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Escape FDI and the dynamics of a cumulative process of institutional misalignment and contestation: Stress, strain and failure

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Abstract

We argue that escape foreign direct investment (FDI) happens when unknown future "rules of the game" cause concern about the continued productive capacity of the economy. Adapting the stress-strain-fail model of materials failure, we argue that escape FDI is a process with three cumulative phases. Conditions for escape FDI (stress) are created by institutional deterioration and contained contestation. Limited escape FDI (strain) results from periods of societal instability and/or inadequate institutional reforms. Extensive escape FDI (failure) results from pervasive societal instability and/or fundamental changes in institutions. Using a historical approach, we develop these propositions for South Africa, 1956 to 2012.

Escape FDI and the dynamics of a cumulative process of institutional misalignment and contestation: Stress, strain and failure

During the first meeting in 1990 between one of South Africa's most prominent businessmen, Johann Rupert and Cyril Ramaphosa, an African National Congress (ANC) leader and from 2018 the country's President, Ramaphosa confronted Rupert about why the South African-controlled luxury group Richemont had been incorporated in Luxembourg rather than South Africa. Rupert replied: "Cyril, it's actually very simple, and you can tell that to your stakeholders. I have to protect the assets of my stakeholders, the shareholders, against your stakeholders – so that if they want to steal stuff, they won't be able to do so" (Dommisse, 2005: 326). The comment by Rupert highlights an important but under-theorized explanation for internationalization, namely escape foreign direct investment (FDI). The purpose of this paper is to investigate the dynamics of escape FDI.

Escape FDI occurs when managers go abroad either in search of advantages there or to avoid poor domestic conditions (Cuervo-Cazurra, Narula & Un, 2015). Since Lall in 1983 had argued that FDI could be a "logical means of escape" for what he termed third world multinationals, a number of scholars had used escape FDI as a concept (e.g. Bulatov, 1998; Child & Rodrigues, 2005; Kalotay, 2004; Liu, Buck & Shu, 2005; Stal & Cuervo-Cazurra, 2011). However, the term has long lacked precision. Thus FDI to escape the "perceived institutional hardship" (Boisot & Meyer, 2008) in China can be argued to carry many similarities to created-asset seeking FDI, while Luo and Tung's (2007:487) claim that "some South African MNEs, such as SABMiller, have to operate globally to […] escape from the limited domestic market" suggests that escape FDI could be conceptually close to market-seeking FDI.

In this paper, we suggest a more precise conceptualization of escape FDI. We define escape FDI as FDI that occurs when firms seek to limit their exposure to a home country because unknown future "rules of the game" (i.e. institutional arrangements) call into question the perceived potential productive capacity of the economy. We in particular argue that three elements need to receive

attention: the role of institutional misalignment, which we argue results from changes in institutions rather than their weakness (even though profound changes often happen in institutionally weak contexts), the role of societal contestation, and finally the fact that escape FDI is a cumulative process.

To allow us to map changes over time, we use a historical approach, and investigate FDI from South Africa from 1956 to 2012. 1956 marks the imprisonment of Nelson Mandela for his anti-Apartheid activities and 1994 marks the first democratic elections in South Africa, marking the beginning of a period of profound institutional transformation. By 2012, the failure of many post-Apartheid reforms was becoming apparent, triggering a different set of challenges. We therefore do not extend our analysis beyond 2012. We use indices of institutional rights (specifically property rights and political rights) as well as a measure of social instability over the same period. Finally, we use evidence of the thinking and actions of a number of South African analysts and business leaders during the period under review. As is customary with the historical method, we present the evidence chronologically, and intertwine the discussion of our evidence with the results.

We borrow from the stress-strain-fail model of failure in materials research to explain how escape FDI is a cumulative process that results from increasing institutional misalignment and societal contestation. In materials theory, a force acting on an object causes stress, while strain is the change in the material's shape or form (but not load carrying capacity) if the stress is sustained. If a material eventually fails, it loses its load carrying capacity. Similarly, we argue that escape FDI starts under "stress" conditions, and specifically when episodes of societal contestation and some institutional misalignment occur in a country. If episodes of contestation become more frequent or intense, so that the misalignment between the expectations of firms and the institutions of the country gets more severe, we see "strain", where increasing amounts of FDI leave the country. Finally, "failure", the concluding and most marked phase of escape FDI, takes place when there is severe societal contestation

and/or fundamental changes to institutions. The resulting misalignment – even when such changes represent potentially positive reforms for the future – triggers a flood of escape FDI.

Our evidence that escape FDI is a process that takes place through three cumulative phases suggests that scholars need to change how they examine escape FDI. One of the contributions of this paper is that it demonstrates the inadequacy of arguing that escape FDI results from "weak" institutions. Instead, escape FDI happens when there is either societal contestation, or when there is not alignment between firms and national institutions. We show that escape FDI happens when (the extent or nature of) the future productive capacity of the country is not evident. Therefore funds leave the country either during severe societal tension or during (the often coinciding) reform processes. In short, we contribute to a richer understanding of escape FDI, and in so doing, also document the role of the home country in internationalization.

LITERATURE REVIEW

Using a conceptualization similar to that of Cuervo-Cazurra, Narula and Un (2015:31), when the "manager takes the firm abroad to explore for better sources of advantage and [to] avoid the poor conditions of the home country", examples of FDI as different as from China to an advanced country (e.g. Luo & Wang 2012) and from Germany to China (Witt and Lewin, 2007) have been described as escape FDI. But by just focusing on what is more desirable relative to the home country, it is hard to see how escape FDI differs from other motives for FDI. We instead propose that escape FDI can be defined as FDI that occurs when firms seek to limit their exposure to a home country because unknown future institutional conditions, the "rules of the game" by which firms need to operate, cause doubt about the productive capacity of the economy.

We propose three clarifications to current literature on escape FDI. The first builds on the work of Witt and Lewin (2007) and suggests that escape results from institutional misalignment rather than weak institutions *per se*. The second is to explicitly theorize societal contestation as a precursor of

escape. Although some notion of contestation is implied in the very term, few scholars have examined its implications. The third is to understand escape FDI as a cumulative process. To do so, and understanding that escape FDI represents some kind of failure in the home economy, we borrow and adapt the stress-strain-fail model from materials research. This allows us to conceptualize escape FDI as a series of cumulative phases where funds first start “leaking” from the home economy and intensifying until a veritable “flood” of FDI results.

Institutional misalignment

Apart from Lall's 1983 argument that FDI could be a "logical means of escape" from less developed countries, the first main use of escape FDI as a concept was in the post-Soviet era, initially in a study of Slovenian FDI to Germany (Svetličič, Rojec & Lebar, 1994) and later more widely (Andreff, 2003; Bulatov, 1998; Kalotay, 2002; 2003). Although there can be little doubt that the post-Soviet institutional environment was characterized by both weakness and far-reaching changes in institutions, subsequent scholarship has emphasized primarily the weakness of institutions. However, we argue that in the post-Soviet context, it was not institutional weakness but instead institutional misalignment – resulting from the profound changes in the institutional environment – that was critical in triggering escape FDI.

In 1998, Bulatov surveyed and found support for a range of "push" factors in the internationalization of Russian multinational corporations (MNCs). A substantial number of respondents expressed concern about the high inflation rate, an indicator of a weak institutional infrastructure. But the other concerns that emerged as important – political instability, legal instability and the need for "a 'spare business' ensuring against disturbances in Russia" (1998:78) all suggest a concern not just with institutional weakness, but specifically with unpredictable changes in the institutional environment. Similarly, Andreff (2003) argued that "system escape" can be explained by a host of factors, ranging from matters that clearly relate to a weak institutional environment, e.g. prohibitive domestic taxation, export quotas and high inflation, as well as some that relate to changeability, such as political instability.

The distinction between institutional weakness and institutional changes was not pointed out by either the initial or the subsequent scholars of post-Soviet internationalization. Thus Kalotay (2004) argued that Russian FDI was aimed at “escaping a difficult business environment” (2004:164), while Filippov in 2010 argued that in spite of increased economic stability, Russian MNCs continued to venture abroad to safeguard themselves against "political risks".

Subsequent scholarship investigated escape FDI from a range of other countries, including a comparison of Mexico and Hungary (Dörner, 2005), China (Child & Rodrigues, 2005; Liu, Buck & Shu, 2005) and wider (Luo & Tung, 2007; Stal & Cuervo-Cazurra, 2011). Where both weak and changing or changeable institutions were mentioned in these studies, scholars once again did not differentiate between them. Thus Stal and Cuervo-Cazurra (2011:215) mention aspects like the lack of legal protection for property rights and poor enforcement of commercial laws (two indicators of weak but potentially stable institutions) alongside political instability and unpredictable regulatory changes, two indicators of institutional changeability.

Moreover, in most studies institutional weakness received greater attention than institutional misalignment. Thus Luo and Tung (2007:488) argue that entrepreneurs from developing countries often seek "better legal protection overseas over their property rights and business activities than they face at home". This type of argument was also made about China, although subsequent empirical evidence suggested that the weakness of institutions in China did not drive escape FDI (Liu, Buck & Shu, 2005). Indeed, Child and Rodrigues (2005:401) argue that "institutional constraints such as legal uncertainties, obstruction of domestic acquisitions, and regional protectionism through license restrictions do remain a problem, but it seems that successful firms have found ways to accommodate or circumvent them."

In fact, a body of evidence suggests that weak institutions in an economy need not inhibit economic activity. In their study of China and Russia, Puffer, McCarthy and Boisot (2010) concluded that the informal institutional environment was so well embedded that it was unlikely that entrepreneurs

would rely fully on formal institutions even when they became better developed. In the words of Luo and Chung (2013), firms can either “fill” or “abuse” institutional voids. Either way, managers may be able to find ways to manage “around” weak institutions and even find entrepreneurial opportunities in "institutional voids" (Mair & Marti, 2009).

We instead argue that weak institutions *per se* similarly do not trigger escape FDI and that instead, escape FDI is triggered by institutional misalignment. This builds on the thinking of Witt and Lewin (2007), who argue that the ossification (rather than changeability) of the German institutional context was the reason why German firms chose to internationalize to China. While the ossification of a well-developed institutional regime is one reason for misalignment, we argue that misalignment more commonly is found in rapidly changing national institutional environments which is often the case in emerging markets.

The Soviet case demonstrates well that weak institutions and turbulent institutions often co-occur. To give an example: After the transition from a centrally planned to a market economy at the end of the Soviet era, foreign currency had become in principle obtainable. But severe currency shortages meant that businesses could not know whether or when currency would be available to them, resulting in severe liquidity constraints (Andreff, 2003). There clearly was a misalignment between what was nominally and practically possible, between the types of strategies firms could conceptualize and those they could execute. We argue that it was this misalignment rather than institutional weakness that led to escape FDI.

Contestation

Our second main argument is that an element of contestation is a precursor of escape FDI. Compare the differences in meaning of "leaving prison" versus "escaping prison", or "leaving a bad relationship" versus "escaping a bad relationship". In all cases, there is a move away from an undesirable state. Yet when the term "escape" is used, there is also a suggestion that the change happened in spite of some

contestation. Many scholars imply some notion of contestation in how the concept is used, for example Luo and Tung (2007:487) when they argue that some South African MNCs "have to operate globally to avoid governmental control over foreign exchange usage". Similarly, Enderwick (2017) argues that escape FDI can result from “discriminatory” government policy. The notion of contestation is clearly implicit in such arguments. However, it is not made explicit, and neither are the indicators or implications of contestation examined. We believe that international business scholarship can benefit from greater engagement with the notion of contestation and particularly societal contestation – how it manifests, and how it is part of escape FDI.

Cumulative process

Finally, we argue that escape FDI has to be understood cumulatively, because FDI not only takes place over time, but also progresses through different phases, taking different forms in different time periods. Moreover, if we accept that escape FDI is associated with institutional misalignment and societal contestation, it has to be understood as some type of “failure” in the home economy. We therefore turn to the model of failure from materials science.

The failure of materials can be described in three phases. The first phase involves "stress". At this point, the material experiences some force, but there is no visible evidence of stress. The second phase, "strain", occurs when the ongoing force results in some visible deformation in the material, but the material still fulfils its function. The final phase, "failure", takes place as a result of sustained strain, and involves the loss of the load carrying capacity of the material (Boller & Seeger, 2013; Ramberg & Osgood, 1943). This is a stylized account; different materials have different stress-strain curves, and the precise points at which transitions between the phases take place are affected by multiple factors and in fact are not always clear. But as non-materials scientists, we find the stylized outline useful and we use the three phases illustratively to structure our discussion of institutional misalignment, contestation and the cumulative nature of escape FDI.

Our argument is that institutional changes together with contestation from firms and citizens place stress on the local economy. Initially, the effects seem minimal, but continued stress will lead to visible strain. Scholars have previously documented the outcomes of such stress conditions. For example, political instability is likely to result in stalled economic growth (Aisen & Veiga, 2013; Alesina, Özler, Roubini & Swagel, 1996), while political risk can also be expected to decrease inward FDI (Busse & Hefeker, 2007; Desbordes, 2010).

In addition, outward FDI (OFDI) may well increase as entrepreneurial firms "springboard" to new countries in their search for opportunities abroad (Luo & Tung, 2007). Although some part of this OFDI may be escape FDI, at this point it is not yet clear how the FDI differs from market-seeking or created-asset seeking motives. We argue that escape FDI is most likely and most clearly found when there is failure in the perceived "load carrying capacity" of the local economy. When the extent of stress in the local economy continues beyond a certain point, firms may choose to shift their operations to outside the borders of the local economy to a location with institutional and other conditions that they perceive as more amenable to their operations. Such decisions, we contend, reflect escape FDI.

In the subsequent section, we offer historical evidence of the build-up, zenith and demise of Apartheid, and demonstrate the links between those historical events in South Africa – both the nature of institutions and social contestation – and escape FDI. We conclude by suggesting three propositions on escape FDI.

RESEARCH DESIGN

Methodology

Yin (1981; 1994) argues that a case study is the most appropriate design for studying a complex social phenomenon where there is a blurring of boundaries between the context and the phenomenon. This is the case for escape FDI. Indeed, one of the challenges in finding empirical evidence for escape FDI is that it tends to follow an idiosyncratic course. For example, escape FDI in Argentina at the turn of the century

was triggered by the failure of dollarization, while in Venezuela a decade later, it was triggered by attempts to nationalize and cut ties with the US. Although commonalties between those cases can be articulated, they tend to be at a very high level (e.g. “political factors”).

Yin (1994) also argues that a single case design is acceptable, provided the chosen case demonstrates rare and unique events, a point elaborated by Siggelkow (2007) with his metaphor of a "talking pig". We believe that the South African case is fitting for investigating escape FDI. From when the ANC in 1960 decided to oppose Apartheid through an “armed struggle”, resistance to Apartheid not only intensified, but also became more violent. Initially there was little change to South Africa’s OFDI, but by 1985 OFDI was exceeding incoming FDI. This pattern violates the predictions of the Investment Development Path (Dunning, 1981; Dunning and Narula; 1996; Narula, 1996) for a country at the level of development that South Africa was. Finally, South Africa has recently been acknowledged as a particularly prolific source of emerging market MNCs, outperforming many of its much larger counterparts in the sheer number of MNCs it has produced (Luiz & Ruplal, 2013). Collectively, these observations suggested some anomaly that needed investigating.

Having selected the case, the question must be answered about the best approach to collecting and analyzing evidence. Understanding changing levels of not only outward FDI (OFDI) and inward FDI (IFDI), but also of institutional rights and social contestation is key to our argument, requiring the use of quantitative evidence. Yin (1984) offers useful guidelines, highlighting that quantitative evidence is appropriate for case analysis, and that the analysis of quantitative data of a case would typically involve the tabulation of meaningful events, followed by "pattern matching" (Yin, 1994). Another approach is to use the historical method. The historical method has recently received renewed attention in management scholarship (Kipping & Üsdiken, 2014; Maclean, Harvey & Clegg, 2016) and holds substantial promise for the enrichment of management scholarship (Godfrey, Hassard, O’Connor, Rowlinson & Ruef, 2016).

In this paper, we use what has been termed a "history to theory" approach (Kipping & Üsdiken, 2014). We use the historical method in the gathering and analysis of (most of) our data, and then use the historical evidence to help develop our theory. In the case of a "history to theory" approach, the theory is presumed to be general, but historical data are used because the data are perceived to be “somehow well suited to contribute to theory building or testing” (Kipping & Üsdiken, 2014:541). This approach is increasingly used in international business research, for example in the work of Cuervo-Cazurra and Rui (2017). Building on the work of Kipping and Üsdiken, scholars developed a typology of four conceptualizations of history in organization studies based on differences in the purpose and mode of enquiry possible for studies with a historical approach (Maclean, Harvey & Clegg, 2016).

We see our work as an example of "history as conceptualizing"; we use history as a resource to enable the exposition and elaboration of ideas, constructs and theory, while the theoretical ideas remain embedded in the narrative (Maclean, Harvey & Clegg, 2016:614). This approach is argued to be especially well suited for the generation of new theoretical constructs. While escape FDI as a construct is not novel, we believe that previous studies have not provided the richness of explanation as we do in this paper.

In adopting a historical approach to the study of business, three important tensions have been identified, and we believe it is important to explain how we deal with these tensions. The first deals with the tension between "narrative and analysis" (Rowlinson, Hassard & Decker, 2014:252), or simply put, whether the bulk of theorizing takes place before or during the presentation of evidence. We follow norms of management scholarship in presenting our general argument upfront, but offer propositions only as the necessary evidence is presented. In that sense, we privilege a narrative approach.

Another important tension stems from differing assessments of "quality" evidence. Organization scholars generally prefer data that they have" constructed", e.g. through interviews or surveys, in the belief that it yields "richer" insights, whereas business historians privilege evidence "found" in sources

like archives for being presumably more "accurate" (Rowlinson, Hassard & Decker, 2014). Thus for organizational scholars, replicability is central (in good research, another scholar should be able to replicate the method), while historians value verifiability (another scholar should be able to go to the same archive and find the same evidence). The bulk of our evidence is historical, as we believe that it is important to map changes over time.

We also give information about the actions of South African executives and firms over the period. Although all escape FDI is OFDI, it does not follow that all OFDI is escape FDI. Because we are specifically interested in escape FDI, we add qualitative information about South African businesses to explain their thinking in the different time periods. Similarly, we use historical evidence to demonstrate changes in the levels of institutional rights, but rely on commentators to highlight to what extent those changes can be argued to reflect institutional misalignment.

The final tension has to do with how time is handled. Management scholars tend to have a chronological approach to time, while historians see periodization, i.e. the chunking of time into distinct periods, as a part of their task (Rowlinson, Hassard & Decker, 2014:258-259). Our evidence reveals clear periods (corresponding to the stages of escape FDI), but they are not of the same chronological duration.

Setting

This study focuses on South Africa from 1956 to 2012. After the creation of the Union of South Africa in 1910, a political system was cemented that excluded the majority black South Africans from participation. At the same time, an economic dispensation sought to create cheap and abundant sources of black labor to facilitate industrial development. These goals were achieved through an intricate set of racial legislation and sprawling bureaucratic and security organs cemented by the courts, prison system and other state institutions. One of the cornerstones of this system was the Native Land Act of 1913, which set aside about 7% (extended to 13% in 1936) of the country for black ownership, and precluded black South Africans

from ownership in the remaining 93% of the land. The result was the increasing impoverishment of black South Africans and their growing dependence on urban work. The Mines and Works Act of 1911 (amended in 1926) instituted a color bar in the mining industry, entrenching job reservation. Black South African miners' wages remained roughly the same in real terms between 1911 and 1972, whilst the real wages of white South Africans rose steadily from 1922 until the 1970s, when the pressure for African wage increases rose (Van der Berg, 1989:189).

This oppressive attitude became government policy when the National Party came to power on an "Apartheid" mandate in 1948, and more repressive laws were introduced. Table 1 lists some of the more important laws. In 1956, the starting point for our study, the deterioration of rights in South Africa accelerated, e.g. the infamous “pass laws” that limited the movement of black South Africans were extended to women, resulting in widespread protest. It was also the year during which the treason trial for Mandela’s anti-Apartheid activities started. What followed was a period of growing instability as the state struggled to contain the social unrest and resorted to a combination of more repression followed by some relaxation and reform and then a total onslaught with a state of emergency.

[Table 1 about here]

In 1994, after substantial turmoil, Apartheid was dismantled and Nelson Mandela elected as the first president of a democratic South Africa. The subsequent years saw the repeal of numerous discriminatory acts, and also the creation of new non-racial institutions.

In August 2012, the Marikana massacre took place during which 34 people died. This represented the most lethal use of national security forces against civilians since the Sharpeville riots in 1960. Marikana has been described as a turning point in South African history by both journalists and academics (Alexander, 2013; Chinguno, 2013). Concerned that the Marikana massacre may have rung in a new era where a democratic and majority-black government perpetrates actions once associated with the

Apartheid era, our study does not extend beyond 2012. Table 2 highlights the political and economic state of the country during the time under study.

[Table 2]

It is important to note that South Africa during most of the time under study was deeply racialized. We use the categories and terms used at the time, notably Black, "Coloured" (mixed-race), Indian and White without endorsing the terminology or indeed the validity of the categories. Where they occur, we also retain the titles of some of the laws that refer to a problematic earlier term for Black people, namely "Bantu" people.

Data

Institutional metrics

Apartheid was characterized by the restriction of political and property rights, and institutional mis- and realignment throughout the rise and fall of Apartheid can be seen in the changes in these rights. We use indicators of political and property rights because they are precise enough to capture the specificity of the South African context but still general enough to ensure replicability. The methodology employed in constructing the institutional indexes is explained in detail in Fedderke, de Kadt and Luiz (2001). The indices were initially developed for the Apartheid era, but we extend them until 2012.

In terms of political rights, it is worth highlighting that not only beliefs about what are appropriate political rights but also actual political rights have been evolving over time. The components of political and civil liberties that constitute our measure, based on criteria from the political science literature (Bollen, 1992; Bollen & Paxton, 2000), include voting rights, freedom of association, freedom of assembly, freedom of expression, the extent of arbitrary executive power, independence of the judiciary and the legislature, government secrecy or indemnity, due process of laws, freedom of movement, academic freedom, and religious freedom.

Similarly, the ‘ideal’ set of property rights is based upon seven criteria: the right to possess, the right to use, the right to manage, the right to capital, the right to security, the power to transfer, and the liability of execution. International business scholars tend to focus on intellectual property, e.g. through patenting activity, when considering property rights. The importance of intellectual property, even in less developed countries, has indeed grown in recent years (Narula & Dunning, 2000; 2010). But this study examines a middle-income country with a strong mining industry over the second half of the 20th century, and an assessment of property rights more generally seems more appropriate for capturing the potential for economic activity. Immovable property, especially land, and given the importance of mining to South Africa’s economy, also mineral rights, are precursors of economic activity, and are used in the index. (For further discussion see Fedderke, de Kadt & Luiz; 2001; Luiz, Pereira & Oliveira, 2013.)

For both political and property rights, the primary source documents were laws and regulations that had been passed in the different years in the study. The legal changes were reviewed by a multi-disciplinary panel of experts who determined whether they improved, diminished or kept neutral, relative to the previous year, the rights of South Africans. Figure 1 demonstrates how the two sets of rights follow a similar trajectory: Both started out weak and weakened further before starting to improve. By the late 1990s both sets were close to the ideal value.

[Figure 1 about here]

Social instability

We measure contestation by looking at social instability. The level of contestation (and social instability) is directly observable in the number of actions taken to repress social activism. Although some records about prosecutions under Apartheid were kept by the government, civil society organizations, especially the South African Institute of Race Relations (SAIRR), played a critical role. The indicators of social instability draw heavily on evidence kept by the SAIRR for the periods up to the end of Apartheid. Table 3 provides the elements contained in the series.

[Table 3 about here]

[Figure 2 about here]

During the Apartheid era, social instability clearly increased as the limited property and political rights of the majority of the population became increasingly contested. Since the end of Apartheid, social instability has been a result primarily of the non-delivery of public services. Therefore the measure was updated from 1996 through to 2012 using data on public violence associated with some form of political activity (e.g. a clash between rival political factions would qualify for inclusion but not an armed robbery). Most of the violence was linked to the non-delivery of public services.

In contrast to institutional indicators that represent some ideal type, instability takes place when societal conditions and constraints are challenged. Therefore both political and property rights are expressed as a value out of 100, with 100 reflecting the ideal, but the social instability index does not have an upper ceiling. Indeed, it is important to note that the high levels of instability are so high that they obscure substantial social unrest in the apparently more stable years. For example, the Social Change Research Unit of the University of Johannesburg tracks community protests (typically on the non-delivery of services like housing and sanitation), and in 2010, 2011 and 2012 recorded 252, 206 and 470 protests respectively, with 3, 9 and 5 resultant deaths in each of the years. Yet on the graph (see Figure 2) it appears as if social instability had been largely resolved.

Foreign Direct Investment

We examine data on FDI obtained from South Africa's central bank from 1956 to 2012. Because we are interested in the longer-term implications of shifts in FDI, we excluded portfolio investments from the analysis. We experimented both with normalizing OFDI and IFDI using 1960 values and with presenting them as a share of GDP, and observed substantively same the patterns. Figure 3 presents South African OFDI flows as a percentage of GDP. Three periods of increased outward FDI can be observed: 1980 to 1985, 1994 to 2000 and 2003 to the end of the period under review.

[Figure 4 about here]

In the overlay of OFDI/GDP and IFDI/GDP over the same time period (see Figure 4), a "smile" from 1985 to 1998 when OFDI exceeds IFDI is noticeable. Even though 1985 marks a (relatively sharp) drop in OFDI relative to previous years, the drop in IFDI is even steeper. This change suggests not only a negative turn of events in South Africa, but also some form of containment of OFDI. That situation seems to persist until 1999 when IFDI once again overtakes OFDI in size.

EVIDENCE

Stress: 1950s, 1960s and 1970s

In the case of South Africa, the stress phase lasted three decades. We demonstrate in this section how the conditions for escape FDI were created through weak institutions and contained social instability. Our evidence brings more nuance to the literature that argues that weak institutions trigger escape FDI (e.g. Boisot & Meyer, 2008; Luo & Wang, 2011; Peng & Parente, 2012). First, the South African case suggests that firms can choose to align with the local institutions, even when institutions may be weak. Second, the successful containment of instability limits the possibility of escape FDI, both by reassuring firms that the state is still in control, and by making it harder for firms to shift their holdings. Thus although the conditions may be ripening for escape FDI, very little such FDI is actually seen.

It is clear that Apartheid was already legally embedded by 1956 when our analysis starts (Figure 1). Both the political and property rights indices show the effects of a racial division where white South Africans had extensive rights, but the bulk of the population had very limited rights. Political rights steadily deteriorated from a highest value of 34 out of 100 in 1956 to a low point of 13 over the period 1967 to 1976. Property rights fluctuated somewhat from a value of 37 out of 100 in 1956 until it reached a low point of 31 in 1976.

In March 1960 the Sharpeville massacre took place when the police attacked demonstrators against pass laws, killing 69 and wounding 189. This incident destroyed the veneer of a consensus-driven

government, and triggered an intensification of social instability. The anti-pass campaign intensified to the extent that jails were overflowing with pass law “offenders” and the pass laws had to be suspended until later that year. A state of emergency was promulgated, and by May of 1960 more than 18000 people had been imprisoned. By August, when it was repealed, more than 10500 were still in detention.

In May 1961, the Apartheid government established South Africa as a republic and amidst strong disapproval from the United Nations and the Commonwealth, left the Commonwealth. Stringent exchange controls were imposed in June 1961 which prevented the repatriation by non-residents of the proceeds of securities sold in South Africa and prohibited South African residents from remitting funds abroad. A dual exchange rate system entailed the introduction of a “blocked Rand” for “non-residents” (whether a natural person or legal entity) and a “commercial Rand” for residents, with different rules resulting in funds in a blocked non-resident account being worth less than Rands in a resident account (Havemann, 2014). The 1961 Anglo American annual report refers to this explicitly as the cause of a “severe curtailment in the net outflow of private capital” (Pallister, Stewart & Lepper, 1988:95).

In spite of the turmoil, during the 1960s and early 1970s, foreign assets in South Africa remained at around 30% of GDP (see Figure 3). There was a gradual decline between 1961 and 1964, likely due to the Sharpeville massacre. But the well-established relationship between risk and return also held, and foreign inflows soon resumed. Sampson (1987:87-88) maintains that MNCs “could not resist the prospects of rapid expansion and a return on investment averaging 15 percent by 1967 – far higher than in Europe.” Indeed, by 1968 South Africa had overtaken the USA as the third largest recipient of investment from Britain (excluding oil and financial services).

However, international hostility to Apartheid endangered South Africa's export markets and hindered South Africa's ability to attract foreign capital and technology. This contributed to a fall in the growth rate from the end of the 1960s. Indeed, the median annual GDP growth in the 1970s was only

3.01% (in 1978) compared to more than double that for the 1960s, when the median annual GDP growth was 6.12% (in 1965).

The next major incident of contestation was the 1976 Soweto riots when black students protested the compulsory teaching of Afrikaans in schools. This incident triggered increased violence on the side of both protestors and police, and extensive destruction of property was reported throughout the year. By 1977, the budget for “defense” amounted to more than 18% of the total government budget and compulsory military service for white men had been increased from 12 to 24 months.

IFDI had already seen a sharp drop in 1973, the year of the first oil shock and mass strikes in South Africa, and the 1976 riots accelerated the decrease in IFDI flows. Indeed, IFDI into South Africa would not increase again until 1990. Yet OFDI remained fairly constant at under 10% of GDP from 1956 through to the early 1980s. (See Figure 4 for a composite view of all the indicators, with four eras highlighted with consecutive ovals.)

[Figure 4 about here]

This does not mean that South African business did not sense a potential threat in the instability. Domestically, there was a “growing convergence of views among capitalists about the rising costs and inconvenience of apartheid” (Lipton, 1985:227) from the 1970s. Lipton (1985) points out that as a result of job reservation based on color and the deliberate policy of under-educating the black population, South Africa had started to experience acute skill shortages. Businesses were also worried about the shortage of investment capital as a constraint on growth, as political concerns made foreign capital hard to come by (Jones & Inggs, 1999).

Firms engaged in a variety of strategies to mitigate the perceived risks. In 1961 a predecessor of the current packaging company Nampak, Amalgamated Packaging Industries (API), consolidated its overseas holdings into the Canadian Overseas Packaging Industries (COPI). Hocking (1987:140) in his history of Nampak writes:

> More than a few API employees suspected that the Kalmansons [main shareholders] were more interested in COPI than in API, especially as South Africa's future remained in doubt.

In 1975, Natie Kirsch, a major South African industrialist whose company Kimet was one of the four largest companies on the Johannesburg Stock Exchange in the 1970s, bought Jetro, a New York-based distribution business for wholesalers. This interest appeared minor until 1986, when he sold Kimet, but managed to retain control of Jetro. Jetro, still in the US, remains the basis of his current wealth (Fife, 2010).

Similarly, when Anglo-American wished to purchase a stake in the Canadian mining company Hudson Bay Mining and Smelting, it could not fund the purchase from South Africa because of currency exchange restrictions and had to raise the funds in New York. Eventually, the South African exchange controls resulted in Anglo-American establishing its own overseas finance house in 1965. Charter Consolidated was based in London and was a holding company for operations in the USA, Britain, Canada, France, and others. Within three years its market value almost rivalled the market value of Anglo-American itself (Pallister, Stewart & Lepper, 1988:95). Indeed, already in the 1960s there was an Anglo-American long-term plan "that within 25 years, South Africa will be turned into a country which can be controlled from the outside" (EIR, 1993: 127).

Some companies – for example Barloworld in 1969, and the Afrikaans industrialist Anton Rupert in 1972 when he consolidated his international tobacco interests in Rothman's International – listed on the London Stock Exchange. Although they continued to operate primarily from South Africa, the UK listings provided a potential escape route, should it be needed.

Thus although OFDI did not increase during this period, the South African economy was clearly under stress. The apparent stability of OFDI can be attributed to the containment strategies of the government, comparable to the strengthening of a dam wall. Currency restrictions were put in place in 1961, but civil liberties were restricted so that social instability by 1978 were at pre-Sharpeville levels.

This is in accordance with the predictions of the theory of failure: Although the consequences of the load on the economy were not yet visible, there was definitely stress.

Stress was triggered firstly by the deteriorating institutions. For example, laws to deny a category of citizens the right to acquire marketable skills, the duplication of facilities to ensure racial segregation, and limitations to the economic activity of people of color all started to constrain the economy. Second, stress was present in the tremendous effort required to contain social contestation. We argue that those stressors created the conditions for escape FDI. Wary of what the future could bring, companies started making contingency plans in case it became necessary to reduce their exposure to the country. However, they had not yet decided that it was necessary to "escape". We therefore suggest:

> Proposition 1 (Stress): The conditions for escape FDI are created by deteriorating institutions and contained periods of societal instability.

Strain: 1980s

The second phase of escape FDI took place during South Africa's highly turbulent 1980s. We argue that not only intensifying periods of societal instability but also reforms to institutional arrangements result in the "strain" phase of escape FDI. It is intuitively clear why intensifying societal instability would result in some escape FDI, but the evidence from South Africa suggests that institutional reforms had a similar effect. We argue that this is because even limited reforms introduce uncertainty by suggesting changeability in the institutional environment. Moreover, there is no knowing whether the changes will result in a more or a less business-friendly environment. Given the potential changes in "shape" or "form" of the home economy ("strain"), businesses may decide that it is prudent to acquire some interests outside of their home country. This results in some escape FDI, but at this stage, firms seek to diversify internationally rather than leave their home country.

Reforms to the institutional arrangements in South Africa took place over the period from 1983 to 1989 as pieces of Apartheid legislation were repealed. As from 1982, black South Africans in urban

areas were allowed to elect local authorities and from 1983 the "tricameral parliament" allowed for some political representation from "Coloured" and Indian South Africans. Some "petty Apartheid" measures were repealed, for example the prohibition on mixed marriages in 1985. Property rights also saw small improvements in the early 1980s, for example through the Black Communities Development Act (1984), which provided for the transfer of 99 year leasehold to "competent" black people, and the Group Areas Amendment Act (1984) that allowed for some "free trading zones".

Yet the 1980s were also characterized by levels of social instability not experienced before or since as most South Africans saw legal reforms during this period as attempts to hold on to (white) power by offering other South Africans limited rights (see Figure 2). The decade started with dozens of bombings at sites deemed central to the enforcement of Apartheid, such as courts, military bases, power plants (including South Africa's only nuclear plant) and Sasol, a state-owned synthetic fuel company. These bombings were met with retaliatory raids, often in neighbouring countries. A number of laws were promulgated to contain widespread social action in the early 1980s, and were consolidated in a State of Emergency from 1985 onwards. Unlike with previous protest action (after Sharpeville and the Soweto riots), the levels of social instability increased rather than decreased in response to repressive legislation (Olivier, 1991).

Business also by now openly criticized Apartheid, and a series of meetings between officials of the still-banned ANC and not only South African academics and journalists, but increasingly also business leaders took place in the 1980s.

In 1983, the financial Rand was abolished and non-residents could repatriate the majority of their South African investments via the commercial Rand. This changed when Botha's infamous "Rubicon" speech in 1985 led to the collapse of the South African Rand. The dual (capital and financial Rand) system was immediately reintroduced and restrictions on capital expatriation substantially tightened. Restrictions were so draconian that there was a limit to the gold jewelry that South Africans

could take when travelling abroad (Havemann, 2014).

In terms of OFDI, the effects of currency controls are clear: Substantial funds were leaving the country during the brief relaxation of exchange controls in 1983 and 1984, and outflows halted abruptly with the tightening of exchange controls in 1985. Yet even the very strict controls could not bring OFDI down to pre-1983 levels. During this phase IFDI also plummeted as global sanctions were imposed and foreign investors fled the country, and in 1985 OFDI exceeded IFDI for the first time.

Companies engaged in complex workarounds to allow them to escape the country. Anglo-American (which in 1985 controlled more than 50% of the Johannesburg Stock Exchange) created the holding company Minorco which in 1981 became the largest foreign investor in the USA. Indeed, by 1988 almost half of Minorco's investment was in the USA. Through a series of deals and mergers the family controlling Anglo-American, the Oppenheimers, secured a 27% stake in the largest private investment bank in the USA and the world's largest bond-trading firm, the Salomon Brothers. A 1982 US Department of Commerce report on publically available information identified the Oppenheimer family as owning nearly $1,000 million in 18 American companies (Pallister, Stewart & Lepper, 1988).

In 1987, Sappi, the paper and pulp producer, managed to acquire the South African interests of the British-owned Courtaulds and its subsidiary Saiccor as the British firm wanted to divest from the country. Through complex and secretive negotiations (eventually concluded through 56 separate agreements) Sappi was able to secure not only Saiccor and Courtauld's productive capacity, but also Courtauld's global distribution facilities (Hocking, 2012). Given the drop in local demand, exporting was essential for the survival of Sappi.

In another example, the South African conglomerate Barloworld, having listed on the London Stock Exchange in 1969, in 1985 acquired J Bibby & Sons. In the words of a financial journalist, J Bibby & Sons was "a relatively obscure English company". Importantly though, he argues that in those days it was the vehicle through which the company did its business in Europe (Bruce, 2012).

Similarly, in 1986 the well-established South African insurer Old Mutual bought the entire share capital of a small UK life office. In addition to a "mediocre life office" in the UK, Providence Capital had an international division based in Guernsey. That division was used to form the basis of the Old Mutual International platform (Cranston, 2012).

A competitor, Liberty Life, had managed to grow exponentially through acquiring the assets of foreign insurers that were leaving the South African market over the 1970s and into the 1980s. In 1980 the founder of Liberty Life, Donald Gordon, set up a subsidiary named TransAtlantic Holdings and started looking for an international acquisition. When 9.3% of the British insurer Sun Life became available, Gordon purchased it, and over time increased the TransAtlantic shareholding to 29%, and in 1985 through TransAtlantic also acquired the UK-based property company Capital and Counties. TransAtlantic listed on the Luxembourg Stock Exchange in 1987 and in 1992 on the London Stock Exchange after obtaining full control of Capital and Counties (Jones, 2010).

Having become fully South African when Standard Chartered divested in 1986, Standard Bank's "first move" was to form "Standard Bank London" in 1992, primarily to facilitate access to the funds available in the Western world (Paul, 2012). Indeed, although scholarship suggested that the political effects of sanctions were limited (Levy, 1999), a number of South African firms made useful acquisitions during the 1980s.

These examples demonstrate how South African firms were seeking out investment opportunities abroad. The sustained stress on the economy was starting to result in observable strain. Given the high levels of social instability – increasingly often accompanied by violence – as well as the sluggish growth (2.2% over the decade), it was hardly surprising that firms were trying to escape the country. Yet government was still able to contain the actions of business, if increasingly less often those of the general population. The strict exchange controls limited the extent to which South African

companies were able to move funds out of the country. Companies dealt with this restraint by setting up holding companies in stable, advanced economies, typically in the UK and Europe.

In highlighting the various manifestations of firms with South African ties, Goldstein and Prichard (2009:250) state that "considerable caution must be exercised when deciding what can, and cannot, be considered a South African firm". We believe that this is not incidental. During the 1980s, as the country was struggling both politically and economically, the South African government expected its firms to stay at home. And given global anti-Apartheid sentiment and sanctions, firms were not particularly welcome abroad either. When South African firms internationalized, they did so covertly.

In terms of an analogy, the failure of a dam is again useful. Under strain, some breaches become apparent. However, numerous reinforcement activities are undertaken to secure the dam, and through them, the leakage is minimized. In the context of business, containment activities include government censure of firms that go abroad, and especially limiting the expatriation of local funds and restricting access to foreign currency. This leads us to suggest that the incremental reforms and intensifying contestation represent the start of escape FDI, but that it will initially be limited. We propose:

> Proposition 2 (Strain): Limited escape FDI results from inadequate reforms to institutional arrangements and/or intensifying periods of societal instability.

Failure: 1990s

We argue that the final phase of the cumulative process of escape FDI takes place when the productive capacity of the country has been rendered, in essence, unrecognizable. This can be because of fundamental changes in institutional arrangements, for example in Cuba in 1965, with the revolution in Iran in 1979 and in the Soviet Union and South Africa in the 1990s

The South African case demonstrates clearly that escape FDI is driven not so much by weak institutions as much as by rapidly changing institutions. South Africa in the 1990s was a better place than in the 1980s. Yet the rapid changes in institutions in the 1990s triggered a flood of escape FDI as

firms sought to dramatically reduce their exposure to the country. We argue that this occurred because businesses can adapt to institutional conditions if they are known, but not when change is too rapid.

President FW De Klerk's 1990 announcement of the unconditional release of Nelson Mandela and unbanning of all political parties, including the ANC, represents such a rapid, dramatic change. Virtually overnight, social instability ceased. In 1994 the first democratically elected government started its work, and over the next few years, political and property rights were restored until the 1996 constitution resulted in a rights regime that can be described as normal. At first glance, it appears as if South Africa was experiencing ideal conditions. Yet this positivity is not borne out by either the OFDI or IFDI data. On the contrary, although the strict exchange controls with the financial Rand were only abolished in 1995, there was a steady increase in OFDI throughout the 1990s. Moreover, IFDI remained well below OFDI levels until 1999.

We argue that this apparent anomaly can be explained by the fact that escape FDI is a cumulative response not only to contestation, but also to institutional misalignment. The new ANC government had made pro-socialist statements, and businesses were concerned about the new South African government following a similar nationalization agenda as other post-colonial African governments.

Moreover, a number of businesses had managed to develop ways of working with the Apartheid government. Sol Kerzner, the hotel magnate and founder of Sun International, developed the Sun City resort in 1979 in a black "homeland" (similar to a Native American reservation), in which gambling was legal. Sun City attracted extensive criticism from anti-Apartheid activists, but was a commercial success. Once negotiations about the end of Apartheid started, Kerzner limited new investments in South Africa. (His next major South African investment would be the Cape Town One&Only hotel, launched in 2009.) Instead, in 1994 Kerzner bought what would become Atlantis in the Bahamas, and in 1996 developed the Mohegan Sun in Connecticut in the US.

Similarly, the media firm Naspers initially started as an Afrikaans media company, and long worked closely with the Apartheid government. Naspers was for example able to launch the first pay TV station in South Africa in 1986 by agreeing to limit news content (Uys-Allie, 2010). With the advent of democracy, Naspers wanted to get into the European pay TV market. But having long benefited from its relationship with the Apartheid government, it had not developed a European base from which it could orchestrate international expansion. In 1995 Naspers entered into a partnership with Richemont, the foreign affiliate of the South African Rupert family, in order to acquire FilmNet, a pay TV station that operated in northern Europe. In 1999 the station was sold to the French company Chanel+ (Uys-Allie, 2010).

The Naspers example highlights a pattern that is found among a long list of South African companies. In the 1990s, investment went primarily to advanced economies, Europe and increasingly also North America. Long before the dual exchange system was abolished, numerous South African firms had acquired an international holding company or subsidiary that they could use to facilitate internationalization. And even when a firm did not yet have an international base, by now a large network of personal and historical ties existed that could support internationalization (Goldstein & Prichard, 2009).

In the case of Naspers, the Rupert family facilitated internationalization, as in fact the Ruperts did for a number of Afrikaans-owned companies. The international expansion of the fast food chain Nando's to Australia in 1990 and the UK in 1990 was made possible with support from Dick Enthoven, co-founder of the large insurer Hollards (Motloung, 2010). The technology company Dimension Data (acquired in 2011 by Nippon) started its international expansion with the acquisition of ComTech, an Australia-based company that was founded by a South Africa-born and educated entrepreneur (Bannerman, 2012).

While these personal networks were important, by the 1990s, many South African MNCs had set up a base to allow them to circumvent exchange controls. The paper and pulp company Sappi in 1992 acquired the German-based Hannover Papier and in 1994 the US-based SD Warren. The logistics firm Imperial acquired the Europe-based logistics division of ThyssenKrupp in 1999. Barlow Rand unbundled in 1993, and in 1995 to 1998 (renamed “Barloworld”) expanded its interests in the US, UK, Spain, Portugal and Australia. Biddy & Sons, the UK vehicle used for the transactions, was bought out in 1997 and renamed Barloworld Holdings.

Escape of course carries with it the implication that not just FDI but in fact entire firms can leave the country. This takes place when the headquarters of the firm shift to a new location, and indeed, evidence of "migrating multinationals" suggests that a number of South Africa's largest firms did so towards the end of the 1990s (Barnard, 2014). In 1999 Anglo-American merged with its international holding arm, Minorco, and shifted its primary listing to the London Stock Exchange. South African Breweries had been unusual in its pursuit of the wider African market even during the 1990s (Luiz, Stringfellow & Jefthas, 2017) when most South African MNCs pursued opportunities in the advanced economies, but together with the insurer Old Mutual, South African Breweries moved its headquarters and listing to London in 1999. In 2000, the technology firm Dimension Data followed suit.

We argue that the OFDI of the 1990s represents escape as the main motive for internationalization. Despite continued currency controls, OFDI continued to increase, and in fact, after the abolishment of exchange controls in 1995, in 1996 recorded its highest levels ever. Firms were overwhelmingly choosing host locations in stable economies even when they were mature markets, and some firms shifted their primary exchange listing to advanced economies. All these factors suggest that firms were apprehensive about the changes to South Africa.

In a sense, the profound changes in South Africa had not only given rise to fears about a possible misalignment between firms and the new government, but perhaps more importantly, the sense that

government was in control had been lost. The immediate and dramatic cessation of political violence as soon as Nelson Mandela was released, the overwhelming majority (just short of two-thirds) with which the (black-led) ANC had been elected in 1994, the damning evidence of the (white) government-sponsored violence coming from the Truth and Reconciliation Commission from 1996 onwards, and growing state debt levels all limited the effectiveness with which government could direct or contain investment.

If escape FDI is understood as a cumulative process, firms can be expected to respond differently to contained, and then intensifying, and finally pervasive societal instability. Similarly, the home country is perceived as increasingly risky when firms need to operate in a context with deteriorating institutions, where institutions are undergoing wavering and inadequate reforms, up to where there is far-reaching institutional change. The process is not irreversible, and it is not inevitable that the final phase of escape FDI, failure, will take place. But where firms are confronted with changes that not only render their home country virtually unrecognizable, but specifically cause doubt about the future productive capacity of its economy, the known risks of internationalization may seem less important. Under such conditions of "failure", we propose:

> Proposition 3 (Failure): Extensive escape FDI results from fundamental changes in institutional arrangements and/or pervasive societal instability.

In terms of the analogy from before, escape FDI occurs when the "dam" fails. This dam failure can take place when societal instability becomes so widespread that not even executives can insulate themselves from it, or when institutional changes are so fundamental that there is almost inevitably misalignment between existing business interests and the new institutional regime. Unlike in the institutional strain phase, very little can be done to deal with "breaches" in the dam: When there is institutional "failure", escape FDI becomes pervasive. Table 4 summarizes our argument, explaining the mechanisms driving each phase and showing how one South African MNC, Barloworld, progressed through the phases.

[Table 4 about here]

Market-seeking FDI: 2000 onwards

It is perhaps useful to comment also on the final wave of OFDI evident from the data. We argue that this does not represent escape FDI, but instead South Africa's successful (re-)integration into the international economy. A new "dam" had been constructed. There were new but known "rules of the game" and government increasingly appeared pro-business, especially with the adoption of the market-friendly GEAR (Growth, Employment And Redistribution) policy in 1996. IFDI jumped sharply in 1999 to almost 40% of GDP as the fiscal deficit fell from almost 10% of GDP in 1993 to under 3% by 1999, making clear government's commitment to prudent economic policy. From 2000 there were major increases in both IFDI and OFDI.

Between 2001 and 2006, South African firms focused on domestic opportunities, as high domestic economic growth (about 5% per annum) was fueled by the demand of a rising black middle class. However, an increasing number of South African firms started exploiting the opportunities on the African continent: Naspers used the proceeds from its sale of Europe-based interest FilmNet to launch pay TV in Africa, Barloworld started expanding into mineral-rich African regions like Zambia and the Democratic Republic of Congo, Hollard expanded insurance products to neighboring countries like Mozambique, Namibia and Zambia, and Imperial launched an African Division in 2011.

The enthusiastic comments by the CEOs of South African businesses about possible global opportunities that became a feature of financial reporting in this era are borne out by the quantitative evidence: by 2012 more than 20% of the OFDI from South Africa went to wider Africa, compared to about 5% in 1999. A similar proportion went to Asia, up from a negligible proportion at the end of the 1990s. In terms of the motives for internationalization, it seems that the vast majority of investments were market-seeking.

DISCUSSION AND CONCLUSION

It has long been hard to find robust evidence for escape FDI, and our study confirms Cuervo-Cazurra and Narula's point about firm motives that "being truthful may have costs" (2015:9). Firms that engage in escape FDI experience their institutional environment as uncertain, and they are likely to face resistance in getting their capital to another country. Rather than risk contesting their government, they may find it easier to highlight the pull motives of their proposed new host locations. After all, the economies to which firms typically relocate when they engage in escape FDI tend to be not only stable, but also characterized by a range of created assets.

We therefore believe that this paper demonstrates the value of a historical approach. The historical evidence allows us to demonstrate how FDI responds to institutional and social changes over time. While few business leaders explicitly articulate a concern with escape, other evidence (for example, responses to the relaxing of exchange controls) suggests that escape was a prominent motive for their internationalization. Moreover, the time-based analysis allows us to demonstrate how the cumulative process of institutional misalignment and contestation went through phases of stress, strain and finally failure.

This paper consequently contributes a more robust and analytically precise understanding of escape FDI to the literature. We argue that it is a particularly appropriate concept to describe the relatively rare but economically consequential cases of "dam failure", and suggest that escape FDI takes place when unknown future institutional arrangements, i.e. "rules of the game", cause concern about the continued productive capacity of the economy to such an extent that firms seek to move outside the borders of the home country.

Our work has important implications for future scholarship on escape FDI. Implicit in the work of many of the scholars who suggest that escape FDI takes place when there are weak institutions (e.g. Liu, Buck & Shu, 2005; Luo & Tung, 2007; Stal & Cuervo-Cazurra, 2011) is the suggestion that firms have

somehow “outgrown” the local context. We suggest that scholarship can advance more precisely if the misalignment with rather than weakness of institutions is emphasized. Moreover, in many cases, firms that have been studied are in the stress or at most strain phases of FDI. We suggest that an explicitly phased approach to theorizing escape FDI will allow scholars to acknowledge similarity between firms that are internationalizing to “explore for better sources of advantage and avoid the poor conditions of the home country" (Cuervo-Cazurra, Narula & Un, 2015:31), but importantly to also allow appropriate distinctions to be made between different levels of severity of the challenges that firms face.

An important research question raised by this paper relates to the consequences of escape FDI both for the escaping firms and for the home country. Goldstein and Prichard (2009) try to unpack the capabilities that allowed South African firms to internationalize, but concede that many South African firms struggled abroad, especially in the advanced European markets. Luiz et al. (2017) argue that South African firms initially succeeded in host countries which demonstrated institutional complementarity with their home environment. For example, two of the four pioneers on the London Stock Exchange during the "failure" period, Dimension Data and Old Mutual, were nearly bankrupted by the experience. In terms of consequences for the home country, it is noteworthy that although all four firms retain a non-trivial presence in South Africa, they have cut back on value-adding activities like R&D at home.

But while it appears that many South African MNCs engaged in flight rather than in a considered strategic decision to use or acquire capabilities elsewhere, it is also known that firms from less developed countries learn from their international experience (Rabbiosi, Elia & Bertoni, 2012). From 2000 onwards, South African firms were well positioned to benefit from the pro-market reforms in many African countries, and it seems likely that their previous international experience, even though it may have been motivated by the desire to escape, will have been of benefit. Yet will that have been the case if the transition to a democratic South Africa had failed? Additional scholarship is needed to explain whether and how escape FDI affects the actual productive capacity of the economy.

Prior research on a range of countries can be reinterpreted in the light of our propositions. For example, Jones's study of British trading companies provides a number of examples of firms that had "successfully escaped from 'difficult' host countries to more attractive areas" (Jones, 2000:130). He offers examples from across the world, and it is clear when and whether firms are experiencing stress, strain or failure conditions. Hong Kong demonstrates typical "strain" conditions in that some but limited escape FDI was taking place with the handover to China. Thus in 1984 Jardine Matheson moved its primary domicile to Bermuda and in 1991 its primary stock exchange listing to London. In the late 1980s it sold some of its Asian assets and diversified into the UK with interests in retail, construction and (unsuccessfully) electricity provision (Jones, 2000:334). However, many of the post-colonial economic shifts, for example the Dutch companies leaving Indonesia in 1957 in response to nationalization policies (Jones, 2000:153), can be described as cases of "failure" as firms respond to the doubtful future productive capacity of the economy under new "rules of the game".

Even within a single country, a cycle of stress-stain-failure can repeat. We decided to conclude our empirical analysis in 2012 because it seems to mark the start of a new era in South Africa (Alexander, 2013). Under the presidency of Jacob Zuma, government corruption reached such levels that the term "state capture" became commonplace[1]. The responses of firms to this new era are consistent with our propositions, and by 2017, South African firms were experiencing renewed strain. For example, Naspers in 2017 traded at a discount of nearly 40% – due to "political challenges", according to its CFO – but could not shift its primary listing because of exchange controls[2].

It is perhaps useful to return to Johann Rupert and Cyril Ramaphosa, whose exchange was quoted at the beginning of the paper. Rupert benefited hugely from the increased openness of the South African economy post-Apartheid. But his own wealth, coupled with the broken promises to and

[1] See http://www.gupta-leaks.com/, accessed January 17, 2018
[2] See https://www.businesslive.co.za/bd/companies/2017-12-14-naspers-rules-out-change-in-listing/, accessed January 17, 2018

desperate poverty of the majority of South Africans, led to him being branded the face of “white monopoly capital”[3]. In turn, Ramaphosa was elected the new president of the ANC, and became President of South Africa in 2018. In January he attended Davos where he stated:

> We will be dealing with the regulatory environment and all those matters and difficulties that have been impeding investment coming through to South Africa: we will address them. The most important thing is that we will be seeking to build consensus. We will be a conference of the governing parties that go out, build consensus amongst key role players in our economy, go and build, and put together a social compact[4].

This paper has theorized the role of institutional misalignment and societal contestation in triggering failure in the economy. In the hope of restoring confidence in South Africa, Ramaphosa reinforces a mirror image: an institutional realignment and a “social compact” among key role players in the South African economy. As much as those factors can be expected to attract IFDI, in this paper we demonstrate that their absence will trigger escape FDI.

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[3] See https://www.biznews.com/sa-investing/2016/12/02/johann-rupert-gupta-bell-pottinger/, and https://www.nytimes.com/2018/02/04/business/bell-pottinger-guptas-zuma-south-africa.html, accessed February 8, 2018

[4] See https://www.biznews.com/wef/davos-2018/2018/01/25/ramaphosa-off-piste-davos-straight-talk/?acid=3zb4IjSAzwseZeuwhd4cWQ%3D%3D&adid=7xmxa7aLJIgQ9pc0JfeOsA%3D%3D&date=2018-01-26, accessed February 8, 2018

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Table 1: Some important laws characterizing the South African Apartheid era

Date	Law	Effect
1936 1945	Bantu Trust and Land Act Bantu Urban Areas Consolidation	Regulation of the movement of Black people within urban areas
1948	National Party comes to power on an Apartheid mandate	
1949 1950 1953	Prohibition of Mixed Marriages Act Immorality Amendment Act Group Areas Act Reservation of Separate Amenities Act	Limitation of contact between racial groups by making it illegal to have relations across different races, to live in the same area or use the same public amenities such as schools or hospitals
1950 1953 1954	Suppression of Communism Act Public Safety Act Riotous Assemblies and Suppression of Communism Act	Repression of resistance to Apartheid by banning a range of organizations termed “communist” and disallowing public protests
1956	Riotous Assemblies Act Separate Representation of Voters Act Prohibition of Interdicts	Intensification of legislation in order to repress resistance to Apartheid, including making legal recourse to forced removals illegal
1957 1959	Section 16 of the Immorality Act Extension of University Education Act	Intensification of legislation to limit contact between racial groups, including barring sexual relations or attending university together
1960 1961	Unlawful Organizations Act Indemnity Act	Suppression of resistance to Apartheid, including by providing indemnity to any employees or leaders in government for action taken during the violent anti-Apartheid protests
1959 1969	Promotion of Bantu Self-government Act Separate Representation of Voters Amendment Act	Removal of parliamentary representation for Blacks and Coloureds respectively
1963 1967	General Law Amendment Act Terrorism Act	Legalization of detention without trial
1968	Prohibition of Political Interference Act	Limitation on different political organizations to collaborate, designed to limit multi-racial resistance to Apartheid
1970	Bantu Homelands Citizenship Act	Removal of citizenship of South Africa from blacks and reassigning it to one of the ethnic “homelands”
1977	Indemnity Act	Suppression of resistance to Apartheid by providing indemnity to any employees or leaders in government for action taken during the violent anti-Apartheid protests
1982	Internal Security Act	Consolidation of all previous laws to repress resistance to Apartheid, including the banning of undesirable organizations, publications, people and public gatherings, and of detention without trial

Date	Law	Effect
1982 1983	Black Local Authorities Act Republic of South Africa Constitution Act	Offer of limited power for the first time to South Africans of color: To local authorities for Blacks and to Coloureds and Indians through participation in a tri-cameral parliament (with the dominant White chamber of parliament)
1985 1986	Immorality and Prohibition of Mixed Marriages Amendment Act Identification Act - repealed Abolition of Influx Control Act – repealed	Abolishment of what was termed "petty Apartheid", e.g. laws limiting movement of black people in non-black areas or relationship across races
1985 1986	State of Emergency National State of Emergency	First only in 36 of 270 magisterial districts, later country-wide and intensified: Curfews, restrictions on political funerals, banning of organizations and meetings, restrictions on media coverage
1990	Unbanning of the ANC	First meaningful change towards full political association
1990 1991	Discriminatory Legislation regarding Public Amenities Repeal Act Abolition of Racially Based Land Measures Act Population Registration Act Repeal Act	Abolishment of some essential components of Apartheid, e.g. where people could use public amenities or buy property. The act requiring the racial classification of all citizens was repealed, although the registry of racial categorization remained until 1994
1996	South African Constitution	Establishment of universal non-racial political rights

Table 2: Socio-political and economic context of South Africa, 1956 to 2012

Executive head of state*	**Socio-political context**	**Economic context**
1954 – 1958 National Party Prime Minister Hans Strijdom	• SA is still a dominion of the British Empire. • Republican fervor after the 300-year anniversary of Dutch arrivals to the country enables Strijdom to remove the Union Jack, God Save The Queen and ”On His Majesty’s Service” from government events and communications. • The black-dominated trade union movement gains momentum with the founding of South African Congress of Trade Unions. • The ANC adopts the “Freedom Charter”, laying out its foundational principles. The preamble reads: *We, the People of South Africa, declare for all our country and the world to know: that South Africa belongs to all who live in it, black and white, and that no government can justly claim authority unless it is based on the will of all the people*.	• The 1950s and 60s see a period of relatively high economic growth, low inflation, controlled fiscal spending, and increasing industrialization. • Relatively robust average economic growth of 5.02% p.a. over this period is experienced. • Good macroeconomic conditions are seen with a low average inflation rate of 2.68% p.a., and a contained budget deficit of -2.77% of GDP. • A policy of import substituting industrialization is promoted.
1958 – 1966 National Party Prime Minister HF Verwoerd	• The UK Prime Minister highlights UK discomfort with SA’s racial policies with his “winds of change” speech. • SA becomes a republic and withdraws from the Commonwealth. • Verwoerd bans the ANC and other black political organizations. • The ANC goes underground and decides to pursue armed resistance • 69 people are killed by security forces with the Sharpeville massacre. • Verwoerd is assassinated by a mixed-race clerk in parliament.	• “Separate development” along racial groupings is administered through the Homeland system. • The role of the public sector in the economy increases. • Average economic growth of 5.13% p.a. is maintained. • Average inflation rate of 2.26% p.a. and a budget deficit of -2.73% of GDP indicates relatively prudent macroeconomic policy.
1966 – 1978 National Party Prime Minister John Vorster	• African decolonization accelerates and reaches SA’s neighboring states. • Rhodesia attempts to shore up white rule with the Unilateral Declaration of Independence and Portugal withdraws from Mozambique and Angola.	• The oil crisis of 1973 results in labor unrest. • Government reconsiders import-substituting industrialization. • Vorster initiates the South African armament industry.

Executive head of state*	Socio-political context	Economic context
	• Vorster orders military operations in Namibia, Angola and Zambia. • Military conscription becomes compulsory for white men. • Fourteen heads of African states release the Lusaka Manifesto in which they pledge support for banned anti-Apartheid organizations. • Various countries suspend cultural and sports agreements with SA. • Killings of anti-Apartheid activists increase.	• The macro-economic costs of apartheid become more apparent with a growth slowdown. • Macroeconomic conditions worsen over this period with an average economic growth of 3.78% p.a., inflation at 7.49% p.a., and a budget deficit of -3.73% of GDP.
1978 – 1989 National Party Prime Minister (1978 – 1984) State President (1984 – 1989) PW Botha	• Mass civil society unrest occurs as anti-Apartheid actions are increasingly well-coordinated. • Trade unions arrange in confederations and coordinate anti-Apartheid actions. • The United Democratic Front is established to coordinate the actions of churches, civic associations, trade unions, student organizations, sports bodies and others to oppose Apartheid. • School boycotts under the slogan "liberation before education" become widespread. • Botha drives a secret nuclear weapons program. • Botha funds a "third force" to stoke conflict within black communities.	• The rising economic costs of apartheid put pressure on the fiscus with increasing debt levels. • Defense spending increases to 22% of national spending as resistance mounts both domestically and regionally. • South African business enters talks with exiled ANC. • SA's international isolation increases with international sanctions and disinvestment • Macroeconomic conditions deteriorate substantially with an average economic growth of 2.43% p.a., inflation of 14.19% p.a., and a ballooning budget deficit of -4.89% of GDP.
State President FW de Klerk 1989 – 1994 National Party	• De Klerk unbans the ANC and frees Mandela after 27 years in prison. • Twenty-seven political organizations and government representatives sign the National Peace Accord, paving the way for negotiations about ending Apartheid. • De Klerk dismantles SA's nuclear weapons. • The global community starts reengaging with SA. • Various ANC members return from exile to assume leadership positions. • The assassination of Chris Hani, leader of the SA Communist Party, nearly leads to	• Economic collapse is imminent as result of an economic slowdown and rapidly increasing debt levels. • The economic costs of apartheid become clearly unsustainable. • Macroeconomic conditions worsen further as economic growth averages barely in the positive territory (0.57% p.a.), and high inflation persists (12.83% p.a.), whilst the budget deficit balloons to -6.78% of GDP

Executive head of state*	Socio-political context	Economic context
	the breakdown of the process of negotiation.	(reaching 9% towards the end of this period).
President Nelson Mandela 1994 – 1999 African National Congress	• The ANC wins the first democratic elections with close to a two-thirds majority. • SA rejoins international bodies like the Commonwealth, World Health Organization and United Nations as well as various international sporting bodies. • The Truth and Reconciliation Commission, chaired by Nobel laureate Archbishop Desmond Tutu, is established to deal with crimes under Apartheid. • SA's progressive constitution is signed into law. • The Constitutional Court outlaws the death penalty.	• Reintegration of South Africa into the global economy and liberalization of the economy. • Economic focus on meeting basic needs of those previously deprived under apartheid and the equitable distribution of public spending. • Some improvement is seen in macroeconomic conditions and reducing debt levels with an average economic growth rate of 2.68% p.a., inflation falling to 7.62% p.a., and the budget deficit being reduced to -4.31% of GDP on average.
President Thabo Mbeki 1999 – 2008 African National Congress	• Mbeki assumes a leading role as diplomat in Africa. • The first major post-Apartheid corruption scandal is exposed, an arms deal championed by Mbeki. • Mbeki attracts widespread criticism for his AIDS denialism and slow action in authorizing treatment as HIV infection rates among pregnant women increase from 22% to 30%. • SA engages in "quiet diplomacy" with Mugabe, while millions of Zimbabweans flee to SA as the Zimbabwean economy collapses. • Xenophobic attacks leave 42 foreigners dead and thousands displaced. • Zuma, the deputy-president, is implicated in corruption changes and (unsuccessfully) tried for rape.	• The GEAR (Growth, Employment And Redistribution) policy with a focus on stabilization, reduction of debt, and market reforms are implemented. • The emphasis increasingly moves to increasing public investment and infrastructure spending in later years. • Macroeconomic conditions improve substantially with a mini-boom with average economic growth of 4.00% p.a. (the highest since the 1960s), and the inflation rate falling further to 5.92% p.a. • Most impressive is the reduction in the budget deficit to -0.57% of GDP with surpluses being experienced towards the end of the period.
President (caretaking after Zuma became	• Longtime ANC leader Lekota founds the Congress of the People in opposition to the selection of Zuma as president.	• Various economic plans are introduced with conflicting agendas, indicative of the contested economic policy and the rise of populist agendas.

Executive head of state*	Socio-political context	Economic context
president of the ANC) Kgalema Motlanthe 2008 – 2009; President Jacob Zuma 2009 – 2012 African National Congress	• The government introduces the large-scale provision for anti-retrovirals for HIV-infected South Africans. • The Nkandla scandal highlights Zuma's use of state funds for the development of his private residence. • Zuma lambasts "clever blacks" for valuing Western society over traditional customs. • Malema, the leader of the ANC Youth League, is expelled from the ANC for not honoring instructions from the party. He founds a new political party, the Economic Freedom Fighter in 2013. • The Marikana massacre takes place.	• Growing corruption and problems of governance within state-owned enterprises is experienced. • Large-scale electricity blackouts take place. • South Africa is severely affected by the economic crisis worldwide with deteriorating macroeconomic conditions as economic growth averages only 2.04% p.a., whilst the inflation rate and budget deficit worsen to 6.70% p.a. and -3.86% of GDP respectively.

*Until the 1983 constitutional change, there was both an executive and a largely ceremonial head of state. Until South Africa became independent from the UK in 1961, the ceremonial head of state was the Governor-General, and from 1961 to 1984, the State President fulfilled that role. In 1984 the State President became an executive role, and in 1994, the term changed to President.

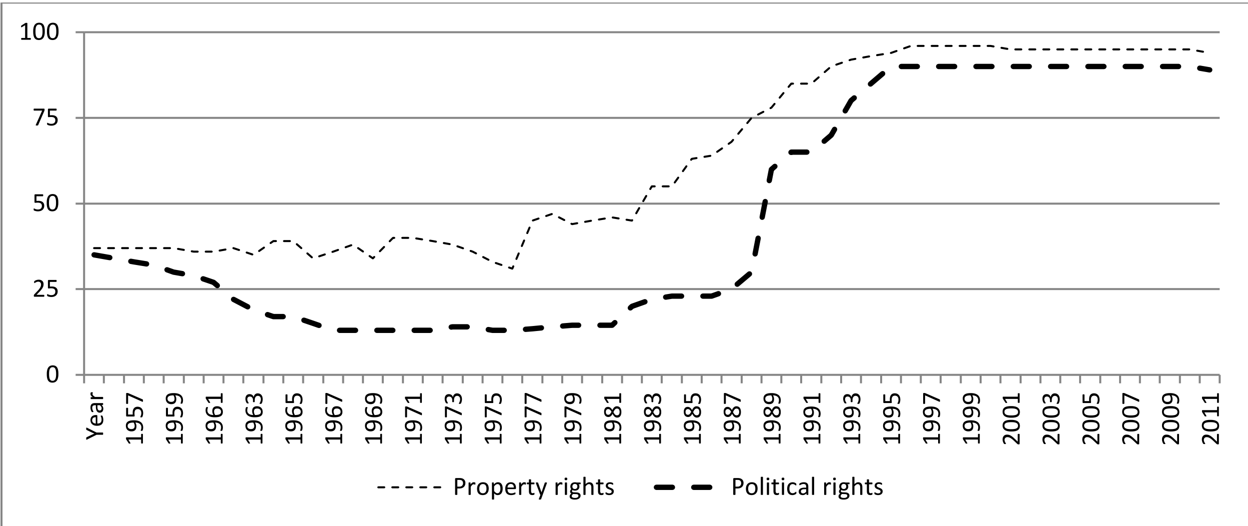
Table 3: Constituent elements of social instability

1.	The number of people proscribed and/or banned for political reasons
2.	The number of people placed in detention
3.	The number of political fatalities
4.	The number of organizations officially banned
5.	The number of actions against “riots”
6.	Declarations of official states of emergency
7.	The number of publications subjected to censorship

Table 4: Dynamics underlying escape FDI

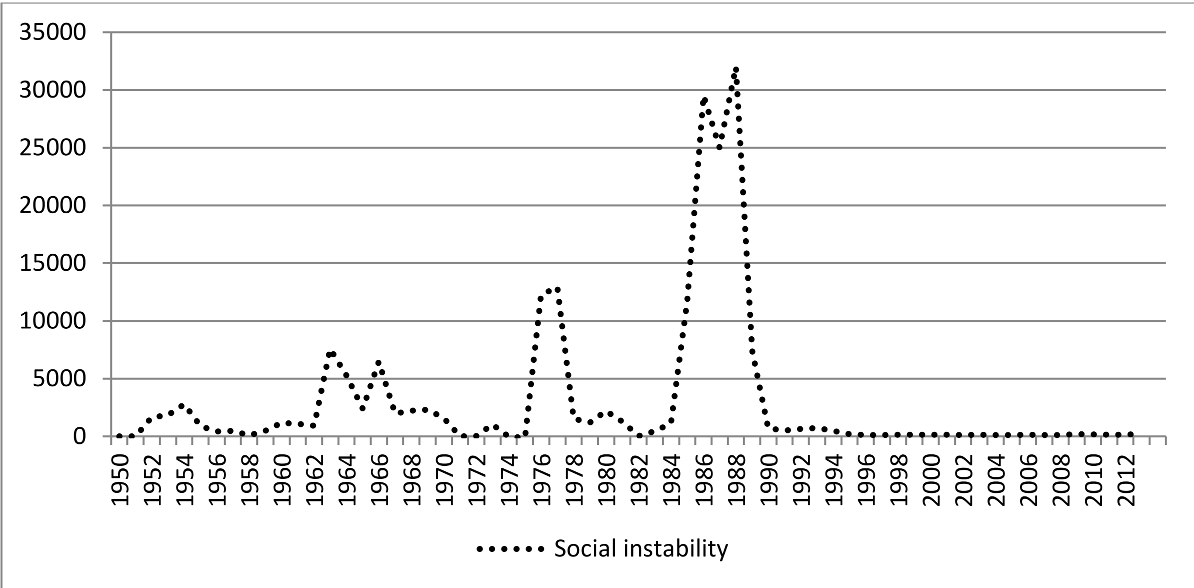
Phase	Proposition	Mechanism	Example
Stress	Contained periods of societal instability and weakening institutions start to create the conditions for escape FDI.	Misalignment of institutions with the expectations of business become evident, and some social instability is experienced although contained. Firms note this, but do little other than listing or acquiring some assets abroad. OFDI is not much affected.	Barloworld acquires a secondary listing on the London Stock Exchange in 1969.
Strain	Intensifying periods of societal instability and/or inadequate reforms to institutional arrangements result in limited escape FDI.	Institutional misalignment becomes so severe that reforms are attempted, and it seems increasingly unlikely that societal resistance can be contained. Escape FDI is triggered, and OFDI starts rising as firms increase their presence abroad.	Barloworld uses its London Stock Exchange listing to acquire J Bibby & Sons in 1985.
Fail	Pervasive societal instability and/or the fundamental misalignment of institutional arrangements result in extensive escape FDI.	In an analogous way to a dam failing, institutions collapse. The state proves incapable of controlling societal tensions, necessitating the large-scale redesign of national institutions. A veritable flood of OFDI leaves the country as firms seek to limit their exposure to the turbulent home country. OFDI may resemble market-seeking FDI, but firms seek out stable host environments, and shun investment in the home region.	Barloworld uses J Biddy & Sons as vehicle to expand its interests in the US, UK, Spain, Portugal and Australia between 1995 and 1998. Biddy & Sons is bought out in 1997 and renamed Barloworld Holdings.
Post escape FDI		As the new institutional arrangements are bedded down and relative stability is reestablished, firms have greater confidence in the local context. OFDI increasingly takes place in the home region, and traditional market-seeking motives and markets can be observed.	Barloworld launches a Logistics Division in South Africa in 2001, acquires first part and by 2004 full ownership of Avis South Africa, and starts expanding into mineral-rich African regions like Zambia, Ghana and the DRC.

Figure 1: Institutional metrics: Political and property rights index



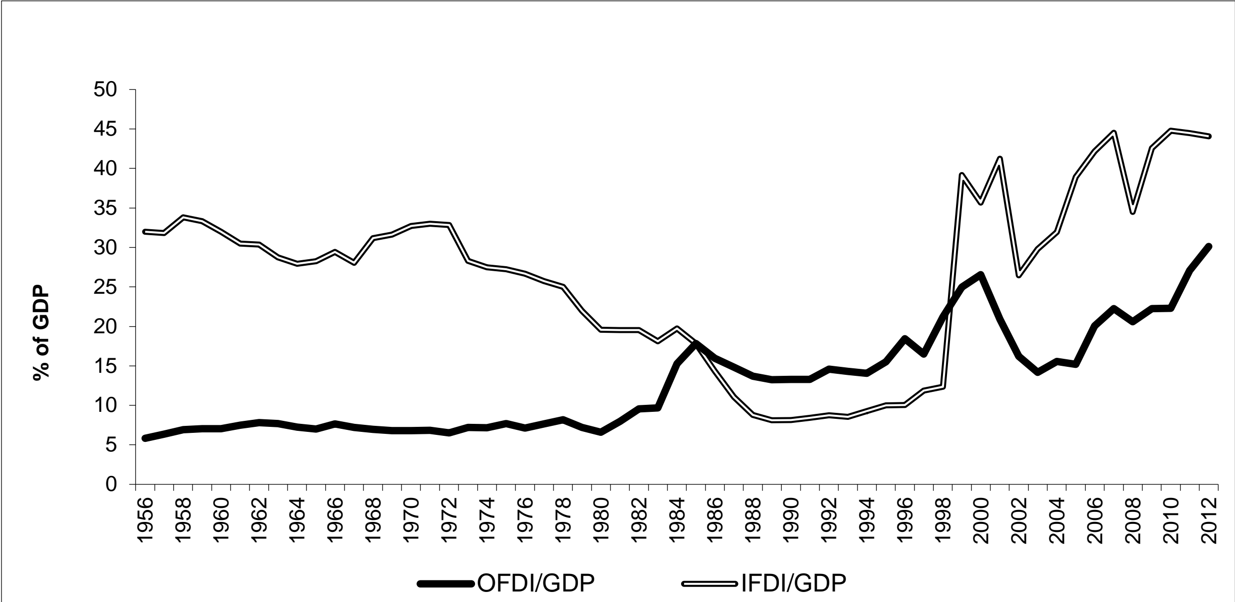
Source: Fedderke et al., 2001, extended to 2012

Figure 2: Social instability



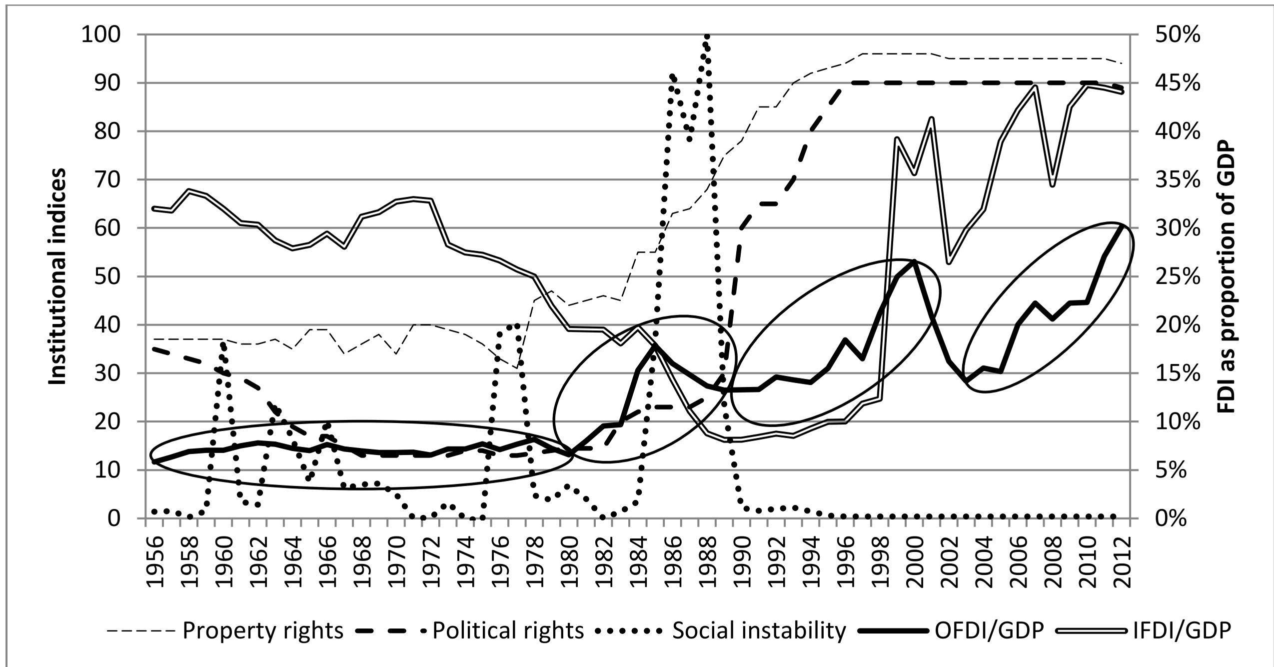
Source: Fedderke et al., 2001, extended to 2012

Figure 3: Outward and inward FDI as % of GDP, 1956 - 2012



Source: South African Reserve Bank

Figure 4: Composite view



To enable comparability with the other indices, for this figure the social instability index has been expressed out of 100.