

Research report no 78

Social policy series



Understanding policy implementation:

An exploration of research areas
surrounding the growth,
employment and redistribution
(GEAR) strategy

Zondie Masiza and Xolela Mangcu

Policy analysts, CPS



Centre for Policy Studies

Johannesburg

May 2001

This report forms part of a study entitled 'The impact of foreign political aid on civil society organisations in South Africa, funded by the European Union.'

The Centre for Policy Studies is an independent research institution, incorporated as an association not for gain under Section 21 of the Companies Act.

Centre for Policy Studies
Construction House
130 Sivewright Ave
New Doornfontein 2094
Johannesburg, South Africa

P O Box 16488
Doornfontein 2028
Johannesburg, South Africa

Tel (011) 402-4308
Fax (011) 402-7755
e-mail: admin@cps.org.za

www.cps.org.za

ISBN 1-919708-33-2

Contents

Introduction	5
GEAR: a background	5
Scope and method of enquiry	7
Determinants of FDI: a literature review	9
Conclusion	14

Introduction

This paper presents the results of the first phase of a study of the government's growth, employment, and redistribution (GEAR) strategy. It forms part of a broader research project aimed at examining the gap between policy and implementation in South Africa, and identifying ways in which it can be closed. Case studies are being performed in four selected sectors – education, justice, water, and health – and on three key policy instruments: the RDP, GEAR, and the National Crime Prevention Strategy (NCPS). Finally, the findings of these studies will be synthesised and some general conclusions formulated.

The case studies are proceeding in two phases. During the first, researchers have undertaken literature reviews, aimed at identifying the main issues in each sector or policy area and formulating research hypotheses. These will be examined and tested during the second phase, which will be marked by substantive, empirical research.

Thus this study seeks to find explanations for the gaps between GEAR's policy intentions and their outcomes. Announced in 1996, GEAR is the South African government's much-criticised macroeconomic policy. Contrary to conventional wisdom about its neo-liberal lineage, the strategy contains both private-sector-led and demand-driven elements of Keynesian economies. At the heart of GEAR is the expressed intent to attract foreign direct investment (FDI) and to boost the country's (manufactured) export competitiveness in international markets.

This study will focus on the implementation of GEAR since its inception. More often than not, the question of how policies are 'implemented' is one of the important independent variables that one can use to explain a gap – the dependent variable -- between policy intentions and outcomes.

It is generally acknowledged that the success of a policy can be measured by the effective implementation of its objectives. The task of determining whether the relevant policy actors have achieved the GEAR objectives seems easy, since GEAR itself provides yardsticks for measuring its success or lack thereof. In reality, however, policy-making and implementation is a far more complex and continuous process than this approach suggests. In addition, it can only serve to diminish the value of this research endeavour.

One of the objectives of this study is to provide persuasive arguments on how to improve policy implementation in this country. In this regard, we are interested in the dynamics of the policy process: ie, its workings, impediments to implementation, bureaucratic politics, and so on. In our opinion the value of this study will depend on the extent to which it draws crucial lessons from the policy implementation experience of government officials.

GEAR: a background

It is widely acknowledged, however, that the genesis of any given policy is the desire to solve economic, or political, or social problems. GEAR is no exception to this general rule. The GEAR document makes it clear that the strategy was intended to address a number of policy concerns, hence its multiple goals. When government formulated GEAR it was re-

acting to, among other things, a rate of growth in gross domestic product (GDP) of 3 per cent a year.¹ Its primary concern was that this growth rate would not enable the country to meet its developmental goals, because it:

- failed to address the unemployment crisis in the labour market;
- provided inadequate resources for enhanced social services delivery; and
- would not allow the equitable distribution of income and wealth.²

Ideally, the government wanted to see a growth rate of 6 per cent and employment growth of 400 000 jobs by the year 2000. Among the constraints on growth were precarious balance of payments; and exchange rate instability, which reinforced the former. As a proposed solution to these multifaceted problems, GEAR was formulated as an integrated economic strategy comprising the following elements:

1. budget reform, aimed at strengthening the redistributive thrust of expenditure;
2. an accelerated fiscal deficit reduction programme, aimed at containing debt service obligations, countering inflation, and freeing resources for investment;
3. a relaxation of exchange controls, and an exchange rate policy aimed at keeping the real rate at a competitive level;
4. a reduction in tariffs aimed at containing input prices and facilitate industrial restructuring, thus compensating for the exchange rate depreciation;
5. an accelerated rise in non-gold exports;
6. tax incentives aimed at stimulating new investments in competitive and labour-absorbing projects;
7. restructuring state-owned enterprises;
8. speeding up growth in public sector investment;
9. improving the employment intensity of investment and output growth;
10. boosting infrastructure development and service delivery making intensive use of labour-based techniques;
11. a strengthened levy system aimed at funding training on a scale commensurate with South Africa's needs;
12. an expansion of trade and investment flows in southern Africa; and
13. a commitment to pursue stable and co-ordinated policies.³

To critics, what is contentious about GEAR is its supposed pro-market ideological underpinnings – perceived to be antithetical to the development aspirations espoused in the RDP base document. For their part, policy-makers insist that GEAR is ‘a strategy for rebuilding and restructuring the economy ... in keeping with the goals set in the Reconstruction and Development Programme’.⁴ All the same, critics persist in claiming that the

¹ South African department of finance (now the national treasury), Growth, employment and redistribution: a macroeconomic strategy, PDF text, Pretoria, 1996, p 1.

² Ibid.

³ Ibid, p 2.

⁴ Department of finance, The GEAR strategy, p 1.

strategy marks the departure from the RDP precepts to an embrace of neo-liberalism.⁵ Hence their analyses of GEAR tend to focus on what they perceive to be the correct macroeconomic policy the government should pursue.

To be more specific, what the critics – especially labour – find irksome about GEAR are its proposals regarding labour market reforms and the restructuring (read privatisation) of state-owned enterprises (SOEs). In some quarters, this negative stance by labour is thought to be one of the factors hampering investments in the country's economy. Labour's stance should be less surprising since, in Robert Dahl's words, politics is essentially about who gets what, when, and how. At times, former president Nelson Mandela seemed impatient with labour's views on the reforms proposed by GEAR. He regarded it as a 'bid to sue for the victory of a sectarian approach, at the expense of other social forces whose co-operation is critical for the success of a programme [GEAR]'.⁶

The policy-makers anticipated a number of non-economic factors that were essential for pursuing the GEAR objectives. To them, the success of GEAR would depend on more than just an 'appropriate' economic theory. They thought that some of the crucial factors included such non-economic questions as the 'timing, sequencing, and packaging of reforms, [and] the clear commitment of social partners [ie business and labour] to an agreed policy framework'.⁷ The GEAR document states that, in large measure, these implementation aspects would have to be driven by an:

effective co-ordination of economic policy at cabinet level [which] has... been given the highest priority by government, together with the supporting arrangements within key administrations and between government, the Reserve Bank, the business sector, organised labour, and other key constituencies.⁸

Given our enquiry, it is worth investigating how these non-economic aspects are determined by the GEAR implementers. Thus we hope to discover in what way they have affected the implementation of GEAR in one way or the other.

This section was only meant to give a general idea of GEAR. The strategy (ie its formulation and implementation) will be discussed more fully during the empirical phase of this study.

Scope and method of enquiry

In this study an attempt will be made to comprehensively review the implementation of GEAR, but not every aspect of the integrated economic strategy listed in the previous sec-

⁵ See, for instance, Asghar Adelzadeh, *From the RDP to GEAR: the gradual embracing of neo-liberalism in economic policy*, occasional paper series no 3, Johannesburg: National Institute for Economic Policy, August 1996.

⁶ President Nelson Mandela's address to the 75th anniversary of the South African Communist Party, Cape Town, 28 July 1996. The following year Mandela stressed the same point when addressing COATU's 6th national congress, held in Johannesburg on 16 September.

⁷ Department of finance, *The GEAR strategy*, p 22.

⁸ *Ibid.*

tion will be covered. GEAR makes it clear that the realisation of higher economic growth and employment rates depends on increasing levels of investments by domestic and foreign investors. In the literature, the level of direct investments is assumed to be a function of numerous variables, including fiscal and monetary policies, market size, location costs, and investment policy, to mention but a few. These and other variables will be discussed in relation to our dependent variable, namely domestic and foreign investment performance.

Data will be gathered via qualitative interviews, largely of elites. More specifically, this will entail conducting qualitative interviews with key policy actors – in our case, both the formulators and implementers of GEAR. Political scientists Jarol Manheim and Richard Rich make the important point that while researchers ‘can always speculate about the reasons for the [adoption of policy, they] can learn the actual reasons only by finding out what [policy-makers] thought’.

Their definition of ‘elite’ enhances the appeal of this technique:

In this context, people are referred to as *elite* if they have knowledge which, for the purpose of a given research project, requires that they be given individualised treatment in an interview. Their elite status depends not on their role in society but on their access to knowledge that can help answer a given research question ...⁹

These interviews will enable researchers to gather crucial information about the dynamics of a policy-making process (ie details of differences in perceptions and priorities) within government on a given issue that is otherwise unavailable.¹⁰ The advantage of this approach is that it will allow us to learn about the policy-makers’ assumptions (misgivings) that informed the GEAR process. In addition, it will help us to probe whether they thought the policy was capable of being implemented. Thus we will uncover the problems (if any) that the GEAR formulators passed along to implementers.¹¹

This approach is not without problems or challenges; for instance, each participant in a given policy process a) has a partial account of the story, b) his/her memory fades, and c) he/she is inaccessible. However, its advantages outweigh the disadvantages. In addition to elite interviewing we will rely on public documents such as the medium-term budget policy statements.

As noted earlier, this study will be carried out in two phases. The first phase is concerned with reviewing the relevant literature on economic policy and implementation studies. The second will consist of serial empirical research activities – ie, as mentioned above, this will entail extensive interviews with those who have formulated and are im-

⁹ Jarol B Manheim and Richard C Rich. *Empirical political analysis: research methods in political science*, New York: Longman, 1991, p 139.

¹⁰ *Ibid*, p 140. See also Graham T Allison, *Essence of decision: explaining the Cuban missile crisis*, Harvard: Harper Collins Publishers, 1971, p 180.

¹¹ Helen Ingram, Implementation: a review and suggested framework, in Naomi B. Lynn and Aaron Wildavsky (eds), *Public administration: the state of the discipline*, New Jersey: Chatham House publishers, 1990, p 470.

plementing GEAR. The researchers will also interview such relevant stakeholders as the representatives of labour and business.

Determinants of foreign direct investment (FDI): a literature review

In the 1990s there has been a growing body of FDI literature that reflects a change in how FDI is perceived. Perhaps the failure of the socialist experiment in the USSR and its East European satellite states -- the failure of state-dominated, command economies -- has given rise to the new view of FDI. Whereas in the past literature generally dealt with the pros and cons presented by FDI, today the focus is almost exclusively on a) the role of FDI in the economic growth of the host country, or FDI destination; and b) the determinants of FDI. The discussion on determinants normally centres on a list of things a host country needs to do attract FDI -- it is a discussion of what works and what doesn't.

Indeed, the last decade has seen more countries adopting the structural adjustment programmes (SAPs) inspired by the International Monetary Fund (IMF), in order to benefit from globalisation. In the process, some countries have discarded their restrictive policies on FDI, which reflected their initial scepticism about this.¹² (Incidentally, these restrictive policies on FDI worked well for Japan, South Korea, and Thailand.)

The interest in the determinants of FDI seems to be sparked off by the increasing annual average in FDI flows -- itself a phenomenon attributed to the globalisation process. For instance, in the 1970s the annual average flow was US\$27,5 billion, growing to US\$166 billion by the late 1980s and reaching US\$318 billion in 1995.¹³ Emerging market and developing countries were attracting a substantial amount of these FDI flows.¹⁴ Also, the bulk of these (mergers and acquisition) is related to privatisation. This is true of South Africa as well - witness the amount of FDI attracted by the partial privatisation of Telkom (30 per cent) and South African Airways (5 per cent).

To attract FDI, these countries have undertaken far-reaching economic reforms such as tight fiscal policy, relaxation of exchange controls, (in some cases) wholesale privatisation of SOEs, etc. In short, they are following the script of the 'Washington consensus,' which calls the liberalisation of the economy. This term was coined in 1990 by John Williamson, an economist at the Washington-based Institute for International Economics, after an international conference held to re-evaluate the economic reform experience of

¹² Louis T Wells Jr and Alvin G Wint, *Facilitating foreign investment: government institutions to screen, monitor, and service investment from abroad*, Washington DC: Foreign investment advisory service occasional paper no 2, World Bank, 1991, p 1.

¹³ Stephen Gelb, *Economic growth, people and the environment*, in Gitanjali Maharaj (ed), *Between unity and diversity: essays on nation-building in post-apartheid South Africa*, Cape Town: David Philip Publishers, 1999, p 151.

¹⁴ An emerging market economy is defined here as those of semi-industrialised developing countries with well-established financial institutions and stock exchanges. Countries described include Russia, Brazil, and South Africa.

13 countries.¹⁵ Participants -- mostly economic experts and technocrats from 13 countries -- met in Washington to delineate lessons from both the successful and unsuccessful implementation of economic reforms in their respective countries. The result of this exercise was the delineation of things to do for the successful implementation of economic reforms.

Judging by the South African government's concern with cultivating investor confidence, the formulators of GEAR were to some degree familiar with the prevailing paradigm surrounding and trends in FDI. For instance, they believed the reason South Africa had attracted insignificant FDI between 1994 and 1996 was the lack of attention 'to the fundamental determinants of international investment decisions, and the underlying macro-economic expectations which may be relevant'.¹⁶ Most of these supposed determinants form part of GEAR's integrated economic strategy mentioned earlier. Additional determinants mentioned in the GEAR document include investment incentives, the protection of property rights, political stability, and clarity about economic policy.¹⁷

Again, in the period 1994-6, South Africa attracted net capital inflows amounting to R30 billion, with portfolio investments accounting for a huge share of this some. Portfolio investments (sometimes referred to as 'hot money') are characterised by a greater degree of international mobility, and are attracted by high interest rates. Underlying this mobility is the 'herd instinct' which is susceptible to innuendoes, unfounded rumours, or unconnected events elsewhere.¹⁸ The developments in Zimbabwe and the Asian currency crisis aptly illustrate this point. Although the formulators of GEAR thought that capital investment inflows complemented domestic savings (which at the time stood at 15 per cent of GDP), they cautioned that overexposure to such loan financing carries huge risks, including the fact that a change in investor confidence 'can precipitate serious balance of payments difficulties'.¹⁹

It is clear that the formulators of GEAR drew a clear distinction between FDI (ie productive or fixed investments) and portfolio investments. Their preference was for the former - after all, this was the point of the GEAR exercise. They were seemingly confident in their judgement, because 'international experience favour[ed] foreign direct investment as a more stable source of international finance and as crucial element in a more outward-oriented growth strategy'.²⁰

Stephen Gelb, one of GEAR's architects, observes that in practice the implementers of the strategy have blurred the distinction between fixed investment and portfolio investors.²¹ According to Gelb, this explains the government's failure to provide a credible framework for productive investors. The head of Trade and Investment of South Africa

¹⁵ These countries were Australia, Brazil, Chile, Colombia, Indonesia, Mexico, New Zealand, Peru, Poland, Portugal, South Korea, Spain, and Turkey.

¹⁶ Department of finance, *The GEAR strategy*, p 27.

¹⁷ *Ibid.*

¹⁸ Gelb, *Economic growth, people and the environment*, p 154.

¹⁹ Department of finance, *The GEAR strategy*, p 27.

²⁰ *Ibid.*

²¹ Gelb, *Economic growth, people and the environment*, p 155.

(TISA), Rafiq Bagus, says the poor record of FDI flows is due to an unco-ordinated approach by various actors – eg the government (at all three levels), parastatals, and the private sector.²² In this instance, Bagus blames national government for not providing ‘real guidance and leadership’.²³ It is likely that the blurring of distinctions between the different types of investment is a reflection of centralised leadership. It seems as if Gelb and Bagus are concerned about the practical considerations of providing a framework for attracting productive investments. This is certainly the case with Bagus.

In contrast, a University of Cape Town economist, Nicoli Nattrass, offers an abstract (theoretical) explanation of the low levels of FDI. For Nattrass, GEAR has failed to attract FDI because its formulators and the government were essentially gambling ‘on the investment wild card’.²⁴ She says the success of GEAR was premised on how investors (domestic and foreign) are likely to respond to its implementation.²⁵ Her concern is that economic experts know very little about the matter.

Contrasting Bagus’s practical view with Nattrass’s theoretical one is not meant to imply that the former has no intellectual basis. Bagus is mainly concerned with the organisational or institutional aspects of attracting FDI, and there have been a number of research studies which underpin this approach.²⁶ These studies advocate the rationalisation of agencies concerned with attracting FDI - in other words, a one-stop shop. The advantages of this type of agency are that they:

- evaluate proposed investments by weighing all the advantages and disadvantages;
- enable learning benefits from frequent negotiations with foreign investors;
- allow fast-track decisions and predictability.²⁷

In a similar fashion, TISA identifies 12 methodologies consisting of three broad activities. These are image-building (advertising in industry-specific missions and conducting investment opportunities seminars), investment generation (industry-specific missions, investment counselling), and investment services (expediting applications and permits, providing post-investment promotion).²⁸

Perhaps owing to its recent establishment (in 1998), TISA has not made a significant impact on the attraction of FDI. In part, Bagus blames the transformation process at DTI for this poor performance. He says there was significant resistance to accepting his

²² Rafiq Bagus, An appropriate investment promotion framework for South Africa, paper delivered at the TIPS 1999 annual forum, 19--22 September 1999, p 14. The DTI created TISA as an autonomous institution in 1998. Its mandate is to co-ordinate national efforts to attract FDI.

²³ Ibid, p 14.

²⁴ Nicoli Nattrass, *Macroeconomics: theory and practice in South Africa*, Cape Town: David Philip, 1997, p 273.

²⁵ Nicoli Nattrass, *Gambling on investment: competing economic strategies in South Africa*, in Maharaj, *Unity and diversity*, p 85.

²⁶ See, for instance, Wells and Wint, *Facilitating foreign investment*, and Theodore H Moran, *Foreign direct investment and development – the new policy agenda for developing countries and economies in transition*, Washington DC: Institute for International Economics, 1999.

²⁷ Wells and Wint, *Facilitating foreign investment*, p 1.

²⁸ For a detailed discussion of these methodologies, see Bagus, An appropriate investment promotion framework for South Africa, pp 6-9.

agency by the ‘old guard’, who saw it as being run by ‘hot-shots’.²⁹ He adds that the ‘new guard’ lacked knowledge of the issues related to investment promotion, thus compounding problems faced by the agency. More importantly, Bagus says the major task of transformation the economy meant that senior DTI officials could not pay much attention to the agency. As a result, there was insufficient communication between the ministry and the agency. It is possible that these challenges resulted in the problems identified by Gelb – that is, the absence of a credible framework for productive investors, and the blurring of the distinction between productive and portfolio investors.

It is noteworthy that Bagus does not discuss the role of domestic investor in attracting FDI. Indeed, the major activities of his agency are directed at foreign investors. This is puzzling, because domestic investors have been engaged in what COSATU calls an ‘investor boycott’. The domestic investor boycott is equally puzzling if one considers that GEAR was well-received by the private sector in this country. The behaviour of domestic investors as a signal to foreign investors is a subject of great interest in investment literature. Domestic investors are seen as being in close contact with the government, and are therefore thought to be certain about the government economic policy.³⁰ The opposite is assumed in respect of foreign investors. Accordingly, the latter base investment decisions on their perception of ‘investment activity and the performance of local investors’.³¹

Notwithstanding TISA’s efforts, foreign investors will remain circumspect as long the domestic investor boycott persists. Whether intended or not, the boycott sends a signal that the domestic investment environment is unstable and unpredictable. According to Gelb, the overall effect of this phenomenon is that, given the irreversibility of productive investment, foreign investors find value in waiting before committing their funds.³²

As already mentioned, one the critical policy tools advocated by South African policy-makers in pursuit of GEAR is FDI. The assumption that informs this tool is that FDI is crucial as a supplement of low domestic savings, and that it can stimulate domestic economic growth. The investment literature tends to be divided on whether FDI on its own can stimulate growth and employment. While South Africa has experienced increases in FDI, there are some questions about the impact of these kinds of investments on growth and employment. Most FDI inflows have been dominated by mergers and acquisitions and service industry investments, which do not generate new jobs.

Some economists – among them Dani Rodrik, a professor of international political economy at Harvard University -- argue that it is primarily domestic investment that drives economic growth and attracts foreign investors. Foreign investors are often attracted to locate in more profitable economies. The causality is therefore the reverse of what is often assumed – that domestic growth spurs foreign investment, and not the other way round. But this does not mean that FDI cannot trigger growth. The question of what

²⁹ Bagus, An appropriate investment promotion framework for South Africa, pp 9-10.

³⁰ Esteban Jadresic and Roberto Zahler, *Chile's rapid growth in the 1990s: good policies, good luck, or political change?* IMF working paper (WP/00/153), Washington DC: International Monetary Fund, October 2000, p 8.

³¹ Ibid.

³² Gelb, *Economic growth, people and the environment*, p 158.

should come first between FDI and domestic growth is akin to the ‘chicken and egg’ dilemma, and it is along these lines that scholars are divided. Domestic growth is certainly a factor in attracting FDI, rather than an adherence to policy recipes.

While it is important to get prices right, foreign investors are often driven by a host of considerations, including social stability, market size, and returns on private investment. Mauritius, for example, established a free trade export-processing zone that became attractive to foreign investors. The latter were attracted primarily by the high rates of return and tax incentives provided by the government. While Mauritius relied on high rates of domestic savings (which came via improvements in terms of trade), it was the profitability of the economy that attracted investors. It can be argued, as has been argued with respect to GEAR, that it is the lack of domestic savings that leads to an emphasis on FDI. But Rodrik argues that ‘low levels of savings *per se* are not a significant obstacle to growth: household and corporate savings rates typically rise as profitable investment opportunities are exploited.’³³ The important thing, he believes, is to grow the domestic economy and ensure returns to investors.

Another interesting example is China, where investors have been attracted by rates of return and a growing market irrespective of that country’s continued adherence to policies that would have caused investor panic in less profitable markets. China has of course absorbed the greater part of FDI in developing countries. In general, Asian countries used public sector spending to ‘crowd in’ private sector investments and expand exports. Alice Amsden has demonstrated how the state poured resources into the development of South Korea’s highly successful export industries.³⁴ Governments in South Korea and Taiwan heavily subsidised domestic investments via credit guarantees and tax incentives. The state made key inputs available locally, and deferred import duties on plant equipment. In some cases governments established industries (in glass, steel, and plastics) only to pull out and simply hand them over to private entrepreneurs.³⁵

According to Amsden, every major shift in industrial diversification in Asia was instigated by the state. Rodrik argues that these public investments helped to correct coordination failures in these economies, and brought the private sector into areas they would not have ventured into because of the start-up costs. This in turn became the basis for a boom in exports. It bears noting that the situation discussed above obtained in the 1960s and 1970s, and cannot be replicated today by emerging and developing economies. All the developments described in the foregoing paragraph took place in a context of a closed economy.

In a comparative study of the relationship between FDI and growth and employment in Mexico, Malaysia and South Africa, Kennedy Mbekeani has found that there is no correlation between FDI and growth in these countries, or where the correlation exists it is

³³ Dani Rodrik, *The new global economy and developing countries: making openness work*, Washington DC: Overseas Development Council, 1999, p 63.

³⁴ Alice Amsden, *Asia’s next giant: South Korea and later industrialisation*, New York: Oxford University Press, 1989.

³⁵ Robert Wade, *Governing the market: economic theory and the role of government in east Asian industrialisation*, Princeton, New Jersey, 1990.

often very small compared to the role of domestic investments and exports.³⁶ With respect to South Africa he found no correlation between FDI and employment. In fact, gross domestic product was the only variable that promoted employment in his model. This could well be because selling state assets to foreigners, for example, does not necessarily add to new capital and asset formation, but simply buys up existing assets. Even if foreign investors do come, there is no *a priori* reason to assume that their activities will mop up the unemployed.

Mbekeani concludes that ‘since FDI contribution to growth and employment is at best small, policy-makers may want to put more emphasis on promoting domestic investment for growth and employment creation than on FDI. However, FDI can be used to supplement domestic investment. In that case, specific policies should be put in place to create an enabling environment for foreign direct investment.’³⁷ This perspective is important insofar as it shows that what is critical is not attracting FDI *per se*, but its interaction with domestic investment patterns. For example, FDI in Malaysia contributed greatly to domestic investment, whereas in Mexico they were used to finance external debts. Even ardent globalisation advocates such as Martin Wolf of the *Financial Times* admits that: ‘the so-called era of globalisation did not secure sufficient growth in many emerging economies’. Wolf of course attributes the lack of growth to the failure to liberalise fully – a standard response among free market economists when their policies do not bear the promised results.³⁸

Conclusion

The foregoing section has dwelt on the determinants of FDI to help us understand why South Africa is unable to attract the levels of investment foreseen in the GEAR strategy. It is clear from the literature that there are multiple determinants of FDI, and that they are not necessarily unrelated to one another. We have not exhausted these issues, but we have been able to draw a conceptual map that will guide our empirical enquiry. The avoidance of econometric modelling is deliberate, for two reasons. Firstly, we do not have the expertise. Secondly, our primary interest is in the implementation aspects of FDI policy.

We started on this project thinking that GEAR was an exceptional case where the government simply formulates an economic policy and let other sectors (labour and the private sector) behave accordingly. We assumed that, beyond creating an enabling environment, the government had little control over the environmental forces that impact on the implementation of GEAR objectives. On further reading, we found that in reality policy implementation works differently. Regarding FDI, for instance, it is not enough for a government to simply satisfy itself that is adhering to a prescribed policy – eg a market-friendly policy. Policy-makers must intervene proactively to ensure that the govern-

³⁶ Kennedy C Mbekeani, *Foreign direct investment and economic growth*, Johannesburg: National Institute for Economic Policy, 1997.

³⁷ *Ibid*, p 29.

³⁸ *Business Day*, 18 February 2000.

ment's investment policy bears fruit. Among other things, there needs to be extensive coordination and communication of policy directives.

As stated above, the objective of this study is not to propose an alternative policy to GEAR. The goal of this research is limited to helping to uncover the causes of policy gaps. To simply assert that the assumptions made by the policy actors were flawed cannot do this. Any attempt at arguing along these lines is tantamount to a cop-out; it simply chimes in with the popular theme against GEAR. We need to humble ourselves to the fact that our knowledge is circumscribed by our lack of exposure to policy realities within government structures. This can be corrected by constant interaction with policy-makers. Although this will not guarantee a full understanding of policy dynamics, we will, however, be alert and appreciative of the implementation challenges and policy trade-offs that policy-makers have to contend with.