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Foreign Direct Investment, Black Economic Empowerment and Labour Productivity in South Africa

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Abstract:

The impact of foreign direct investment (FDI) on domestically owned firms in developing countries has been widely debated in the literature. It has been argued that FDI provides access to advanced technologies and other intangible assets which may spill over to the host country and allow domestic firms to improve their performance. While there is a substantial literature on this issue, for obvious reasons, little is known about the effect of FDI on domestic firms in the African context. Noting this gap, this paper uses two-period (2003 and 2007) firm level panel data from South Africa to examine the impact of foreign direct investment on the labour productivity of domestic firms. A key policy change during this time period was the passage of the broad-based black economic empowerment act (BB-BEE) and we also examine the effect of the interaction between foreign ownership and BEE on labour productivity. Regardless of the empirical specification we find no spill over effects and no evidence that a greater degree of BEE compliance by foreign firms influences labour productivity.

Text: See [Discussion Paper No. 6048](#)



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