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GERMAN MULTINATIONALS IN AFRICA

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6.1 INTRODUCTION

This Chapter begins by briefly examining the historical background and influences of colonialism upon the international production strategies of MNEs in Africa with a special focus on German multinational enterprises (MNEs) and their activities in South Africa. This backdrop offers the basis for an understanding of the relevance of foreign direct investment (FDI) and globalisation; investments; a general view of South Africa's economic performance; German MNEs in South Africa; the importance of small business enterprises (SMEs); and the interrelating connections of the above listed elements to institutional and subjective aspects of the initial FDI decision in South Africa.

6.2 AFRICA AND COLONIALISM

The African continent has always been challenged in many ways through time. Be it slavery, colonialism, political conflicts, famine, diseases or like most recently globalisation Africa appears to be confined in its struggle. A total population of 778 million people is living in 53 countries. The outright economic performance is growing at 2.5 percent per year. Economically, the average GDP of Africans is US$ 639 and at a declining rate. At the same time, over 130 percent of Africa's annual GDP is required to service its financial debt. Ironically, despite Africa's vast sources in natural minerals and human capital, it often hinges on western multinational operations with their technology to exploit its main vantages. Without a process of industrialisation it seems that there is no hope. However, industrialisation is tough in a place where 65 percent of its total population live in rural areas. In contrast, globalisation may well have contributed to some degree towards the trend of urbanisation as noticed by du Toi (1999).

Clive (1975:328) found that between 1938 and 1960, manufacture grew at 7.9 percent per annum in Africa, compared to 4.8 percent in the developed countries. In the following decade Southern and North Africa - 33 percent of the continent's population - accounted for over 70 percent of its manufacturing and mining output. East, West and Central Africa - 67 percent of the continent's population - made up for 28 percent of those sectors. This progressing trend could also be maintained until the beginning of the 1970s averaging a 6.5 percent growth rate in manufacturing which coincided with an overall growth in GDP of 4.3 percent.

Most of the important multinational enterprises (MNEs) activities in Africa are in the manufacturing sector together with the production of minerals for exports. Albeit there has always been significant MNE contribution in farming. Clive (1975:335) notes that their activities in the field of agriculture is diminishing relatively, besides in areas like food processing and farming inputs such as fertilisers. Generally speaking, the prevailing status of Africa's industrialisation strategy lies in light manufacturing industry, the assembly of consumer goods. It is expected by Clive (1975:349) that "in time as the market expands this will induce a continuous backward expansion to intermediate and heavy industries." He (1975:358) postulates that the success of this strategy will bank on Africa's political circumstances.

Clive (1975:337) suggests four basic alternative strategies to enhance Africa's independence from MNEs:

- Localisation of senior management and administrative staff i.e. Africanization,
- Requiring foreign firms, to raise a substantial part of their capital requirements from the domestic capital market through the issue of local equities;
- State participation through the establishment of a national institution in competition with foreign enterprise in the same area of activity,
- and state participation in the ownership structure of foreign capitalistic firms through a majority-share ownership.

Market size, economic growth, access to financial capital and a stable market orientated policy combined with the basic equipment of a sound infrastructure are the prerequisites most often mentioned in literature for attracting FDIs. Thus, FDI can act as a catalyst for industrial development as Markusen and Venables (1999) explicitly analysed. It must also be stressed that the rates of return for most operating MNEs in Africa generate much higher gains than in other regions in the world. At the same time, it seems that the exploitation of humans, natural resources and weak environmental standards remains also to be very lucrative for investments. The relevance of such misperceptions regarding FDI in Africa will be discussed more explicitly below in Section 8.