

## **PRODUCTIVITY AND EFFICIENCY BENEFITS FOR AN EMERGING ECONOMY GENERATED BY MULTINATIONAL FIRMS**

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The aim of the paper is to present the efficiency advantages and possible spillovers of foreign direct investment from multinationals for the South African business sector. The hypothesis that the ownership structure adopted by multinationals may affect efficiency differently was tested.

Foreign direct investment is a necessity for the South African economy in the sense that these multinationals use advanced technology in both their production and distribution processes. This will firstly be translated into higher efficiency levels for themselves and secondly, be transferred to the rest of the business sector. The proprietary asset that the multinationals want to exploit by investing in other countries is technology. Technology has certain public good properties that cannot be fully insulated from the rest of the system. These externalities produced, by multinationals, would be to the benefit of the domestic firms and should enhance the success of technology imitation through backward and forward linkages. In partially owned affiliates technology can be easier copied by the domestic partners and diffused in the domestic sector. Potential increases in local competition as a result of foreign entry may also be considered as externalities contributing to efficiency spillovers.

The analysis is based on a representative sample of domestic firms and foreign firms operating in South Africa. The data set provided new information on the sectoral composition of multinational ownership and its impact on productivity. A significant result is the positive and important effect on labor productivity as a direct result of the degree of foreign ownership of firms (full and majority owned affiliates). Other productivity enhancing factors included the size of the firms,

capital intensity, borrowing capacity and cash flow availability. Productivity spillovers benefiting local firms are differentiated by degree of foreign ownership, with minority holdings generating a stronger effect.