If institutions are weak, indicating a low level of market effectiveness, firms prefer relationship- or network-related MEMs. The higher the level of institutional development of a country the less likely an MNE will choose joint ventures as MEM. If institutions strengthen and FDIs are possible in more sectors or entry barriers are removed, investors have much less obstacles to overcome such as for instance *"formalities, permits, and licensing"* (Meyer et al. 2009, p. 64). By strengthening institutions through simplifying entry barriers, MNEs do not need to rely on local partners and choose acquisition or greenfield as MEM (Meyer et al. 2009).

Kobrin's (2005) empirical findings correspond to this fact. He states that increasing liberalization in the area of regulations and laws encourages FDIs. His findings indicate that 95% of FDI policy changes were in favor of FDIs rather than restrictive. This is in line with other scholars stating that the stronger and more developed institutions become, the more endeavors of foreign investors are supported and the less MNEs have to engage in partnerships (Meyer 2001; Meyer et al. 2009; Steensma et al. 2005).

The choice of an investor's MEM is also linked to the availability of resources within an institutional context. If institutions in the host country are weak, they cannot guarantee the purchase of resources on the domestic market, which is a basic requirement for MNEs in order to operate in the country, making greenfields challenging and the costs of acquisitions rise, inhibiting acquisitions. In this scenario, joint ventures would be the preferred MEM of MNEs as local resources can be accessed through the local joint venture partner. Within

business partnerships the lack of institutional support can be compensated by relying on informal rules, such as norms, to ensure a contract compliant behavior of both parties (Meyer et al. 2009).

Acquisition

Acquisitions constitute an alternative strategy to access local resources, since MNEs acquire the necessary bundle of resources by taking over a specific amount of equity, or an entire domestic company, quasi in toto. The variable strong institutional development is the one variable which significantly explains the entry mode acquisition (Meyer et al. 2009).

Acquisitions constitute a huge task in malfunctioning markets especially by reasons of inefficient *"financial markets and market for corporate control"* (Meyer et al. 2009, p. 64), which are normally the case in EMCs. Especially stock markets show significant deficiencies in emerging markets concerning size, liquidity and stability. This constitutes a reason for MNEs to not choose acquisitions in their FDI project (Meyer et al. 2009). If institutional support is missing, investors' uncertainty rises making acquisitions a far too risky MEM. Additionally, MNEs have to comply with regulatory national and regional framework, e.g. trade policy, taxes (corporate and capital) and the movement of capital, which makes the institutional environment a crucial factor especially for acquisitions (and mergers) (Coeurdacier et al. 2009).

The success of acquisitions heavily depends on the MNE's origin. If MNEs come from less developed countries or have less experience in acquisitions, the execution of acquisitions can be problematic since the expertise in this area is missing (Tsang and Yip 2007).

Greenfield

In strong institutions resources (e.g. real estate or labor) can be accessed on local markets making greenfields the favorable MEM. Investments by MNEs are supported and protected by national institutions, encouraging wholly-owned subsidiaries. Another key component favoring greenfields over acquisitions or joint ventures is the level of knowledge and experience an MNE has when entering the host county (Meyer et al. 2009; Luo and Peng 1999). If firms already have sufficient knowledge, regarding investments to the host country, or are able to access these in the host country, there is no need to rely on or engage in business alliances. Similarly, if MNEs have substantial experiences with investments in the

host country, or other countries with similar economic characteristics, greenfield is the appropriate and efficient mode to enter the foreign market (Meyer et al. 2009).

The adjacent figure summarizes the most beneficial entry modes considering the need of local resources of the entering MNE with respect to the institutional framework of the host country, compiling the above-mentioned literature findings:

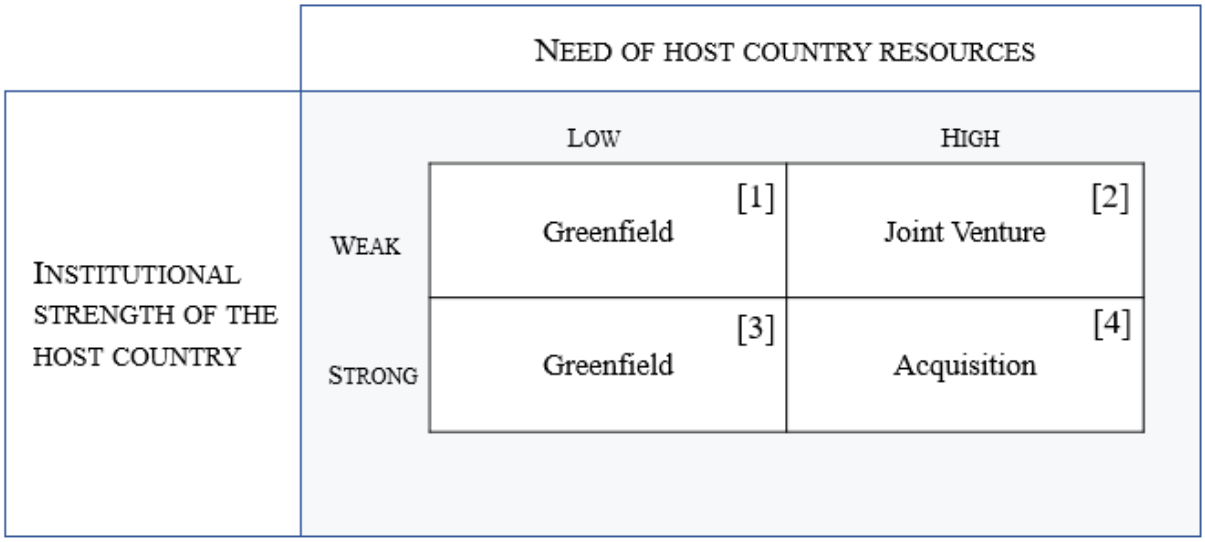


Figure 6 Interaction between institutional strength and need of host country resources of MNEs

If MNEs do not require or depend on resources of the local market, greenfields are the most appropriate mode of market entry regardless of the institutional strength of the country, since MNEs are in less need of institutional support ([1] and [3]). In the case of high need of market resources but weak institutions ([2]), MNEs would prefer joint ventures over acquisitions or greenfields, since the necessary information or behavior required for acquisitions, cannot (or insufficiently) be provided by business partners and national institutions. In this case, business alliances would be the preferred mode of entry, sharing control and resources with a business partner operating (and experienced) in the target market. Finally, in the situation of strong institutions and high need of host country resources acquisitions are more sensible ([4]), since necessary resources can be acquired (as a bundle). Information required to execute acquisitions is provided and institutional components are in place supporting the execution of this market entry strategy (e.g. by enforcing contracts and providing stable financial markets).

4.2 Choice of market entry mode

From former presented institutional theory and its impact on the choice of MNEs' MEM, this chapter focuses specifically on the emerging market of ZA, analyzing the following hypothesis:

> ***H1: MNEs are more likely to choose joint ventures as entry mode to the ZAn market since institutions in the (host) country are weak, as opposed to wholly-owned subsidiaries (acquisitions/greenfields).***

To obtain a more detailed picture of ZA's institutional condition, the institutional strength of the country will be evaluated by using the Index of Economic Freedom and respectively H1 will be assessed. The country-specific Index of Economic Freedom – designed by the Heritage Foundation – is a popular method concentrating on the freedom of companies and persons when interacting on certain economic markets, supporting a positive impact of FDIs on countries. The index score can be seen as freedom of choice individuals have when engaging in market transactions with resources or goods. At the same time, the score mirrors market conditions using meaningful measures. The relationship between individuals or businesses and governments is the centric indicator in this index. The Index of Economic Freedom analyzes countries by using 12 measures of economic freedom. The data collected within the 12 measures give a statement on economic prosperity and freedom of a country. The measures constitute an evaluation of four main categories: government size, regulatory efficiency, open markets and the rule of law (Heritage Foundation 2018):

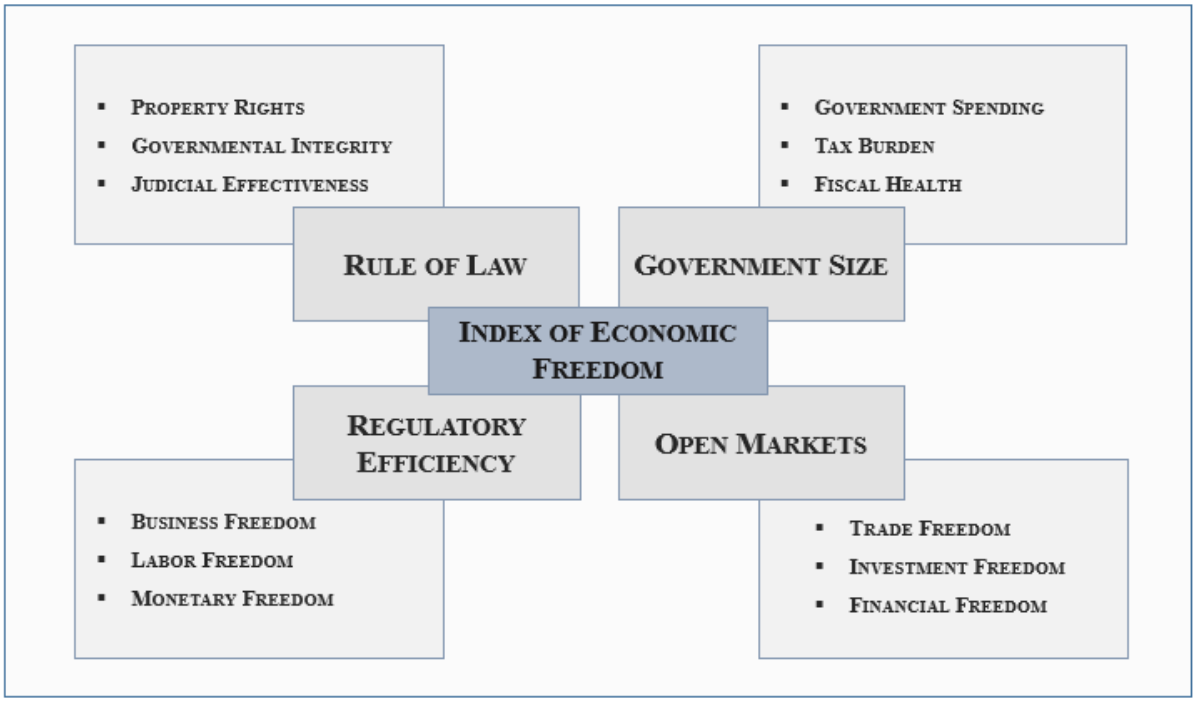


Figure 7 Measures of the Index of Economic Freedom (Heritage Foundation 2018)

In the first instance, table 1 will briefly explain each of the 12 measures in more detail. This will provide an overview of what comprises the Index of Economic Freedom and a basic understanding of each measure. Subsequently, ZA's economic freedom will be determined and ranked by these 12 measures, assessing the strength of ZA's institutional framework:

MEASURES OF THE INDEX OF ECONOMIC FREEDOM	*DESCRIPTION*
(1) RULE OF LAW	
PROPERTY RIGHTS	The capability to acquire and increase private property (wealth), which are protected by national laws is centric in this measure. The underlying key principle hereby are contract enforcements, which constitutes the basis of a market system and plays a significant role in IB. The acknowledgement of property rights and an active rule of law are essential components. Entrepreneurial actions are encouraged if property rights are set in place.
GOVERNMENT INTEGRITY	This measure evaluates systematically corruption (e.g. cronyism, bribery, nepotism) and the integrity of governments in this context.
JUDICIAL EFFECTIVENESS	Judicial effectiveness measures if an effective and fair judicial system is set in place making sure laws are adhered and legal consequences are in place in noncompliant events. Judicial effectiveness supports competition and antagonizes discrimination, encouraging growth. Institutional support is mandatory for an effective judicial system.
(2) GOVERNMENT SIZE	
GOVERNMENT SPENDING	Government spending comprises investments (advance human capital, finance resources, supply infrastructure) or public goods. Government spending is financed by taxation and involve opportunity costs (costs that would have occurred if resources would have stayed in for-profit businesses). High government spending leads to temporarily faster economic growth and runs the risk of pushing out private economic actions.
TAX BURDEN	Governments impose taxes on economic activities. Tax rates directly constrict economic freedom. Economic freedom is higher if the tax burden on individuals/businesses on wealth and income is low. This measure includes income taxes as well as indirect taxes (tariffs, sales, value-added taxes, payroll, and excise taxes). The tax burden is measured as percentage of GDP.
FISCAL HEALTH	Government budget indicates to what extend government is put into practice, e.g. how well resources are financially managed. Fiscal health suffers if management of governmental spending is poor, which is a result of increasing debt burden or increasing deficiencies.
(3) REGULATORY EFFICIENCY	
BUSINESS FREEDOM	Business freedom is the capability to found and to operate a company without meddling by the government (barriers, impeding business activities) on the market. Especially the effort of getting business licenses differ between countries.
LABOR FREEDOM	Labor freedom grants individuals to engage in employment, and businesses to employ and terminate work contracts. These abilities contribute to increasing productivity and effects economic growth positively. Interferences by the government can reduce these positive effects and may pose problems (e.g. minimum wages, regulating working-hours or workplace

	environment). Unions can represent a component, which can benefit but also constrain the labor market. A constraining handling of labor market and hence labor freedom can lead to a disparity of labor supply and demand.
MONETARY FREEDOM	Markets determining pricing and a reliable currency pose important factors for monetary freedom. Monetary freedom is particularly important to develop value in the long run and accumulate capital. Monetary policy can significantly influence national currency (e.g. support price stability, combat inflation, inflationary policy). This contributes to (un)certainty of investments.
(4) OPEN MARKETS	
TRADE FREEDOM	Some governments confine the capability of residents/companies to freely engage in IB (e.g. barriers, quotas, taxes, trade bans, and regulatory barriers). Governmental restrictions circumvent individuals from reaching economic objectives. Especially foreign businesses are affected, as they are not equally competitive compared to local products competing in the same market. Particularly restrictions on new technologies constrain economic development, since local companies are not able to access those on the market.
INVESTMENT FREEDOM	Liberating investments encourages the internationalization of firms and enhances employment and productivity. An adequate investment structure provides transparency for all kinds of companies and supports innovation and a fair rivalry on markets. Restrictions on capital flow (domestic and international) can lessen FDI (inward and outward) and restrain economic growth. The more a government restricts investments, the less investors engage in entrepreneurial actions.
FINANCIAL FREEDOM	Well-functioning financial systems offer diverse financial possibilities and encourages entrepreneurial activities. Within financial systems, the role of banks has increasingly gained in importance. In this context, governments have to make sure that actions by banks are transparent and make necessary financial information public (e.g. risks, assets or liabilities). Nonetheless, financial markets react very sensitive to governmental interference, e.g. stock exchange markets.

Table 1 Measures of the Index of Economic Freedom by (Heritage Foundation 2018)

The most important measure before the initial execution of an FDI is the category open markets, as the measures within this category capture the openness towards international trade and investments. These measures can pose significant barriers on IB for MNEs before their business operations in the target market begin. The remaining measures play a crucial role once the MNE has entered the host country and business operations have started. Nonetheless, all measures have to be considered by foreign investors as they determine a countries business environment.

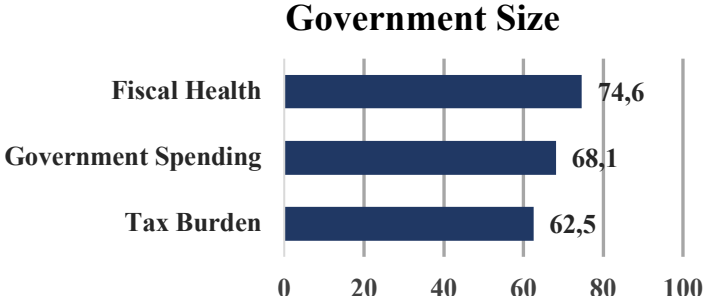
In the following, ZA's economic freedom will be described using the methodology of the Index of Economic Freedom and the data provided by the Heritage Foundation (Heritage Foundation 2018):

(1) Rule of Law

The weak score in governmental integrity indicates struggles with omnipresent corruption and signifies anti-corruption measures not being implemented effectively. Judicial effectiveness and hence institutional support are moderately free. A score of 67,7 in property rights implies property rights being mostly protected and contracts enforced by the government.

The category *rule of law* averages out at **59,67** classifying the category as **mostly unfree**.

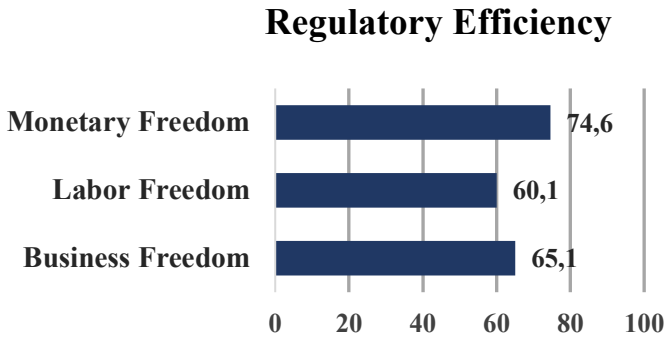
(2) Government Size



The top income tax rates are fixed at 41% for individuals and at 28% for corporates amounting for 30.6% of the entire domestic income. Government spending accounts for 32.6% of the total GDP. Public debt equals about half of ZA's GDP, explaining the modest score of 62,5 in the category tax burden.

The category *government size* averages out at a score of **68,4** classifying the category as **moderately free**.

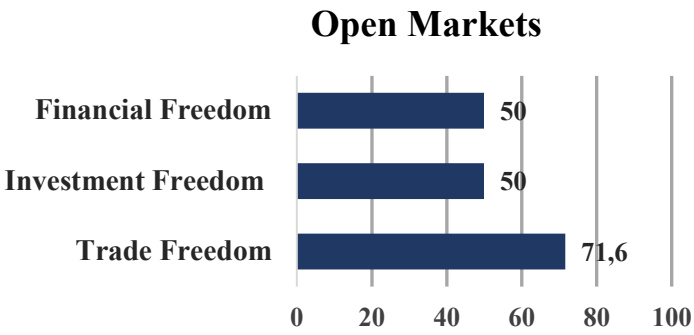
(3) Regulatory Efficiency



Price controls have been abrogated almost completely which is supported by the high score of monetary freedom. The number of union representatives has declined in the past years. The labor market is inelastic. With a score of 65,1 in the category of business freedom, investments are relatively uncertain and unfree.

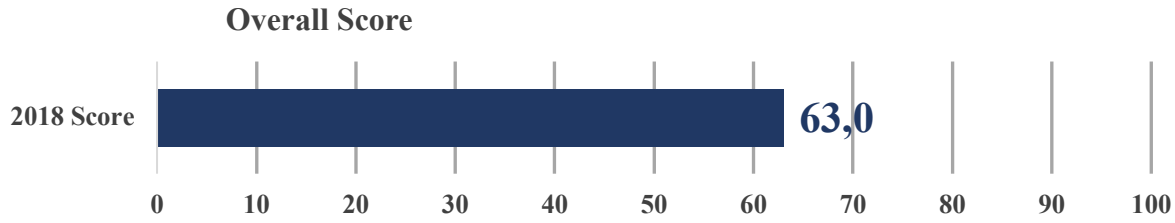
The category *regulatory efficiency* averages out at **66,6** classifying the category as **moderately free**.

(4) Open Markets



International trade is important for ZA's economy. The value of ex-/ and imports amounts for 60% of ZA's GDP. The openness towards FDIs is less than average with a tariff rate of 4.2%. The banking sector is intact. However, scores in the financial and investment sector can almost be categorized as repressed, showing major deficits in those measures.

The category *open markets* averages out at a score of **57,2** classifying the category as **mostly unfree**.



The *overall index score of economic freedom* lies at **63,0** classifying ZA's economic freedom as **moderately free.**

Scores: **>80 = free, 70-79,9 = mostly free, 60-69,9 = moderately free, 50-59,9= mostly unfree, 49,9> = repressed**

Table 2 Index of Economic Freedom ZA 2018 data provided by (Heritage Foundation)

The average world score considering 180 countries lies at 61,1, which is the highest score ever measured by the index in 24 years, implying the highest average level of economic freedom in the world (see all scores in Annex 2). SSA (47 countries) averages out at a score of 54,4. ZA reached an overall score of 63,0, positioning the country on world rank 77 in 2018. This categorizes the economic freedom of ZA as moderately free (Heritage Foundation 2018).

As mentioned before, when initially entering a foreign market the most important category is open markets. Within this category, ZA showed the worst scores averaging out at only 57,2 (mostly unfree). The parameters investment freedom and financial freedom score at 50, which indicates that economic freedom respectively to these categories is mostly unfree and almost repressed.

Concluding from this observation, ZA's economic freedom scores 63,0 and is categorized as moderately free according to the Index of Economic Freedom by the Heritage Foundation in 2018 (all scores of ZA 1995-2018 see Annex 3) (Heritage Foundation 2018). The (almost) repressed scores within the category open markets illustrate a very weak strength of ZA's institutions.

The immense level of corruption (mirrored in the score of governmental integrity plus the formerly mentioned scores of ZA within the CPI and Global Competitive Index), the impediment of liberalizing investments (concluding from the score in investment freedom) and insufficient financial systems (shown in the score of financial freedom), discourage MNEs to enter this foreign market let alone with their own resources and knowledge. A local business partner well established on the ZAn market can represent a great value as knowledge and resources can be shared and transferred, leading to a reduced investor uncertainty.

This finding as well as results from former conducted literature analysis, conclude that MNEs entering the ZAn market are more likely to choose joint ventures as MEM compared to wholly-owned subsidiaries such as greenfields or acquisitions, since the findings within the Index of Economic Freedom strongly suggest that institutions in ZA are weak.

Thus, *H1* is confirmed.

5 Interrelation between foreign direct investment and labor market in South Africa

Since economic globalization keeps on dominating MNEs find themselves in an increasing competitive environment. In order for them to ensure a stable competitive advantage to keep up with the dynamic changes of today's economy, a constant knowledge augmentation is indispensable.

FDI can be a significant factor within this context, as FDIs can be seen as catalyst of knowledge diffusion (Mello 1999). How and to what extend knowledge is or can be transferred across boarders plays an important role as it determines not only the MNE's – but also the domestic – business landscape as well as their business success (CHEUNG and LIN 2004; Ahmed 2012). The speed in which knowledge progresses varies immensely between countries, mainly determined by their level of development. It is vital for MNEs and domestic companies to adapt their state of knowledge accordingly to meet market needs, all to suit the purpose of competing actively and successfully in the domestic and global economy (Peng 2003).

Increasing liberalization of FDIs by developing countries allows those countries to benefit from increasing competitiveness and at the same time can modulate economic standards to those of more developed countries. Theoretically this means that the liberalization of FDIs correlates with a country's development (Kobrin 2005; Basu et al. 2003; Mello 1997; Herzer et al. 2008).

As already highlighted when analyzing the institutional strength of ZA by means of the Index of Economic Freedom framework, trade freedom and investment freedom are the most significant measures of the Economic Freedom Index when analyzing the limits institutions set on FDIs even before companies actively engage in market transactions. The higher the score of these particular measures, the less regulations and restrictions are set on investments and trade by governments.

The adjacent diagrams illustrate the countries Brazil, Russia, India, China and ZA (BRICS), clearly showing a decrease in investment freedom and an upsurge in the measure trade freedom:

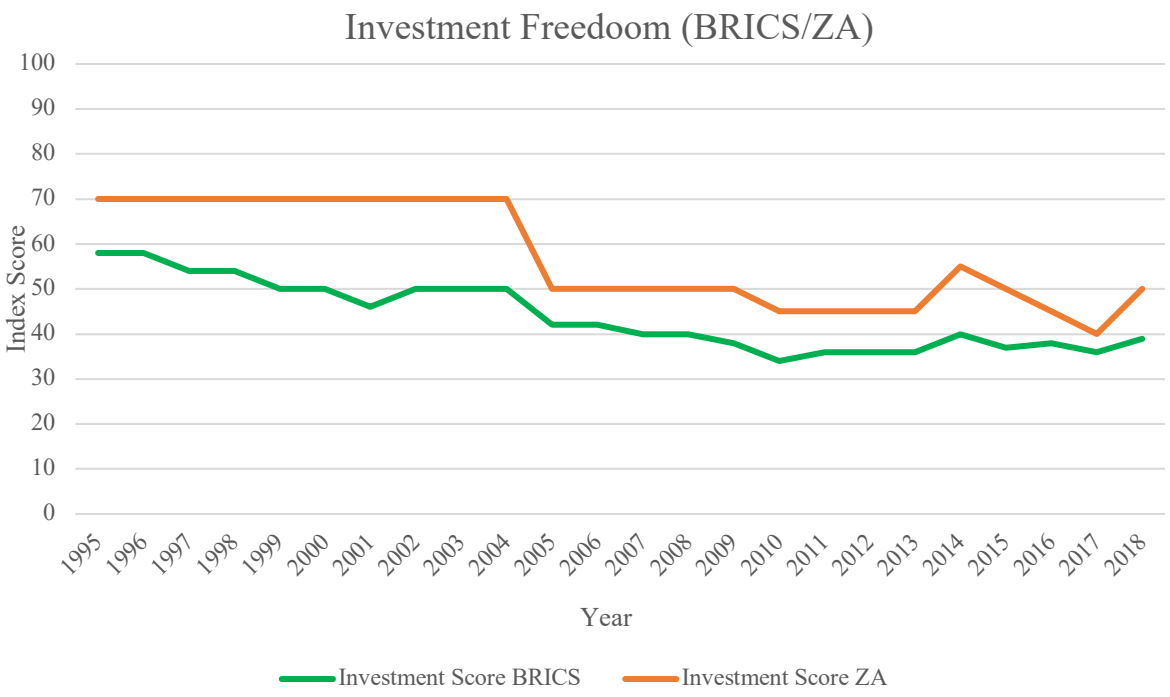


Chart 6 Investment Freedom BRICS/ZA (1995-2018) data provided by (Heritage Foundation 2018)

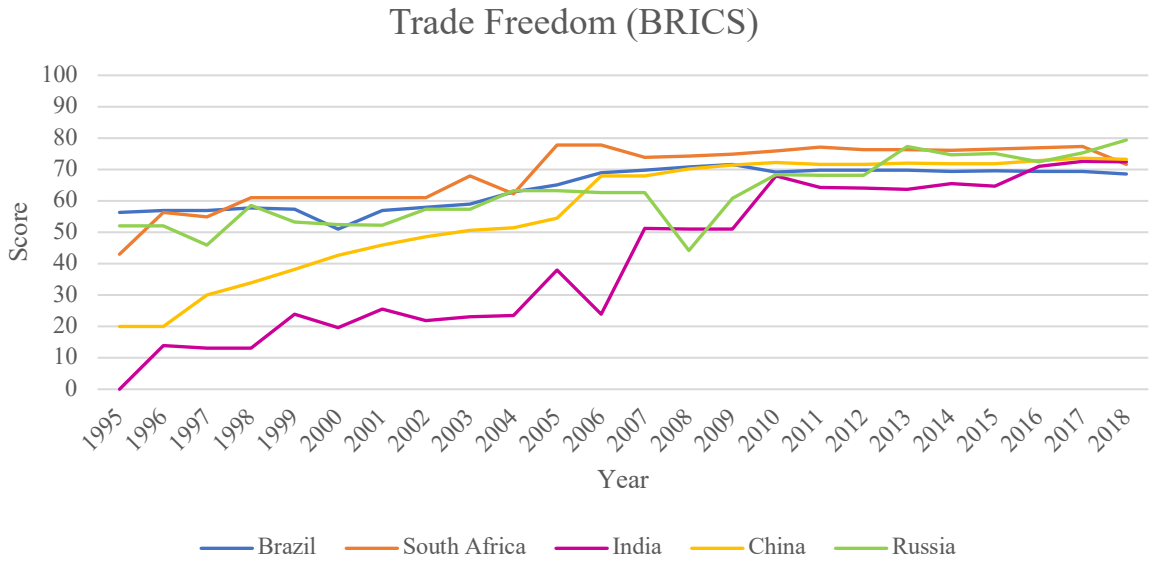


Chart 7 Trade Freedom BRICS (1995-2018) data provided by (Heritage Foundation 2018)

Chart 6 shows a major decrease in ZA's investment freedom in 2004 (from a score of 70 to a score of 50), which indicates a more restrictive regulation of investments. However, scores have picked up slowly in 2018.

Chart 7 illustrates the development of trade freedom of BRICS. All countries have experienced an increase within this measure, confirming that institutions within these countries have loosened regulations and barriers on trade. Another logic explanation for the run of these curves are the increasing trade agreements countries have been forming in the last decades, encouraging more international trade (Neary 2004; Coeurdacier et al. 2009). ZA's development within this measure has been positive, however reaching a saturation in 2011.

Because of the financial crisis, the years 2008 and 2009 are not contemplated in this analysis as correlations are not referable.

Although most scholars agree on FDIs having a positive impact on the host economy (IMF 2003; Ahmed 2012) only a modest number of theoretical and empirical studies focus exclusively on the ZAn market. The increasing liberalization of cross-border trade and the upsurge of ZA's investment freedom score (chart 6 and 7) suggest that ZA receives benefits through FDIs. Findings on whether FDIs to ZA have a positive impact on particularly its labor market, have not been discussed decisively yet.

Several influencing variables have to be analyzed to determine if ZA is generally in the position to successfully take advantage of FDI benefits and nerve its domestic labor market, which is heavily directed by the political, economic and social composition of the country (Konings 2001; Li and Liu 2005; Ahmed 2012).

Although there is a sufficient amount of FDI to host markets, many countries cannot cope with the accompanied benefits and are overstrained by the situation. Hence negative spillovers result (Konings 2001; Zhang et al. 2010). In the following, a hypothesis will be established verifying or falsifying if a positive correlation between FDIs and ZA's labor market exists, by contemplating opinions from existing literature and analyzing selected factors modifying this correlation. At first, the economic phenomena of *spillover effects* caused by FDIs will be discussed.

5.1 Spillover effect

FDI is not only exclusively a transfer of knowledge and capital. Rather it is associated with flowing as a bundle of resources, enabled by *"the marketing networks of […] MNEs"* (Kumar and Pradhan 2002, p. 3).

FDI encompasses the transfer of managerial skills, knowledge, technology, productivity gains, international networks, market access and employee training. Economists capture this effect of transferring managerial and technological knowledge as well as capabilities as the so-called *spillover effect* (Noorbakhsh et al. 2001; Javorcik 2004; Alfaro et al. 2004).

Scholars found out that spillover effects for MNEs are locally bound and that knowledge can be best transferred if MNEs keep geographically close to other investors to profit from direct spillovers (Audretsch and Feldman 1996). Meaning that MNEs prefer to operate in a foreign country in which technological knowledge is strong. Like this knowledge can be accessed easily and hence enhance MNEs' productivity. This shows that spillover effects do not only work from MNEs to the (labor force in the) host country but also vice versa.

Domestic firms in emerging markets possess as well certain capabilities MNEs can benefit from, especially MNEs which have less experience in entering emerging markets. An example for such a capability can be for instance dealing with bigger than average labor force (Meyer et al. 2009) which is a common instance in emerging markets as digitalization and machinery have not yet become standardized production procedure.

Spillover effects on MNEs received by firms operating in the newly entered target market is exemplified in the following figure:

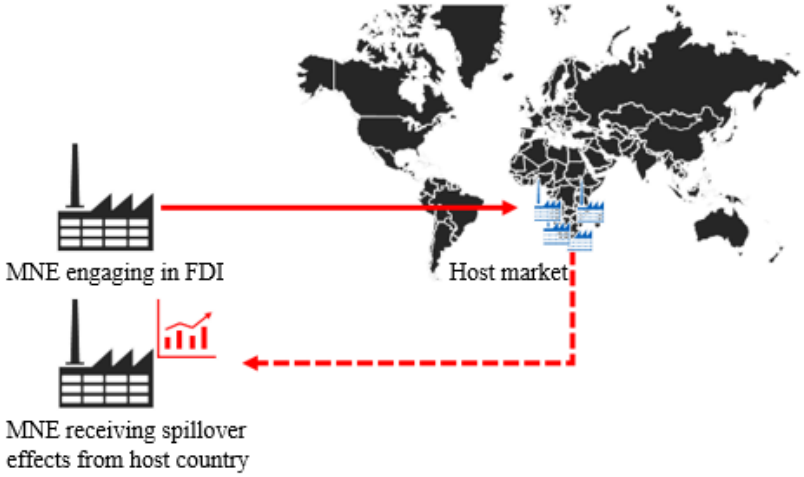


Figure 8 Spillover effects on MNEs caused by MNE's FDI

MNEs entering a foreign market can take advantage of country specific benefits (e.g. knowledge regarding how to deal with bigger than average work force). Hence, MNEs can receive spillover effects from the target market.

Spillovers with a much higher impact on economies, and which are centric for the second hypothesis, are spillovers resulting from FDI by MNEs to the target country:

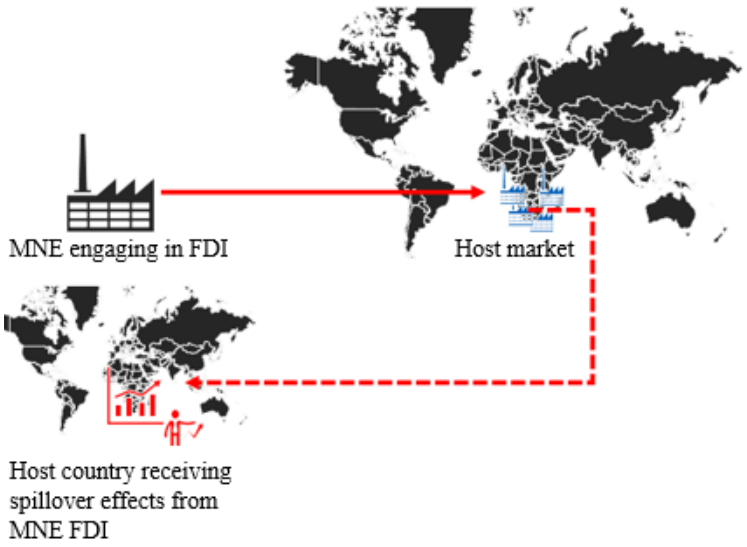


Figure 9 Spillover effects on the host country caused by MNE's FDI

Economist have discussed the significance of spillover effects bringing forward factors particularly affecting how well knowledge is transferred across borders to diverse recipients, such as domestic companies, governments or domestic labor force.

The following scenario demonstrates a suitable and concrete example illustrating spillover effects of FDIs to the host market:

If FDI in the financial sector accrues, *"the efficiency of financial intermediation"* (IMF 2003, p. 11) in the host country rises. By causes of the host country engaging with highly skilled labor, the quality of guidance improves. As a result of the improvement of managerial guidance, the quality of labor improves as well advancing the overall performance of the labor force and hence the firm.
These associations arise by activities either with local companies or by means of successful spillover effects. Additionally, this dilates contractual agreements and gives local firms an understanding of international markets (IMF 2003).

It is important to keep in mind that spillover effects heavily depend on the industry. If an MNE enters a highly competitive industry, the company will try to avoid spillovers, especially technological knowledge transfers, to minimize the risk of losing their industry specific advantage (Smarzynska 2004).

As briefly mentioned above, spillover effects caused by FDIs to a foreign country can benefit or even boost productivity of domestic companies, leading to an upsurge competition on domestic markets. Although increasing FDI inflows to developing countries surely have a positive impact on the market and its participants, many threats arise which can profoundly harm the domestic market. Examples for these threats can be that increasing FDIs *"may lower domestic savings, crowd out domestic producers, drain capital from the host country, introduce inappropriate technology and constrain managerial and technological spillovers to the host country"* (Kobrin 2005, p. 73). When talking about changes in national institutions encouraging foreign investments by liberalizing formal rules, national governments act on the logic assumption that positive aspects outweigh harms related to increasing costs (Kobrin 2005; Blomstrom and Kokko 1998). This seems like a valid and logic assumption. However, experts' opinion in the literature on whether FDI has a positive or negative spillover effect on the receiving country is split. Economic literature classifies the divided opinions into two theories: the dependency and the modernization theory.

5.2 Dependency vs. modernization theory

When examining the impact of FDIs of the country being at the receiving end of the investment, two theoretical approaches are used: the modernization and the dependency theory.

Modernization Theory

The *modernization theory* is described as having neoclassical characteristics, which lays on the foundation of endogenous economic growth theories in need of capital investment in order for economies to grow (Adams 2009). FDIs show a much higher productivity than domestic investments, due to the accessibility and implementation of new technologies to the host country (Borensztein et al. 1998). Within this model, FDI provokes long-term economic growth and benefits such as capital flow or knowledge transfer (Herzer et al. 2008).

Adams (2009) argues that the transfer of knowledge, particularly technological know-how, caused by FDI inflow is important for developing countries. By causes of shortage of well-educated workers, malfunctioning markets as well as weak social constancy, especially less developed countries are in need for innovations coming from FDI inflows which helps those countries to economically develop (Calvo and Sanchez-Robles 2002). Hence, it is necessary to invest in human capital since the working force is *"essential not only to build innovation capacity but also to maximize the absorption of existing innovations*" (IMF 2018a, p. 190).

Dependency Theory

The *dependency theory* on the other hand argues that countries depending on FDIs are negatively affected with regards to income and growth (Adams 2009). In neoclassic growth models with decreasing return on capital, FDIs show *"a 'short-run' growth effect as countries move towards a new steady state"* (Herzer et al. 2008, p. 794).

By MNEs entering a foreign market, competition in the target market increases since more companies offer the same product or service. This can lead to domestic firms losing their ability to stay competitive, creating an increasing monopolistic structure. In this scenario, the host economy does not develop organically due to the multiplier effect, which in this scenario is considered to be weak. The multiplier effect implies that if demand appears in one

economic sector within national economy, this leads to demand in another. Weak multiplier effects inhibit economic growth in developing countries (Adams 2009).

Increasing FDI inflow to a foreign market leads to foreign investors commanding the domestic market to a certain degree, meaning that the domestic market is less able to develop by itself, respectively organically (Amin 1974).

5.3 Benefits of spillover effects

Knowledge transfer

Nowadays technological knowledge has developed to have a superior role since it is one of the fastest changing segments and mandatory for every industry to stay economically competitive within globalizing markets. The extent to which it can be transferred is directly allied with the ability of citizens and firms to identify the value of technological knowledge and take advantage of it (Cohen and Levinthal 1990; Borensztein et al. 1998). The distribution of knowledge from FDIs is constrained due to obstacles such as geographical location, language barrier or the difference in technological advancement that result in less economic interaction and transaction (Damijan et al. 2003).

Yet, the focus should not only be on technology transfer. Particularly important for an educated labor market are managerial knowledge transfers. The transfer of managerial skills is especially significant as this directly affects employees. By managerial spillovers, organizations can be restructured which affects the labor force. However, knowledge is not just simply knowledge. Tacit knowledge, such as management practices (e.g. decision making under pressure, or coping with difficult employees), cannot be transferred without an instructor, which is linked to immense additional costs. Furthermore, tacit knowledge is not the sort of knowledge involved within knowledge spillovers, since it has to be transferred actively and is not a natural spillover (Teece 1977; Fu 2012).

The last knowledge transfer affecting the labor market are knowledge transfers addressed, absorbed and implemented by institutions. Most investors carry a certain investment responsibility settled within investments laws (about 2/3 of all investment laws). These responsibilities range from compliance with national law of the host country or the adherence of minimum wage (UNCTAD 2018). Increasing FDIs might encourage institutions to adjust their legal framework to adapt to international labor law standards. Since MNEs consider labor market conditions when entering a foreign market, changes in domestic labor law would not only favor domestic labor but could additionally attract FDIs (from a compliance-, not cost perspective).

Productivity increase

One aspect many scholars and institutions focus on when examining effects influencing national economies and its labor market is the variable *productivity*. They emphasize that once knowledge and especially technological knowledge is transferred across borders

productivity increases in the host country. Labor productivity can be defined as follows (IMF 2018a):

$$Labor\ productivity = \frac{\text{Output at constant prices}}{\sum \text{workers in an economy or sector}}$$

Productivity, particularly domestic productivity, increases due to knowledge flows from foreign market investors to the domestic market (IMF 2018a). This phenomenon applies to industry and emerging markets but is particularly stronger for emerging markets. Emerging markets heavily benefit from knowledge transfers on a technological level, boosting labor productivity to a much higher extend compared to developed markets whose productivity level can be improved but do not show such substantial deficiencies compared to emerging markets (IMF 2018a).

Productivity spillovers occur when the productivity of local firms profits from the market entry of MNEs, and MNEs *"do not fully internalize the value of these benefits"* (Smarzynska 2004, p. 607). The basic idea is that MNEs introducing new technologies will go beyond the initial purpose of a project, having a long-term aftermath on domestic productivity. Foreign technologies are imitated from market entrants by domestic firms, leading to a higher level of efficiency of the domestic firms (Zhang et al. 2010).

Another impact on domestic productivity arises as the competitive environment tenses. In this case, domestic companies have to optimize their allocation of resources or acquire new technologies to continue a competitive participation on the domestic market (Smarzynska 2004).

Only limited empirical evidence exists investigating factors influencing the interrelation between FDI and ZA's labor market. Hence, a closer analysis is necessary to evaluate if FDIs positively affect the local labor market. This leads to the following hypothesis:

H2: FDI inflow to the emerging market of ZA has a positive impact on its labor market.

Labor productivity can be increased by capital deepening (increase capital of productivity) or if the general efficiency between capital and labor increases, expressed as multifactor

productivity growth (MFP). This factor is illustrated in the following chart of ZA's labor productivity growth (OECD 2015).

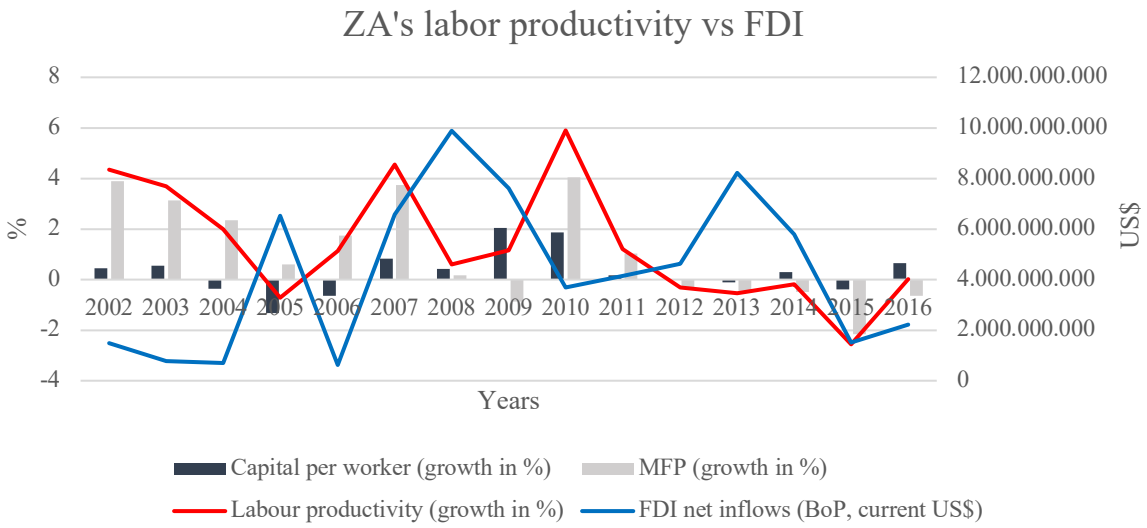


Chart 8 Labor productivity vs FDI in ZA data provided by (OECD)

As the MFP is a factor expressing labor productivity, both variables show similar courses in chart 8. The courses of both variables imply a very unstable development in ZA, which is mirrored in ZA's FDI development. It can be argued that productivity spillovers took place between 2005 and 2007 and between 2009 and 2010. The graphs labor productivity and FDI inflows show a similar progression, only time shifted. Since MNEs have to complete the initial FDI execution, spillover effects cannot occur instantly with the entry of an MNE to the host country, which explains the time delay.

The years 2008 and 2009 are not considered in this observation since correlations are not referable due to the world financial crisis.

Innovation

Another variable included in the umbrella term productivity is *innovation*. Innovations are positively influenced by spillover effects from FDIs accelerating factor productivity (IMF 2018a). The logic assumption is that by successfully absorbing managerial skills, training employees and transferring technology, innovations are generated more easily.

To make an even more concrete statement on ZA's labor market the level of knowledge creation will be illustrated. Since knowledge creation is difficult to measure, the OECD breaks down this factor into three proxies:

(1) Research and development (R&D) expenditures
(2) Skills which are embodied in companies (in managerial skill, employee's education or organizational capital) and measured by the world indicators of skills for employment (WISE)
(3) Level of international co-operation

The OECD composes (3) by evaluating the amount of international co-inventions (amount of patent applications in collaboration with one or more co-inventor from another country from all domestic created patents) and the amount of international co-authorships (scientific documents drafted within an international collaboration; SCOPUS database serves as source of information). ZA's level of international co-operation accounted for 13.06% of the total, which scores on rank 16 of 30 evaluated countries by the OECD in 2015.

The following chart illustrates the development of (1) and (2) between 2003 and 2013 (latest data available by the OECD):

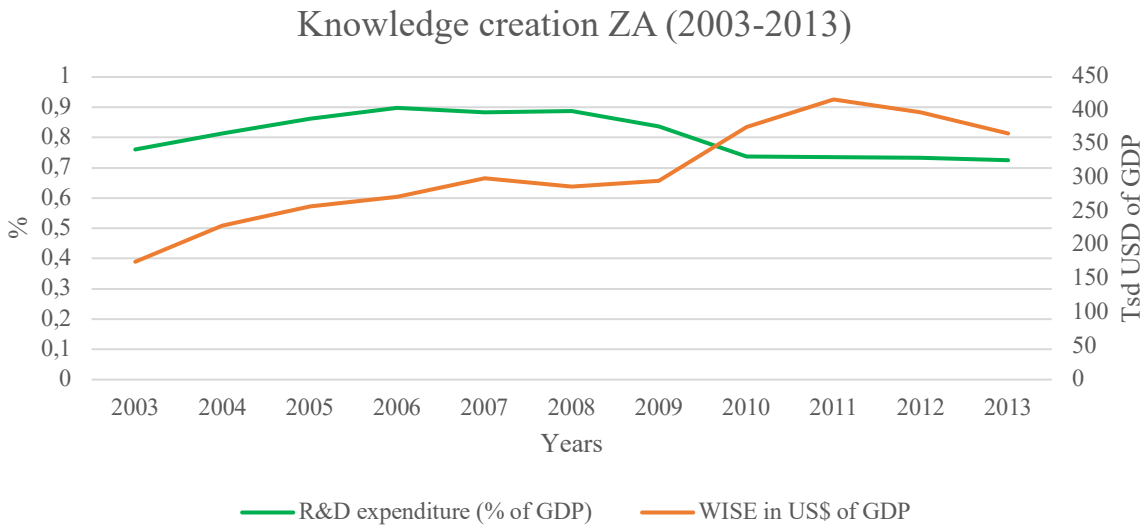


Chart 9 Knowledge creation ZA (2003-2013) data provided by (OECD)

R&D expenditures have increased until 2006 followed by a slight decrease until 2008. Since 2010, R&D expenditures have remained constant at 0.7% of ZA's GDP, the lowest level

since 2003. Skills in ZA have constantly improved. WISE (by the OECD) measures skill development within 64 indicators in five areas: skill requirements, skill acquisition, contextual factor, skill mismatch and economic and social outcomes.

These findings imply that R&D expenditures should increase, which would increase the amount of innovations since skilled labor forces are in place to contribute to knowledge creation.

In this contemplation, the period between 2008 and 2009 is not considered since correlations are not referable because of the world financial crisis.

The formal observation shows that FDI inflows have a positive impact on ZA's labor market. The extent of this impact on ZA's market depends on how well FDI benefits can be absorbed by the country. The ability of a country to take advantage of FDI spillovers (benefits) is known as *absorptive capacity*.

5.4 Absorptive capacity

Many scholars mention the so-called absorptive capacity of host markets when examining if FDI spillovers have a positive or negative effect on the domestic market (Ahmed 2012; Konings 2001; Zhang et al. 2010).

Absorptive capacity is the ability of a country to embed new skills and technologies into existing workflows in the host country through learning-by-observing (Alfaro et al. 2004) or learning-by-doing (Ahmed 2012). In this context, the aim is to examine if there is a link between the successful transfer of spillover effects and the capability of domestic markets to absorb these effects, turning spillover benefits into competitive advantage.

FDI spillovers can be absorbed in three predominant contexts namely in financial markets, human capital or technological (Borensztein et al. 1998; Alfaro et al. 2004; Ahmed 2012; Mello 1997).

The absorptive capacity of countries is not only the aggregated capability of host country firms to absorb these, but as well the competence of citizens to acquire new basic and managerial knowledge (Ahmed 2012). This entails a positive impulse on labor markets. However, the impact of FDI on domestic workforce cannot be considered solely. The initial qualification of a country's workforce, debts, financial markets and infrastructure significantly determine the magnitude of this capacity (Noorbakhsh et al. 2001; Borensztein et al. 1998).

Many scholars stress that countries can only extract spillover benefits caused by FDIs, if the country can already offer an adequate level of technological standard, human resources and developed financial markets (Alfaro et al. 2004). Other scholars add the components *level of education of labor force* in the host country, which equates to the component human resources, and *level of economic development* including the components technological standards, institutions and developed financial markets (Adams 2009; Kobrin 2005; Blomstrom and Kokko 1998).

If those components reside on an adequate level creating a solid foundation of a nation's market, the country is able to take advantage of FDI spillovers. If countries manage to absorb

these benefits and embed them in their economies in an efficient manner, capital formation and creation of employment, which will finally result in a secure sustainable development, will follow (Alfaro et al. 2004). In reverse conclusion this means that if the above-mentioned minimum standards are not provided, countries cannot take optimal advantage of spillover effects.

Since developing countries have taken many measures to attract FDIs to their country in order to benefit from spillover effects, it is necessary that national institutions keep in mind that the level of liberalizing FDI inflows has to be harmonized with the level of development of the country. A positive spillover, as mentioned above, is only possible if the host country has the required capacity to absorb the benefits of FDIs. If developing countries do not possess the required tools to absorb benefits of spillovers, boundless liberalization of FDI can lead to the opposite, overstraining the host country and negatively affecting the economy.

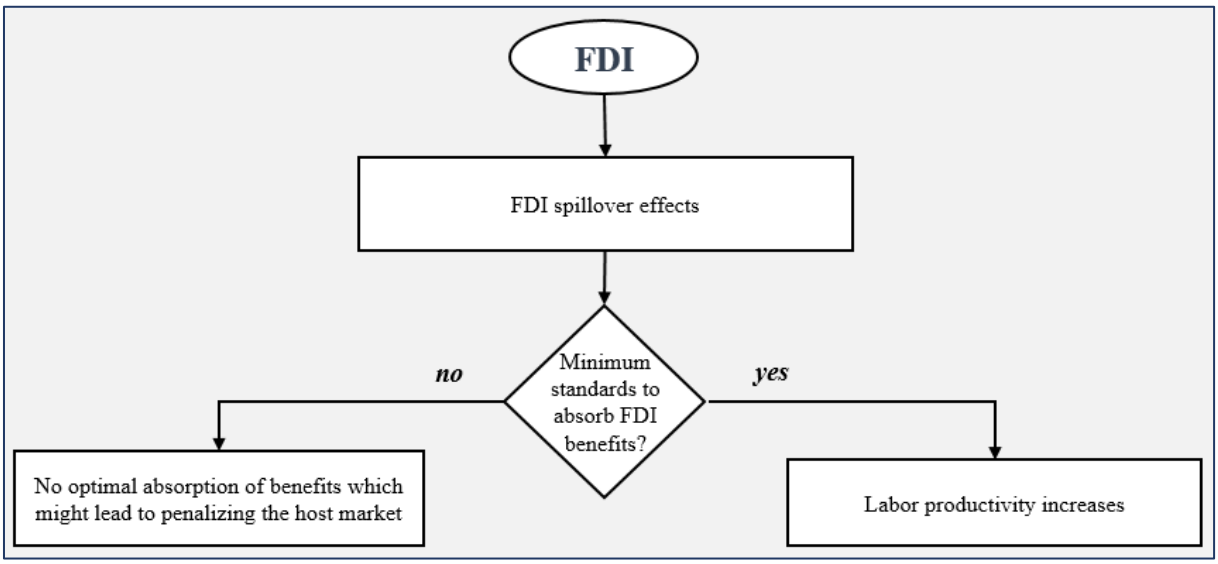


Figure 10 Absorption of FDI spillover effects on labor markets

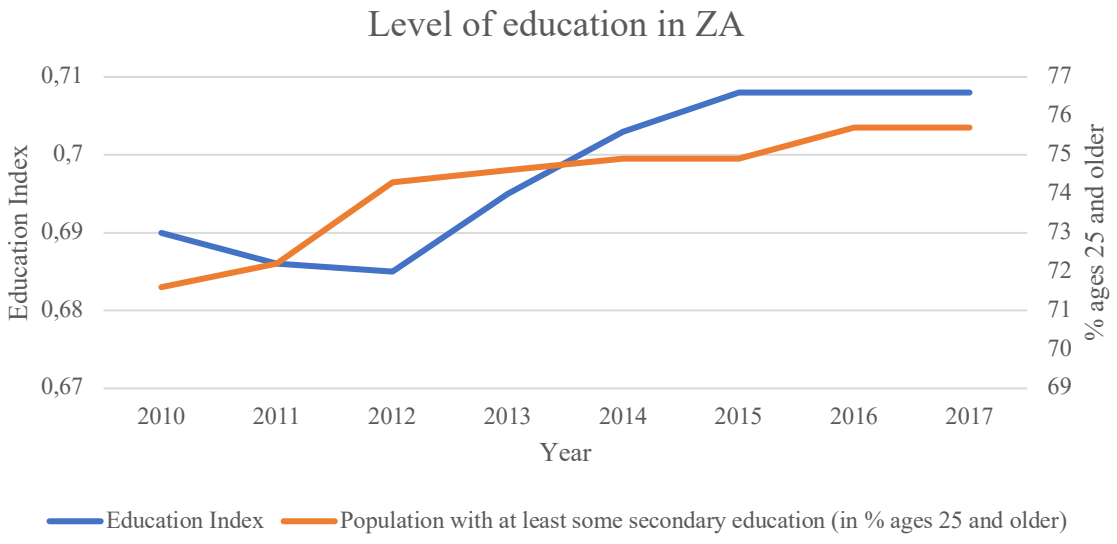
SSA countries are rather known to lack in absorptive capacity, struggling to use benefits associated with FDIs, e.g. skills, knowledge and technology. Subsequently domestic investments suffer since available market shares for domestic investors wear down (Adams 2009).

To make a concrete statement on the level of absorptive capacity in ZA, the following analysis will evaluate if ZA pervades the required minimum standards concerning the *level of*

education of labor force and *level of economic development*. Institutional components significantly influencing the absorptive capacity are not considered within this analysis, since a detailed analysis has been conducted when evaluating ZA's institutional strength, strongly suggesting that ZA's institutions are weak.

The results from this evaluation will add valuable input in order to verify or falsify *H2*, since ZA's capability to absorb benefits from FDIs is mandatory to induce a positive impact on ZA's labor market through FDIs.

COMPONENT	LEVEL OF EDUCATION OF LABOR FORCE
DESCRIPTION	In order to evaluate the general educational level of ZA's population, the Human Development Index (HDI) by the United Nations Development Programme is used, more precisely the subcomponent of this index namely the Education Index. This index is composed of the factors expected years of schooling and main years of schooling (United Nations Development Programme 2018).



Scores: >0.800 = very high developed, 0.700-0.799 = high developed, 0.550-0.699 = medium developed, 0.550> = low developed

Chart 10 Level of education in ZA based on data by (United Nations Development Programme)

EVALUATION	ZA's Education Index has constantly increased in the last decades reaching an all time high score of 0.708 in 2017. According to the HDI this score, although very tight, entitles ZA's level of education as *highly developed* (United Nations Development Programme 2018).

COMPONENT	LEVEL OF ECONOMIC DEVELOPMENT
DESCRIPTION	As already discussed in former literature analysis, ZA is categorized as developing country. Certainly, the country shows growth potential and a sufficient market size. However, compared to other countries it shows many uncertainties and risks (politically, economically and socially) impeding growth. The following chart demonstrates ZA's GDP per capita since this measure is internationally considered a measure of a country's activity and prosperity.

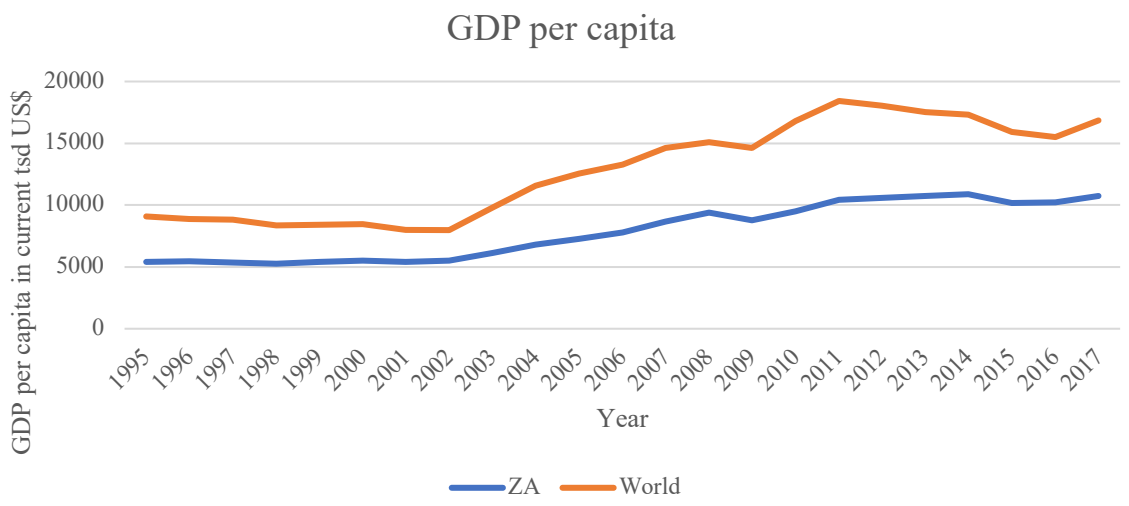


Chart 11 GDP per capita world vs ZA based on data provided by (World Bank)

EVALUATION	The graph shows an increasing GDP per capita of ZA (2017: 6,160US$). However, compared to the average GDP per capita of the world (2017: 10,714US$), ZA shows scores significantly below the world average, justifying ZA's categorization as developing country. Additionally, institutions in ZA are suggested to be categorized as weak as demonstrated in former analysis, which contributes to this evaluation of development classification.

The analysis of the factors determining if ZA holds the minimum standard mandatory to successfully absorb spillover effects concludes that ZA is moderately in the position. This means that positive attributes such as knowledge could be absorbed, implemented and used more successful by the country.

As at this point, it can be concluded that the absorbed spillover effects resulting from increasing FDI to the ZAn market cannot be implemented to an optimal level into ZA's labor market, since ZA's level of development does not allow this. In order for ZA to take advantage of spillover effects, the country should stabilize its financial markets and improve its institutional strength. Nonetheless, the level of education of ZA's labor force is sufficient, meaning that an improvement within this component in not necessarily required as the minimum standard is provided within this measure. Concluding these findings, *H2* can be partly verified.

Theoretically, increasing FDI has a positive impact on ZA's labor market. In praxis, it cannot be observed that ZA is in the position to absorb spillover effects, since the minimum standards to take advantage of these benefits are not in place.

In conclusion, a(n) (emerging) country such as ZA can only exploit benefits coming from FDIs in so far as initial circumstances and standards of the country allow them to. This conforms to the Monetary Consensus of the United Nations, acknowledging that irrespective of the level of globalization or financial aspects, development of a nation commences from or in a nation itself (Adams 2009).

6 Conclusion

This Master's thesis intended to conclude on a suitable MEM of MNEs entering the ZAn market under consideration of ZA's institutional condition and examine whether increasing FDI to ZA leads to an improvement of ZA's labor market. For the first part, the findings of this thesis strongly suggest that ZA's institutions can be categorized as weak. These findings imply that MNEs are more likely to enter this target market by joint venture than by greenfield or acquisition. Moreover, for the second part of the research question it could be concluded that ZA seems to lack in necessary absorptive capacity, which is necessary to optimally take advantage of FDI benefits on ZA's labor market. Although these findings are already very significant, additional implications can be drawn.

The results of this Master's thesis have two further implications. First, institutional framework has shown that ZA's institutions are weak although the legal framework towards FDI has been increasingly liberalized. This implies that ZA's problems do not lie in restrictive trade regulations. The main problem ZA has to tackle is the level of corruption prevailing in the country as this factor is the main reason investors turn to other investment locations.

Second, governments seem to boundlessly liberalize FDI policies without adapting the level of liberalization of FDI to the ability of the country to cope with increasing investment inflows. ZA's government recognized the benefits encompassed with FDI, which led to a dramatic liberalization of trade. By this approach, the government hoped for a positive impact on national growth and development. Basically, this approach is correct. However, countries and existing literature seem to undermine the fact that a country can only take advantage of benefits resulting from FDI as far as the country is capable of absorbing these. Boundless liberalization of FDI can only be beneficial if a country has the minimum required standards to absorb benefits.

Findings of this thesis contribute to literature on IB in emerging economies, which complements existing theories. Furthermore, findings can be used as a guideline for investors when choosing the ZAn market as FDI destination.

However, the most significant limitation of this thesis might be the presupposed correlation between FDI and economic growth of a country (GDP). This particular correlation has been

very controversial in economic literature. Studies encompassing southern Africa have disclosed a positive, very weak, negative or no correlation of both variables (Adams 2009; Fedderke and Romm 2005). Negative correlation is reasoned by the fact that much FDI is within the primary sector, which restricts spillovers relevant for economic growth such as knowledge and technology (Alfaro et al. 2004; Bezuidenhout 2009). Some findings even indicate that increasing growth in ZA leads to an increase in FDI instead of the other way around (Gossel and Biekpe 2014). However, this thesis acts on the assumption of a positive correlation between FDI and GDP.

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Appendix

Abstract

In den letzten Jahrzehnten hat der Zufluss ausländischer Direktinvestitionen exponentiell zugenommen, was zu steigendem internationalen Wettbewerb und einem zunehmenden Druck für inländische und multinationale Unternehmen geführt hat, ihre Geschäftstätigkeiten international auszudehnen, sowie ihre Attraktivität als Investitionsempfänger zu erhöhen. Ausländische Direktinvestitionen sind insbesondere für Schwellenländer von entscheidender Bedeutung, da sie sich positiv auf den Arbeitsmarkt, Führungsqualitäten und Technologie des Ziellandes auswirken. Dies trägt positiv zum Wachstum und der Entwicklung des Investitionsempfängers bei. Diese Arbeit konzentriert sich auf ausländische Direktinvestitionen nach Südafrika durch multinationale Unternehmen. Aufgrund des sich ständig ändernden Investitionsklimas in Südafrika seit 1994, welches die Ära nach der Apartheid darstellt, und der ständigen Konfrontation mit politischen, sozialen und wirtschaftlichen Hindernissen, stellt Südafrika ein interessantes Land dar, um dessen Attraktivität als Investitionsempfänger zu bewerten. Der Einfluss von Südafrikas Institutionen auf die Wahl der Markteintrittsstrategie für multinationale Unternehmen ist ein zentrales Thema in dieser Masterarbeit sowie Südafrikas Fähigkeit, sogenannte Spillover-Effekte zu nutzen, um seinen Arbeitsmarkt davon profitieren zu lassen. Diese Arbeit deutet stark darauf hin, dass südafrikanische Institutionen schwach sind, was dazu führt, dass multinationale Unternehmen Joint Ventures eingehen, anstatt eigene Tochtergesellschaften zu gründen. Darüber hinaus wird der Schluss gezogen, dass Südafrika seine Aufnahmekapazitäten verbessern sollte, um die aus den Direktinvestitionen resultierenden Vorteile besser zu nutzen, wovon der Arbeitsmarkt profitieren würde.

In the last decades, the amount of FDI inflows have increased exponentially leading to rising competitiveness and pressure for domestic firms and MNEs to internationalize and countries to increase their attractiveness as FDI location. Especially for EMCs FDIs are crucial as they attract employment, managerial skills and technology. This again accelerates growth and development. This thesis focuses on inward FDI to ZA by MNEs. Due to ZA's changing investment climate since the post-apartheid era in 1994 and its constant confrontation with political, social and economic obstacles, makes ZA a challenging case of a country to estimate its attractiveness as investment recipient. The impact of its institutional strength on MNEs' choice of MEM is a centric topic in this Master's thesis as well as ZA's ability to take advantage of spillover effects in order for its labor market to benefit. This thesis strongly

suggests that ZA's institutions are weak, which leads MNEs to engage in partnerships instead of setting up own subsidiaries. Furthermore, it is concluded that ZA should improve its minimum standard of absorptive capacity to better exploit benefits resulting from FDIs in order for its labor market to benefit and hence advance.

Corruption Perception Index (2012-2017)

2017 RANK	COUNTRY	2017 SCORE	2016 SCORE	2015 SCORE	2014 SCORE	2013 SCORE	2012 SCORE	REGION
1	New Zealand	89	90	91	91	91	90	Asia Pacific
2	Denmark	88	90	91	92	91	90	Europe and Central Asia
3	Finland	85	89	90	89	89	90	Europe and Central Asia
3	Norway	85	85	88	86	86	85	Europe and Central Asia
3	Switzerland	85	86	86	86	85	86	Europe and Central Asia
6	Singapore	84	84	85	84	86	87	Asia Pacific
6	Sweden	84	88	89	87	89	88	Europe and Central Asia
8	Canada	82	82	83	81	81	84	Americas
8	Luxembourg	82	81	85	82	80	80	Europe and Central Asia
8	Netherlands	82	83	84	83	83	84	Europe and Central Asia
8	United Kingdom	82	81	81	78	76	74	Europe and Central Asia
12	Germany	81	81	81	79	78	79	Europe and Central Asia
13	Australia	77	79	79	80	81	85	Asia Pacific
13	Hong Kong	77	77	75	74	75	77	Asia Pacific
13	Iceland	77	78	79	79	78	82	Europe and Central Asia
16	Austria	75	75	76	72	69	69	Europe and Central Asia
16	Belgium	75	77	77	76	75	75	Europe and Central Asia
16	United States	75	74	76	74	73	73	Americas
19	Ireland	74	73	75	74	72	69	Europe and Central Asia
20	Japan	73	72	75	76	74	74	Asia Pacific
21	Estonia	71	70	70	69	68	64	Europe and Central Asia
21	United Arab Emirates	71	66	70	70	69	68	Middle East and North Africa
23	France	70	69	70	69	71	71	Europe and Central Asia
23	Uruguay	70	71	74	73	73	72	Americas
25	Barbados	68	61	N/A	74	75	76	Americas
26	Bhutan	67	65	65	65	63	63	Asia Pacific
26	Chile	67	66	70	73	71	72	Americas
28	Bahamas	65	66	N/A	71	71	71	Americas
29	Portugal	63	62	64	63	62	63	Europe and Central Asia
29	Qatar	63	61	71	69	68	68	Middle East and North Africa

29	Taiwan	63	61	62	61	61	61	Asia Pacific
32	Brunei Darussalam	62	58	N/A	N/A	60	55	Asia Pacific
32	Israel	62	64	61	60	61	60	Middle East and North Africa
34	Botswana	61	60	63	63	64	65	Sub Saharan Africa
34	Slovenia	61	61	60	58	57	61	Europe and Central Asia
36	Poland	60	62	63	61	60	58	Europe and Central Asia
36	Seychelles	60	N/A	N/A	N/A	N/A	N/A	Sub Saharan Africa
38	Costa Rica	59	58	55	54	53	54	Americas
38	Lithuania	59	59	59	58	57	54	Europe and Central Asia
40	Latvia	58	57	56	55	53	49	Europe and Central Asia
40	Saint Vincent and the Grenadines	58	60	N/A	62	62	62	Americas
42	Cyprus	57	55	61	63	63	66	Europe and Central Asia
42	Czech Republic	57	55	56	51	48	49	Europe and Central Asia
42	Dominica	57	59	N/A	58	58	58	Americas
42	Spain	57	58	58	60	59	65	Europe and Central Asia
46	Georgia	56	57	52	52	49	52	Europe and Central Asia
46	Malta	56	55	60	55	56	57	Europe and Central Asia
48	Cape Verde	55	59	55	57	58	60	Sub Saharan Africa
48	Rwanda	55	54	54	49	53	53	Sub Saharan Africa
48	Saint Lucia	55	60	N/A	71	71	71	Americas
51	Korea, South	54	53	54	55	55	56	Asia Pacific
52	Grenada	52	56	N/A	N/A	N/A	N/A	Americas
53	Namibia	51	52	53	49	48	48	Sub Saharan Africa
54	Italy	50	47	44	43	43	42	Europe and Central Asia
54	Mauritius	50	54	53	54	52	57	Sub Saharan Africa
54	Slovakia	50	51	51	50	47	46	Europe and Central Asia
57	Croatia	49	49	51	48	48	46	Europe and Central Asia
57	Saudi Arabia	49	46	52	49	46	44	Middle East and North Africa
59	Greece	48	44	46	43	40	36	Europe and Central Asia
59	Jordan	48	48	53	49	45	48	Middle East and North Africa
59	Romania	48	48	46	43	43	44	Europe and Central Asia

62	Cuba	47	47	47	46	46	48	Americas
62	Malaysia	47	49	50	52	50	49	Asia Pacific
64	Montenegro	46	45	44	42	44	41	Europe and Central Asia
64	Sao Tome and Principe	46	46	42	42	42	42	Sub Saharan Africa
66	Hungary	45	48	51	54	54	55	Europe and Central Asia
66	Senegal	45	45	44	43	41	36	Sub Saharan Africa
68	Belarus	44	40	32	31	29	31	Europe and Central Asia
68	Jamaica	44	39	41	38	38	38	Americas
68	Oman	44	45	45	45	47	47	Middle East and North Africa
71	Bulgaria	43	41	41	43	41	41	Europe and Central Asia
71	**South Africa**	**43**	**45**	**44**	**44**	**42**	**43**	**Sub Saharan Africa**
71	Vanuatu	43	N/A	N/A	N/A	N/A	N/A	Asia Pacific
74	Burkina Faso	42	42	38	38	38	38	Sub Saharan Africa
74	Lesotho	42	39	44	49	49	45	Sub Saharan Africa
74	Tunisia	42	41	38	40	41	41	Middle East and North Africa
77	China	41	40	37	36	40	39	Asia Pacific
77	Serbia	41	42	40	41	42	39	Europe and Central Asia
77	Suriname	41	45	36	36	36	37	Americas
77	Trinidad and Tobago	41	35	39	38	38	39	Americas
81	Ghana	40	43	47	48	46	45	Sub Saharan Africa
81	India	40	40	38	38	36	36	Asia Pacific
81	Morocco	40	37	36	39	37	37	Middle East and North Africa
81	Turkey	40	41	42	45	50	49	Europe and Central Asia
85	Argentina	39	36	32	34	34	35	Americas
85	Benin	39	36	37	39	36	36	Sub Saharan Africa
85	Kosovo	39	36	33	33	33	34	Europe and Central Asia
85	Kuwait	39	41	49	44	43	44	Middle East and North Africa
85	Solomon Islands	39	42	N/A	N/A	N/A	N/A	Asia Pacific
85	Swaziland	39	N/A	N/A	N/A	N/A	N/A	Sub Saharan Africa
91	Albania	38	39	36	33	31	33	Europe and Central Asia
91	Bosnia and Herzegovina	38	39	38	39	42	42	Europe and Central Asia
91	Guyana	38	34	29	30	27	28	Americas
91	Sri Lanka	38	36	37	38	37	40	Asia Pacific

91	Timor-Leste	38	35	28	28	30	33	Asia Pacific
96	Brazil	37	40	38	43	42	43	Americas
96	Colombia	37	37	37	37	36	36	Americas
96	Indonesia	37	37	36	34	32	32	Asia Pacific
96	Panama	37	38	39	37	35	38	Americas
96	Peru	37	35	36	38	38	38	Americas
96	Thailand	37	35	38	38	35	37	Asia Pacific
96	Zambia	37	38	38	38	38	37	Sub Saharan Africa
103	Bahrain	36	43	51	49	48	51	Middle East and North Africa
103	Côte d´Ivoire	36	34	32	32	27	29	Sub Saharan Africa
103	Mongolia	36	38	39	39	38	36	Asia Pacific
103	Tanzania	36	32	30	31	33	35	Sub Saharan Africa
107	Armenia	35	33	35	37	36	34	Europe and Central Asia
107	Ethiopia	35	34	33	33	33	33	Sub Saharan Africa
107	The FYR of Macedonia	35	37	42	45	44	43	Europe and Central Asia
107	Vietnam	35	33	31	31	31	31	Asia Pacific
111	Philippines	34	35	35	38	36	34	Asia Pacific
112	Algeria	33	34	36	36	36	34	Middle East and North Africa
112	Bolivia	33	33	34	35	34	34	Americas
112	El Salvador	33	36	39	39	38	38	Americas
112	Maldives	33	36	N/A	N/A	N/A	N/A	Asia Pacific
112	Niger	33	35	34	35	34	33	Sub Saharan Africa
117	Ecuador	32	31	32	33	35	32	Americas
117	Egypt	32	34	36	37	32	32	Middle East and North Africa
117	Gabon	32	35	34	37	34	35	Sub Saharan Africa
117	Pakistan	32	32	30	29	28	27	Asia Pacific
117	Togo	32	32	32	29	29	30	Sub Saharan Africa
122	Azerbaijan	31	30	29	29	28	27	Europe and Central Asia
122	Djibouti	31	30	34	34	36	36	Sub Saharan Africa
122	Kazakhstan	31	29	28	29	26	28	Europe and Central Asia
122	Liberia	31	37	37	37	38	41	Sub Saharan Africa
122	Malawi	31	31	31	33	37	37	Sub Saharan Africa
122	Mali	31	32	35	32	28	34	Sub Saharan Africa
122	Moldova	31	30	33	35	35	36	Europe and Central Asia
122	Nepal	31	29	27	29	31	27	Asia Pacific
130	Gambia	30	26	28	29	28	34	Sub Saharan Africa

130	Iran	30	29	27	27	25	28	Middle East and North Africa
130	Myanmar	30	28	22	21	21	15	Asia Pacific
130	Sierra Leone	30	30	29	31	30	31	Sub Saharan Africa
130	Ukraine	30	29	27	26	25	26	Europe and Central Asia
135	Dominican Republic	29	31	33	32	29	32	Americas
135	Honduras	29	30	31	29	26	28	Americas
135	Kyrgyzstan	29	28	28	27	24	24	Europe and Central Asia
135	Lao PDR	29	30	25	25	26	21	Asia Pacific
135	Mexico	29	30	31	35	34	34	Americas
135	Papua New Guinea	29	28	25	25	25	25	Asia Pacific
135	Paraguay	29	30	27	24	24	25	Americas
135	Russia	29	29	29	27	28	28	Europe and Central Asia
143	Bangladesh	28	26	25	25	27	26	Asia Pacific
143	Guatemala	28	28	28	32	29	33	Americas
143	Kenya	28	26	25	25	27	27	Sub Saharan Africa
143	Lebanon	28	28	28	27	28	30	Middle East and North Africa
143	Mauritania	28	27	31	30	30	31	Middle East and North Africa
148	Comoros	27	24	26	26	28	28	Sub Saharan Africa
148	Guinea	27	27	25	25	24	24	Sub Saharan Africa
148	Nigeria	27	28	26	27	25	27	Sub Saharan Africa
151	Nicaragua	26	26	27	28	28	29	Americas
151	Uganda	26	25	25	26	26	29	Sub Saharan Africa
153	Cameroon	25	26	27	27	25	26	Sub Saharan Africa
153	Mozambique	25	27	31	31	30	31	Sub Saharan Africa
155	Madagascar	24	26	28	28	28	32	Sub Saharan Africa
156	Central African Republic	23	20	24	24	25	26	Sub Saharan Africa
157	Burundi	22	20	21	20	21	19	Sub Saharan Africa
157	Haiti	22	20	17	19	19	19	Americas
157	Uzbekistan	22	21	19	18	17	17	Europe and Central Asia
157	Zimbabwe	22	22	21	21	21	20	Sub Saharan Africa
161	Cambodia	21	21	21	21	20	22	Asia Pacific
161	Democratic Republic of the Congo	21	21	22	22	22	21	Sub Saharan Africa
161	Republic of Congo	21	20	23	23	22	26	Sub Saharan Africa

161	Tajikistan	21	25	26	23	22	22	Europe and Central Asia
165	Chad	20	20	22	22	19	19	Sub Saharan Africa
165	Eritrea	20	18	18	18	20	25	Sub Saharan Africa
167	Angola	19	18	15	19	23	22	Sub Saharan Africa
167	Turkmenistan	19	22	18	17	17	17	Europe and Central Asia
169	Iraq	18	17	16	16	16	18	Middle East and North Africa
169	Venezuela	18	17	17	19	20	19	Americas
171	Equatorial Guinea	17	N/A	N/A	N/A	N/A	N/A	Sub Saharan Africa
171	Guinea-Bissau	17	16	17	19	19	25	Sub Saharan Africa
171	Korea, North	17	12	8	8	8	8	Asia Pacific
171	Libya	17	14	16	18	15	21	Middle East and North Africa
175	Sudan	16	14	12	11	11	13	Middle East and North Africa
175	Yemen	16	14	18	19	18	23	Middle East and North Africa
177	Afghanistan	15	15	11	12	8	8	Asia Pacific
178	Syria	14	13	18	20	17	26	Middle East and North Africa
179	South Sudan	12	11	15	15	14	N/A	Sub Saharan Africa
180	Somalia	9	10	8	8	8	8	Sub Saharan Africa

Annex 1 CPI Score (2012-2017) data provided by (Transparency International)

Index of Economic Freedom Score 2018

SSA (Regional Average Score 55.0)

Country	World Rank	Region Rank	2018 Score
Mauritius	21	1	75.1
Botswana	35	2	69.9
Rwanda	39	3	69.1
South Africa	77	4	63.0
Côte d'Ivoire	85	6	62.0
Uganda	83	5	62.0
Seychelles	88	7	61.6
Burkina Faso	95	8	60.0
Cabo Verde	96	9	60.0
Tanzania	97	10	59.9
Namibia	103	11	58.5
Nigeria	104	12	58.5
Gabon	109	13	58.0
Mali	113	14	57.6
Guinea-Bissau	118	15	56.9
Madagascar	119	16	56.8
Benin	120	17	56.7
Comoros	121	18	56.2
Ghana	122	19	56.0
Swaziland	123	20	55.9
Senegal	126	21	55.7
Kenya	129	22	54.7
Zambia	132	23	54.3
Mauritania	134	24	54.0
Lesotho	136	25	53.9
São Tomé and Príncipe	137	26	53.6
Ethiopia	142	27	52.8
Gambia	145	28	52.3
Guinea	146	29	52.2
Congo. Democratic Republic of the Congo	147	30	52.1
Malawi	148	31	52.0
Cameroon	149	32	51.9
Sierra Leone	151	33	51.8
Burundi	157	34	50.9
Liberia	158	35	50.9
Niger	160	36	49.5
Sudan	161	37	49.4
Chad	162	38	49.3
Central African Republic	163	39	49.2

Angola	164	40	48.6
Togo	168	41	47.8
Mozambique	170	42	46.3
Djibouti	171	43	45.1
Zimbabwe	174	44	44.0
Equatorial Guinea	175	45	42.0
Eritrea	176	46	41.7
Congo, Republic of	177	47	38.9
Somalia	N/A	N/A	N/A

80-100	Free
70-79.9	Mostly Free
60-69.9	Moderately Free
50-59.9	Mostly Unfree
0-49.9	Repressed
	Not Graded

Annex 2 Index of Economic Freedom Score 2018 data provided by (Heritage Foundation)

Index of Economic Freedom per measure of South Africa (1995-2018)

INDEX YEAR	OVERALL SCORE	PROPERTY RIGHTS	GOVERNMENT INTEGRITY	JUDICIAL EFFECTIVENESS	TAX BURDEN	GOVERNMENT SPENDING	FISCAL HEALTH	BUSINESS FREEDOM	LABOR FREEDOM	MONETARY FREEDOM	TRADE FREEDOM	INVESTMENT FREEDOM	FINANCIAL FREEDOM
2018	**63.0**	67.7	45.4	65.9	62.5	68.1	74.6	65.1	60.1	74.6	71.6	50.0	50.0
2017	**62.3**	67.6	47.6	59.7	70.2	68.4	70.0	62.0	58.9	75.8	77.3	40.0	50.0
2016	**61.9**	50.0	44.0	N/A	70.1	69.9	N/A	69.7	58.7	74.6	77.0	45.0	60.0
2015	**62.6**	50.0	42.0	N/A	69.5	68.2	N/A	73.0	61.6	74.9	76.6	50.0	60.0
2014	**62.5**	50.0	41.6	N/A	68.7	69.1	N/A	74.5	54.4	75.3	76.1	55.0	60.0
2013	**61.8**	50.0	41.0	N/A	70.5	69.2	N/A	74.7	55.6	75.8	76.3	45.0	60.0
2012	**62.7**	50.0	45.0	N/A	70.7	71.9	N/A	75.8	57.3	75.0	76.3	45.0	60.0
2011	**62.7**	50.0	47.0	N/A	69.6	77.5	N/A	72.3	56.7	71.9	77.2	45.0	60.0
2010	**62.8**	50.0	49.0	N/A	69.1	76.8	N/A	73.0	59.0	70.2	76.0	45.0	60.0
2009	**63.8**	50.0	51.0	N/A	68.9	77.6	N/A	74.6	56.8	74.3	74.8	50.0	60.0
2008	**63.4**	50.0	46.0	N/A	69.5	76.8	N/A	71.4	59.1	77.2	74.2	50.0	60.0
2007	**63.5**	50.0	45.0	N/A	69.7	79.2	N/A	70.4	58.5	78.8	73.8	50.0	60.0
2006	**63.7**	50.0	46.0	N/A	69.8	78.6	N/A	71.8	58.9	83.7	77.8	50.0	50.0
2005	**62.9**	50.0	44.0	N/A	69.7	79.9	N/A	70.0	58.7	78.6	77.8	50.0	50.0
2004	**66.3**	50.0	48.0	N/A	69.6	79.7	N/A	70.0	N/A	77.1	62.2	70.0	70.0
2003	**67.1**	50.0	48.0	N/A	68.0	80.0	N/A	70.0	N/A	80.1	68.0	70.0	70.0
2002	**64.0**	50.0	50.0	N/A	65.2	79.7	N/A	70.0	N/A	80.3	61.0	70.0	50.0
2001	**63.8**	50.0	50.0	N/A	65.0	78.1	N/A	70.0	N/A	79.6	61.0	70.0	50.0
2000	**63.7**	50.0	52.0	N/A	60.5	67.3	N/A	85.0	N/A	77.8	61.0	70.0	50.0
1999	**63.3**	50.0	50.0	N/A	60.8	66.7	N/A	85.0	N/A	76.7	61.0	70.0	50.0
1998	**64.3**	50.0	57.0	N/A	61.3	67.3	N/A	85.0	N/A	77.3	61.0	70.0	50.0
1997	**63.2**	50.0	56.0	N/A	61.3	65.3	N/A	85.0	N/A	76.2	55.0	70.0	50.0

1996	**62.5**	50.0	50.0	N/A	63.6	62.2	N/A	85.0	N/A	75.4	56.4	70.0	50.0
1995	**60.7**	50.0	50.0	N/A	61.1	63.3	N/A	85.0	N/A	73.8	43.0	70.0	50.0

Annex 3 Index of Economic Freedom Score ZA 1995-2018 data provided by (Heritage Foundation)