THE DEVELOPMENT OF A STRATEGIC MANAGEMENT MODEL FOR INDUSTRIAL DEVELOPMENT ZONES TO ATTRACT GREENFIELD FOREIGN DIRECT INVESTMENT

By

GUY MARTIN RICH
The Development of a Strategic Development Model for IDZs to attract greenfield FDI

Guy M Rich
DECLARATION

“I, GUY MARTIN RICH, hereby declare that:

• The work in this research paper is my own original work;

• All sources used or referred to have been documented and recognised; and

• This research paper has not been previously submitted in full or partial fulfilment of the requirements for an equivalent or higher qualification at any recognised educational institution.”

GUY MARTIN RICH 28 NOVEMBER 2003
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ABSTRACT

In order to become globally competitive, South Africa has embarked on an industrial development zone (IDZ) programme to boost investment, increase the socio-economic climate, attract world-class manufacturers and generate local and foreign direct investment (FDI) while creating employment, encouraging skills and technology transfer, and increasing foreign exchange earnings. Twelve strategic areas within South Africa have been identified and are in the process of, or have been, declared IDZs.

East London and Coega are the first two IDZs to come online in South Africa and have generated much publicity in the past number of years. One of the aims of the IDZs, as world-class production areas, is to generate FDI.

Drivers of international FDI include globalisation, political, economic and legal environments and competitive advantage. According to the United Nations Conference on Trade and Development (2002: 25), FDI accounts for 16 percent of worldwide gross fixed capital formation – and a growing proportion of this is going to developing nations.

According to the World Economic Processing Zones Association (WEPZA), IDZs have been the star performer in attracting investment and technology to developing countries during the past 50 years (2002: www.wepza.org).

If the Eastern Cape IDZ programme is to be a success, the development corporations that have been established as the management arms of the IDZs will need to facilitate strategic economic advantage, look towards strategic investments that are sustainable, take advantage of and grow existing industrial capacity and create economic and social benefits for the region.

There are a number of dynamics and reasons behind global FDI decisions. In order to be successful at attracting FDI the development corporations need to understand these dynamics and reasons in order to achieve a strategic fit between potential investor and the IDZ. This can be done by adopting a strategic management model for greenfield FDI from international investors.
This model is based on external and internal drivers of FDI as researched in a theoretical and empirical study and incorporates aspects of industrial and non-industrial characteristics present in the East London and Coega IDZs.
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CHAPTER 1

INTRODUCTION, DEFINITION OF KEY CONCEPTS,
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1.1 INTRODUCTION

According to Beamish, Morrison and Rosenzweig (1997: 30), foreign direct investment (FDI) has become one of the means by which companies operate internationally and by which operations in foreign countries are linked. Experience in the Far East, South America and the developing nations of Africa has shown that FDI not only influences the flow of capital, but also the flow of products, process technology, trade patterns and volumes.

Beamish et al (1997: 30) go further to say that foreign investment often flows in response to market opportunities, factor costs, natural resource availability and cost, the political and economic stability of countries and the international debt position of the host country.

South Africa, as one of the most developed nations in Africa (Jenkins & Thomas, 2002: iv), is an ideal location for FDI from multinational enterprises (MNEs). Not only does it meet the criteria as set out in terms of political, economic, socio-cultural, technological, environmental and legal factors, but it has also shown positive economic growth during the past five years, has focused government policy inviting FDI and, with the advent of the African Union (AU) and the New Partnership for Africa’s Development (NEPAD), aims at regional integration of trade.

Hill (1999: 8) states that FDI is playing an increasing role in the global economy as firms increase their cross-border investments. Investments in foreign countries have been made by US, Japanese and Western European companies.

Based on this, the South African Government has embarked on an ambitious long-term plan to attract FDI. One of the methods used to attract this FDI is through the establishment of Industrial Development Zones (IDZs) in strategic locations in South
Africa. Two of these IDZs have been established at East London and Port Elizabeth (Coega) in the Eastern Cape. According to the Eastern Cape Economic Update, the rationale behind the establishment of these IDZs is four-fold (2002: 4, 6, 8, 9 & 11):

- Firstly, to invite investment into the Eastern Cape to boost commerce and industry;
- Secondly, to increase the socio-economic and socio-cultural climate within the province;
- Thirdly, to provide opportunity for the Eastern Cape to recognise its manufacturing and growth potential through expansion; and
- Lastly, to provide world-class areas worthy of international production and trade.

The Department of Trade and Industry (DTI) state that the objective of the South African IDZ programme is to generate sustainable local and foreign direct investment while creating employment, encouraging skills and technology transfer, encouraging participation in small, medium and micro-enterprises and increasing foreign exchange earnings (Oct 2002: www.thedti.gov.za).

### 1.2 MAIN PROBLEM

It is unclear what research has been conducted in terms of the attraction of FDI into the IDZs of the Eastern Cape. Although there seems to have been research done based on strategic planning, marketing and public relations in terms of strategy documents that are available, there is no clear model available against which to benchmark the likely success of attracting FDI into IDZs in South Africa.

Based on the factors that govern FDI and the establishment of IDZs in the Eastern Cape, this study will ask:

“What strategic management model can be used by IDZs to attract FDI with specific emphasis on East London and Coega.”
1.3 SUB-PROBLEMS

In order to develop this model, it is important that the following sub-problems be discussed, analysed and integrated in the design of the model:

a) What industrial and non-industrial characteristics and factors (specifically political, economic, socio-cultural, technological, environmental and legal – PESTEL analysis) dictate FDI by multi-national enterprises (MNEs)?

b) What are the national, regional and local industrial and non-industrial factors that are present in South Africa that promote FDI?

c) What characteristics and factors are present at the Coega and East London IDZs that can be harnessed to draw FDI?

d) How do professional and knowledgeable people see the IDZ programme attracting FDI? (This problem will be answered by way of a questionnaire)

1.4 DEMARCATION OF THE RESEARCH

1.4.1 Geographical Demarcation

In order for the research process to be manageable, the demarcation of the research will be based on the geographical areas of East London and Coega where the first two South African IDZs will be established.

1.4.2 Greenfield FDI versus Mergers and Acquisitions

Given the infrastructural needs of an IDZ and the need for external direct capital investment, this research will concentrate on greenfield foreign direct investment as opposed to mergers and acquisitions and internal national investment in existing local companies.

1.4.3 Basis for the model

The aim of this study is to develop a model for IDZs to attract greenfield FDI. This model will be developed and based on literature, current approaches within the IDZs to draw FDI and the short, medium and long-term goals of the IDZs in terms of growth and development. The model will integrate the above information to present a graphical
representation of what factors need to be present, which factors can be manipulated and how IDZs can assess the likely success of drawing FDI in terms of direct capital investment.

1.5 DEFINITIONS

In order to assist the reader, certain key terms will be defined below to place the meaning of these terms in context with the study.

1.5.1 Strategic Management

The strategy of an organisation determines its direction and its long-term position by taking into consideration all factors that may play a part in the future of the organisation. Many theorists merely regard it as intensive, advanced planning.

Slack, Chambers and Johnston (2001: 28) state that managers are guided by a set of general principles when making decisions on a daily basis. These principles are aimed at achieving the organisation’s long-term goals and are based on overall organisational strategy.

According to Johnson and Scholes (2002: 15), strategic management encompasses aspects of organisational management that are ambiguous and uncertain, that are complex in nature, issues that have a fundamental impact on the entire organisation and factors that have long-term implications.

Adding to this, Laudon and Laudon (2002: 307) indicate that strategic analysis and management are determined by a number of critical success factors (CSFs) which, if achieved, will ensure the organisation’s success. The key is to determine what these CSFs are and how the organisation can go about achieving them in the short, medium and long-term.

Based on this it can be concluded that strategic decision-making is concerned with the objectives, resources and policies of the organisation which will have long-term effects on aspects of change management, financial management, strategy and operations management.
For the purposes of this study, strategic management will be defined as the identification and management of factors that have a direct impact on the future position of the organisation (IDZ) in terms of growth and development.

1.5.2 Model

According to the Oxford English Reference Dictionary (1996), a model is defined as a representation or a simplified description of a system. The aim of this representation or description is to create understanding.

Emroy and Cooper (1991) as cited in Hutton (2000: 7) point out that there are three types of model. They are:

- Descriptive models that seek to describe the behaviour of elements in a system;
- Explicit models that seek to extend the application of current theories; and
- Simulation models that replicate current models.

Furthermore, Kemp (1997) as cited in Hutton (2000: 7) states that a model is a tool used to explain a phenomenon.

The design of a model in this research will seek to create a framework by which to evaluate the prospects of success of drawing FDI into the IDZs.

For the purposes of this study, a model will be defined as a graphic representation of the factors to be considered and the guidelines to be followed when assessing the likelihood of success in attracting FDI into IDZs.

1.5.3 Foreign Direct Investment

Foreign direct investment (FDI), according to Hill (2003: 8 & 1999: 176), occurs when a firm invests resources in business activities outside its home country. The aim is to produce and/or market a product in a foreign country.
Hill (2003: 204) goes further to state that FDI can take on two forms:

- Greenfield investment which involves direct capital investment for the establishment of a new operation in a foreign country; and
- Acquisitions and mergers where a foreign company acquires a stake in or buys out an existing firm in a foreign country.

Beamish, Morrison, Rosenzweig (1997: 31) and Hill (1999: 176) distinguish between horizontal and vertical foreign direct investment.

Horizontal FDI is aimed at investing in operations that are in the same industry in which the organisation operates in its home country. Vertical FDI involves investment in an industry that provides inputs for the organisational domestic operations.

For the purposes of this research it will not be necessary to consider FDI in terms of acquisitions and mergers. As the focus of this research is based on green-field investment, foreign direct investment will be defined as capital inflows (either promised or materialised) into the East London and/or Coega IDZ that will facilitate infrastructure development and promote medium to long-term development and economic growth in the Eastern Cape.

1.5.4 Industrial Development Zone

Smith (2002: 3) defines an IDZ as an industrial park where manufacturer-exporters set up production plants for direct sale to foreign wholesalers. Raw materials directly enter the IDZ, are reworked and then exported via sea or air to international markets.

The Department of Trade and Industry (DTI) definition of an IDZ is very similar. It states that an IDZ is an industrial estate that has the following attributes:

- Duty free production for exports;
- Transport routes;
- Facilities and services tailored for export-oriented industries; and
- It is near a port or an airport to facilitate easy and quick access to international markets (Oct 2002: www.thedti.gov.za).
Based on this, the definition of an IDZ, as appropriate to this study, will be a designated industrial area, close to domestic and international transport routes, earmarked for the encouragement, siting and development of industrial enterprises to create economic growth.

1.6 ASSUMPTIONS

It is assumed that findings related to international approaches to FDI are applicable to South Africa.

It is also assumed that international factors that have a direct and indirect impact on the choice of an IDZ location, as well as factors that impact on decisions to investment in an IDZ are applicable to South Africa.

Given that the East London and Coega are the first working IDZs in the country that are involved in international negotiations to promote greenfield FDI, it is assumed that any findings regarding FDI factors from the East London and Coega experience will be applicable to IDZs in other parts of South Africa.

1.7 THE SIGNIFICANCE OF THE RESEARCH

The Inward FDI Performance Index of the United Nations Conference on Trade and Development – based on the ratio of the country’s share of global FDI flows to its share of global Gross Domestic Product (GDP) and covering 140 countries - places South Africa as 113th (2002: 3). Its rating in terms of the Inward FDI Potential Index is 77th.

One of the main aims of the IDZ programme in South Africa is to develop a demand-driven infrastructure and attract investment to promote economic growth. This aim forms part of the governments Growth, Employment and Redistribution Strategy (GEAR) formulated in 1996. From a business point of view (1996: 3 – 8 & 13 – 16), the vision of this strategy is aimed at achieving a fast-growing economy, long-term growth, global competitiveness, adjustment of trade and industrial policies and attracting investment.
The Department of Trade and Industry have identified 12 potential IDZ locations. Amongst these are Johannesburg International Airport IDZ, designated on 30 September 2002 and Richards Bay, still to be designated. The fact that there are 12 potential IDZ locations means that there could be potential competition for access to FDI to facilitate capital investment in infrastructure.

According to Ashley Cocks, Marketing Manager of the Eastern Cape Development Corporation (2002: 2), the Eastern Cape province is a premium option when considering South Africa as an investment destination. This is due to the manufacturing strength, low input costs, high labour stability, export culture and political commitment of the provincial government.

The East London Development Zone Corporation (ELDZC) has identified 42 projects for the IDZ. These include motor component manufacturing, optical fibre manufacturing, metal press stamping mills, aluminium and magnesium high pressure moulding operations, ceramics, wood products and textiles (Oct 2002: www.elidz.co.za).

Coega Industrial Development Zone is a greenfield site. According to the Coega Development Corporation (CDC), it gives investors the opportunity to build the latest generation, environmentally friendly integrated manufacturing plants with purpose-designed logistics and communication links (Oct 2002: www.coega.co.za).

The results of this research could provide future South African IDZs with a model with which to determine the likely success of approaching foreign investors to invest in greenfield projects. This would be facilitated by drawing on researched guidelines to evaluate what factors are necessary for IDZs to attract FDI for direct capital investment.

1.8 RESEARCH DESIGN

This study will be qualitative in nature. The following broad methodology will be used to gather information.
1.8.1 Literature survey
The following will be obtained from a literature survey:

- FDI trends;
- South Africa’s approach to FDI;
- Characteristics of FDI;
- Characteristics of an IDZ; and
- International, regional, national and local factors that influence decisions on FDI.

This information will give a perspective of global and regional FDI, characteristics and the determinants that dictate if global corporations will consider a country as a viable FDI destination. From the literature survey, a concept can be developed in terms of a questionnaire for input from various organisations and individuals.

1.8.2 Empirical study
The empirical study will consist of:

1.8.2 (i) Questionnaire
Primary data relating to IDZs and FDI will be collected by way of a structured questionnaire. The selection of the institutions to be surveyed is based on direct interest in the IDZ programme and is non-random. A standardised questionnaire will be used and responses noted. The following institutions will be targeted:

- EL Development Zone Corporation;
- Coega Development Corporation;
- National Department of Trade and Industry;
- Border-Kei Chamber of Commerce;
- PE Chamber of Commerce;
- Provincial Department of Economic Affairs and Tourism;
- Chairperson of the Standing Committee on Economic Affairs and Tourism: Provincial Legislature;
- Industrial Development Corporation (IDC);
- Buffalo City Municipality;
- Nelson Mandela Metropole;
Additional interviews will be held based on the information gathered.

1.8.2 (ii) Measuring instrument
The lack of sample and the variety of institutions to be interviewed does not allow for a statistical measuring process. The two key institutions, the East London Development Zone Corporation and the Coega Development Corporation, will be used to test information gathered during the interviews. This will be done on a continual feedback basis by providing the institutions with information and asking them for input, comment, suggestions and recommendations. This consultation will be done through e-mail to ensure validity and reliability of the research.

1.8.2 (iii) Development of Strategic Management Model
The findings of the literature survey and the information gathered during interviews will be integrated to develop a strategic management model for IDZs to attract greenfield FDI based on the key factors and characteristics identified.

1.9 CHAPTER OUTLINE

The chapters that follow will analyse the following aspects relating to the dissertation:

Chapter 1: GENERAL INTRODUCTION AND PLANNING OF STUDY – Introduction, Problem Statements, Definitions, Literature Survey and Methodology.
Chapter 2: APPROACHES TO FDI – An analysis of international and South African trends in FDI and the approaches taken by MNEs when considering direct capital investment in foreign countries.

Chapter 3: IDZs AND FDI IN SOUTH AFRICA – An analysis of South African political, economic, socio-cultural, technological, environmental and legal factors that influence FDI in IDZs. Emphasis will be placed on the Eastern Cape IDZs.

Chapter 4: THE STUDY, METHODS AND ANALYSIS OF DATA – An overview of the research design, the empirical study, the questionnaire, research response, results of demographic data and the results of the findings of the questionnaire in graphic form accompanied by an explanation and analysis of the findings.

Chapter 5: FINDINGS – An integration of the findings from the literature survey and the empirical study and looking at the impact these have on potential FDI into the Eastern Cape IDZ programme. This chapter will also form the basis for the FDI model.

Chapter 6: CONCLUSION AND RECOMMENDATIONS

1.10 SUMMARY

In conclusion it can be stated that there is a direct link between the attraction of FDI and the characteristics of an IDZ. Based on the findings of the literature survey it is evident that these characteristics play an important role for MNEs wanting to invest in foreign countries. However, it is not clear which are the most important characteristics and how these interact in terms of FDI decisions.

Chapter 2 seeks to analyse international approaches to FDI, trends in global FDI, global determinants when considering direct capital investment in foreign countries and the roles played by host countries and investing companies respectively.
CHAPTER 2

APPROACHES TO FOREIGN DIRECT INVESTMENT

2.1 INTRODUCTION

Chapter 1 provided an introduction to the study by way of definition of key concepts, delimitation of the study and an outline of how the study will be conducted. It showed that FDI and the South African IDZ programme are linked and that there are a number of factors, in terms of the sub-problems, that need to be considered based on the development of a strategic management model for FDI.

Chapter 2 will analyse the international approaches to FDI, the determinants of such FDI, trends in global FDI and the role of host countries and investing companies. This will provide a background against which FDI in Africa, Southern Africa and South Africa in particular can be analysed.

2.2 INTERNATIONAL APPROACHES TO FDI

Barriers to cross-border trade and investment are declining. Advances in transportation and telecommunications technology are fostering a culture where economies are merging into an interdependent global economic system. According to Hill (2003: 6) this process is known as globalisation.

2.2.1 Globalisation

With the globalisation of markets and production comes the need for investment. This need is a direct function of the decline in trade and investment barriers, the role of technological change, the changing demographics of the global economy and the changing world output and world trade picture. Hill (2003: 18) suggests that the motivation for investment is based on the need to disperse production activities to optimal locations and to build a direct presence in major foreign markets. In addition to this, the General Agreement on Tariffs and Trade (GATT – superseded by the World Trade Organisation) has never been extended to include Foreign Direct Investment (FDI). Given the globalisation of production, barriers
to FDI seem antiquated. The World Trade Organisation (WTO) is now moving towards dismantling these barriers (Hill, 2003: 195).

2.2.2 Benefits, Costs and Risks Associated with Global Foreign Direct Investment

The political, economic and legal environment clearly influences the attractiveness of a country as an investment site. Hill (2003: 74) argues that the benefits, costs and risks associated with doing business in a country are a function of that country’s political, economic and legal systems. This is being directly influenced by growing globalisation.

- Benefits – in deciding on FDI in a country, MNE’s look towards long-run monetary benefits. These benefits are a function of the size of the market being served, the present wealth of the consumers in that market and the future wealth of consumers in that market. By identifying and investing early in a potential future economic star, international firms can achieve first-mover advantage and economies of scale.

- Costs – the sophistication of a country’s economy is an important determinant for FDI. Underdeveloped economies lack the infrastructure and supporting businesses, which leads to increased costs to the investing company. A further cost in terms of political, economic and legal frameworks is the need for bribes in order to receive preferential treatment, speed up the bureaucracy and ensure ease of investment.

- Risks – MNEs investing in developing countries are wary of the likelihood of political forces causing changes in the country’s business environment. This political risk is evident in Zimbabwe where the government, in 2002, threatened to nationalise all foreign owned business in the country. A further risk associated with FDI is economic of nature. Again, Zimbabwe acts as an example where economic mismanagement has led to changes in the country’s business environment that adversely affect the profit of business enterprises.

2.2.3 The Political Aspects of Foreign Direct Investment

Global politics and business transactions are linked. Political, economic and legal systems regulate global trade and FDI, and individual governments have their own views on how these systems should be implemented. This suggests that governments can both encourage and restrict FDI based on their political ideology.
Three ideologies can be identified when looking at the political environment. These are the radical view, the free market view and the pragmatic nationalist view.

2.2.3 (i) Radical View

Host countries that hold a radical view towards FDI believe that MNEs are an imperialist instrument that exploits resources for the benefit of their home countries (Hill, 2003: 231). This view is held because profits are repatriated to home countries thus affecting the balance-of-payments accounts of the host country.

Although the collapse of communism has changed the view of many countries, some still embrace the radical position based on the political ideology which is more nationalistic as opposed to socialistic. These governments believe that MNEs try to keep less developed countries of the world dependent on advanced nations for investment, jobs and technology.

2.2.3 (ii) Free Market View

The free market view, which is based on economic and international trade theory (Smith/Ricardo) reveals that international production should be distributed among countries based on the theory of comparative advantage. This theory states that countries should specialise in the production of those goods and services that it can produce most efficiently (Hill, 2003: 232).

In relation to this, Porter’s Determinants of National Competitive Advantage (Porter’s Diamond) reinforces the free market view. Porter (as cited in Hill, 2003: 159) states that four broad attributes of a nation shape the environment in which firms compete. These attributes promote or impede the creation of competitive advantage. These attributes are:

- Factor endowments – a nation’s position in factors of production such as skilled labour or the infrastructure necessary to compete in a given industry;
- Demand conditions – the nature of home demand for the industry’s product or service;
- Relating and supporting industries – the presence or absence of supplier industries and related industries that are internationally competitive; and
- Firm strategy, structure and rivalry – the conditions governing how companies are created, organised and managed and the nature of domestic rivalry.
Examining this, it can be deduced that MNEs seek to disperse production to the most efficient locations. As a result, FDI by MNEs should increase profits, increase efficiency and benefit the global economy.

The idea that FDI also results in resource transfers (management and technology) should also result in a benefit to the host countries economic growth and overall development in terms of global competitiveness.

2.2.3 (iii) Pragmatic Nationalism

The pragmatic nationalist view falls between the radical and the free market view. Governments that adopt this political approach to FDI believe that it has both benefits and costs. Gazioglou and McCausland (2000: 2) agree with this view and believe that economic integration, in the form of FDI, does have losses and gains. However, they continue that countries must be careful not to uses FDI as a substitute for trade as this could have consequences for the balance of payments.
Benefits to a host country include capital investment, skills and technology transfer and job creation – both direct and indirect. Costs include the repatriation of profits to the home country thereby affecting the host country’s balance-of-payments account.

Hill (2003: 234) suggests that countries adopting this stance to FDI try to maximise national benefits while minimising national costs. Accordingly their view is that FDI should only be allowed if the benefits outweigh the costs. Based on this, governments who have a pragmatic nationalist approach aggressively court FDI believed to be in the national interests by offering incentives for investment.

2.2.4 Foreign Direct Investment Performance and Potential
Comparisons of economies between similar sized countries can be an indicator of how well countries are doing in relation to each other. Comparisons between economies that are significantly different can be an indication of what strategic steps to take in the future in order to promote growth and development.

In terms of FDI, an assumption is that the larger the economy, the greater the amount of FDI it can attract.

The Inward FDI Performance Index, as contained in the World Investment Report 2002 (2002: 23), is the ratio of a country’s share of global FDI flows to its share in global Gross Domestic Product (GDP). Countries with an index value of one receive FDI exactly in line with the relative economic size.

Countries with an index value greater than one attract more FDI than may be expected based on relative GDP. This may be as a result of a combination of one or more of the following factors:

- Attractive regulatory regimes;
- Well managed macro-economic policies;
- Efficient and low-cost business environments;
- Good growth prospects;
• Ample and economical skilled labour;
• Natural resources;
• Good research and development capabilities;
• Advanced infrastructure;
• Efficient financial support;
• Well-developed supplier clusters;
• Access to favourable locations for exporting; and
• Tax havens.

Countries with an index value below one may be seen as unstable, may be perceived to have poor economic policy design and implementation and may be regarded as competitively weak in terms of their overall economy in relation to global competitiveness. However, it must be stated that the assumption exists that social, political and institutional factors that could influence FDI are difficult to quantify at the national level given the variables present.

2.3 GLOBAL DETERMINANTS OF FOREIGN DIRECT INVESTMENT

Since the beginning of 2000 the world has seen changes in macro-economic stabilisation, economic deregulation, large-scale privatisation programmes, the liberalisation of regulations applying to private investment and regional integration. These factors have contributed to a changing business environment which provides incentives for investment decisions.

These investment decisions form part of business strategies to take advantage of trends in international markets that are integrated on an international, regional and sub-regional level.

Interpreting the global FDI phenomenon is difficult. Hill (2003: 245) and ECLAC (1999: 3) highlight the role of traditional determinants for FDI. These determinants include market size, output growth, regulatory framework, macro-economic situation and patterns of competition. However, with growing globalisation, trans-national companies are turning
to factors such as international environment, national policies (both FDI host countries and countries of origin) and business strategies.

Hill (2003: 206) claims that FDI is growing faster than world trade and world output. This is driven by the following reasons:

- FDI is seen as a way of circumventing future trade barriers;
- Changes in the political and economic environments of developing nations have made FDI an attractive option;
- Asia, Eastern Europe and Latin America are experiencing economic growth, implementing economic deregulation, removing restrictions to FDI and instituting privatisation programmes;
- Bilateral investment treaties, designed to protect and promote investment, have increased; and
- The globalisation of the world economy is having a positive impact on the volume of FDI.

The structure of the international market, competition, technology, international trade regulations and international law are becoming increasingly important in FDI decisions. This has a direct impact on the structure, scale and quality of investments in foreign countries (ECLAC, 1999: 3).

As trans-national corporations reposition themselves for the more price-driven environment created by the slow-down of the world economy and as developing countries liberalize their regulatory frameworks further, there may be a redistribution of FDI towards developing countries, particularly since reinvested earnings are increasing.
2.4 ROLE OF THE HOST COUNTRY IN RELATION TO FOREIGN DIRECT INVESTMENT

Foreign investment is a good indicator of international companies’ perceptions about the host country’s economy. The political economy of a country – which encompasses the political, economic and legal systems – has a role to play in the investment decision.

Host countries trying to attract FDI need to adhere to a number of prerequisites before they are considered by multinational companies. The Industrial Development Zone in Kerala, India (Oct 2002: www.kinfra.com) identified the following factors in their industrial policy that would enhance their position as an investment area for multinational companies:

- Maximisation of private investment;
- Elimination of restrictive labour practices;
- Special legal dispensations enabling liberalised environment;
- Reductions in government involvement in commercial activities; and
- Encouragement of private participation.

Host countries seek to create world-class facilities and infrastructure with the help of global enterprise through FDI. This leads to competitive advantage and, in some instances, first-mover advantage.

China, as a host country, has used FDI to achieve sustainable development, promote national innovation, speed up technological progress, boost the national economy and enhance the development of science and technology (Oct 2002: www.asialaw.com). By 2000, China had established 53 new and high-tech industrial development zones generating US$ 480 billion in total revenue from technology, industry and trade – the majority of the infrastructure developed within these zones was financed through FDI.
2.5 ROLE OF THE INVESTING COMPANY IN RELATION TO FOREIGN DIRECT INVESTMENT

FDI as opposed to exporting or licensing is expensive and risky. MNEs have to look at the following aspects before deciding on whether to embark on FDI or not:

- The initial capital outlay to establish a production/manufacturing facility in a foreign country;
- The problems associated with doing business in another culture;
- Transportation costs;
- Strategic behaviour; and
- Location advantages.

2.5.1 Capital outlay
The capital outlay when considering FDI is always high, irrespective of whether companies are considering either greenfield investments or acquisitions. United Nations estimates (Hill, 2003: 211) indicate that in 1999, 80 percent of all FDI inflows were in the form of mergers and acquisitions. Reasons for this choice of FDI included the capital costs involved, aspect of brand loyalty, customer relationships, trademarks and patents and distribution channels.

2.5.2 Cultural aspects
Problems associated with doing business in a foreign country include cultural problems such as social structure of a country, religious and ethical systems, language and education. These aspects can all add to the cost of doing business in a foreign country and thus deter an MNE from following a strategy of FDI. Foreign Multinationals need to be assured that the cultural aspects of investing in a country can be overcome through cross-cultural literacy.

2.5.3 Transportation Costs
Transportation costs and production costs form the largest part of total costs to an MNE. Products that have a low value-to-weight ratio are easily produced in almost any location and therefore the attractiveness of exporting decreases.

However, products with a high value-to-weight ratio have a nominal transportation cost relative to production and these costs have little impact on the relative attractiveness of exporting, licencing and FDI.

It can therefore be argued that one of the factors considered in the choice of FDI is the role that transportation costs will play in the overall costs of the product.
2.5.4 Strategic Behaviour

Hill (2003: 216) states that an explanation for FDI can be based on the idea that FDI flows are a reflection of strategic rivalry between firms in the global marketplace. Strategic behaviour is based on the argument that what one firm does will have an immediate impact on the major competitors, forcing a response – much like game theory and the prisoner’s dilemma.

Based on this argument it is assumed that MNEs will jockey for position and try to match each other’s moves in different markets in order to try to prevent one firm from achieving first-mover advantage.

2.5.5 Location Advantages

Dunning claims that location-specific advantages can help explain the nature and direction of FDI. Location-specific advantages are defined as those advantages that arise from using resource factors or assets that are tied to a particular foreign location. By combining its own assets with location-specific advantages, MNEs are able to ensure competitive advantage.

According to Hill (2003: 218), these location-specific advantages require that a firm establish production facilities where these advantages are going to benefit the MNE. In order to exploit this advantage, MNEs need to look to FDI. Dunning agrees with this argument and further argues that, given that labour is not internationally mobile, firms locate production facilities where the cost and skills of labour are the most suited to the particular production process.

2.6 GLOBAL FOREIGN DIRECT INVESTMENT

Foreign Direct Investment accounts for 16 percent of the worldwide gross fixed capital formation and as much as 27 percent in Latin America and 27 percent in Western Europe (Hill, 2003: 209). In the early 1990s this figure was only 4 percent worldwide. The United Nations (UN) and the Organisation for Economic Co-operation and Development (OECD) suggest that there has been a significant increase in FDI since the early 1990s and that this is becoming an important source of investment in the world economy.
However, according to the United Nations Conference on Trade and Development (UNCTAD, 2002: 25), world FDI inflow will decline by 27 percent in 2002. It further predicts that China may overtake the United States to become the largest FDI host country in the world.

UNCTAD have found that the decline in 2001 was larger in developed countries, which experienced a 31 percent decline, as opposed to developing countries, which experienced a 23 percent decline in FDI. Competition, the global economic slowdown and pressures to keep production costs down by operating in less expensive countries have contributed to this decline.

In 25 developed countries surveyed by UNCTAD, FDI inflows totalled US$ 349 billion as opposed to the US$ 503 billion in 2001. The countries to see the largest declines have been the United Kingdom and the United States.

The Economic Commission for the Latin America and Caribbean (ECLAC) (1999: 1) states that FDI is an important component in the globalisation process of the international economy. It reflects the international expansion of trans-national firms, especially into developing nations. This statement is supported by Mbekeani (2002: 1). He has found that FDI is more likely to flow in high growth regions and those with high levels of disposable income such as South Africa, Malaysia and Mexico.

The above trends show the importance of the continued rapid growth in cross-border flows of FDI and the emerging importance of developing nations as a destination of FDI.

During the past decade FDI flows have grown as trans-national companies increase their presence in national economies in both developed and developing countries.

2.6.1 Foreign Direct Investment and Developing Nations

Of importance is the fact that a growing proportion of FDI is going to developing nations. However, the Asia Crisis in 1997, the events in Brazil in 1998/9, the wars in Africa and the
recent Zimbabwe land invasions have had a detrimental effect on how foreign investors see developing nations.

The United Nations (2002: Press Release) reports that FDI flows to developing countries, which had remained relatively stable during the crisis years of 1997-1998, fell last year and are expected to drop further in 2002, despite increases to such countries as China, Mexico and South Africa. The key to restoring flows of FDI to developing countries remains economic growth since, the report argues, "the basic factors determining these flows have not changed" and "the potential for FDI is far from exhausted in many developing countries".

The report also highlights the flows of FDI among developed countries, showing them to have declined dramatically in 2001, mainly because of the halving of cross-border mergers and acquisitions. The UN believes that FDI flows are likely to pick up again when consumer confidence is restored, but are unlikely to recover fully.

Hill (2003: 19) confirms that FDI flows into developed and developing countries decreased significantly between 2000 and 2001 due to the lingering effects of the 1997 Asian economic crisis, the attacks on the World Trade Centre and the resulting war against terrorism in Afghanistan.

According to Mbekeani (2002: 1) the effects of FDI are clear to see in high growth regions and regions with high levels of income. In relation to this the size of the economy, its growth rates and manufacturing profitability are regarded as being amongst the most important determinants of FDI. This could explain large FDI inflows to countries in East Asia, Latin America and Central Europe.
Gazioglu and McCausland (2000: 1) are of the opinion that FDI is a function of maximising consumers, the profitability between countries, interest rates and macro-economic analysis. Their assumptions are based on the Ricardian framework of trade theory that states that, in terms of comparative advantage, it would be beneficial for a country to specialise in the production of those goods that it produces most efficiently and to buy the goods that it produces less efficiently from other countries. This theory is restricted in that it merely concentrates on economic factors and is limited in terms of competitive advantage factors which include those as set out in Porter’s Diamond – firm strategy, structure and rivalry; factor endowments; related and supporting industries and demand conditions.

2.6.1 (i) Asia

Inflows of FDI into Asia dropped by 12 percent between 2001 and 2002. UNCTAD explains that this is largely due to the slowing of FDI flows from Europe and the United States.

Despite this, China has shown an increase in FDI. The liberalisation process, industrial restructuring, China’s acceptance into the World Trade Organisation and its growth in medium and high-tech manufacturing industries and services have seen it capture most of
the FDI flows to Asia. China’s success in securing FDI has been based on factors of location, access to markets, infrastructure and incentive programmes for foreign investors that have been aggressively marketed.

2.6.1 (ii) Latin America and the Caribbean

For a third year in a row, Latin America and the Caribbean will experience a fall in FDI – from US$ 85 billion in 2001 to US$ 62 million in 2002. UNCTAD conclude that the decline is as a result of 2001 inflows that were inflated due to once-off acquisitions. In addition to this, the Argentinean financial crisis has also had a negative impact on FDI flows to the region.

Indications are that Mexico will regain its position as the region’s top FDI recipient given the poor performance by other Latin American and Caribbean countries in terms of political and economic reform.

2.6.1 (iii) Africa

UNCTAD projected a dramatic drop in FDI inflows to Africa – US$ 17 billion in 2001 to US$ 6 billion in 2002. According to the World Investment Report (2002: 36), this is as a result of three factors:

• The significant upturn in flows due to two large but once-off transactions, one in Morocco and one in South Africa;

• The economic slowdown in major countries that are headquartered for important MNE investors in Africa, and the depressed global investment market; and

• The geopolitical uncertainty in certain African countries which affects investors’ attitudes towards other countries on the continent.

In his address to mark the eighth African Industrialisation Day in 1997, (1997: 1) the Secretary General of the United Nations, Kofi Annan stated that, with industrial development, Africa would take decisive steps forward towards full competition in the globalised marketplace. Without it, the countries of the continent would be condemned to persistent crisis, dependence on humanitarian relief and deepening poverty, despair and political unrest.
Based on this it is clear that developed nations are expectant that Africa will realise its industrial potential in the near future. Evidence of this can be found in countries such as Egypt, Namibia, Botswana and Libya where aggressive industrialisation, growth and development programmes have been implemented and have resulted in increased global trade and investment.

2.6.1 (iv) Central and Eastern Europe

Central and Eastern Europe is the only region globally where FDI inflows have remained consistent between 2001 and 2002 (World Investment Report, 2002: 34). The US$ 27 billion inflows have been directed towards countries such as Albania, Czech Republic, Latvia and Slovenia. The Czech Republic has a significant amount of this FDI given that foreign investment into this area is natural-resource related and the country is seen as an access point to former communist-block countries.

FDI inflows into Central and Eastern Europe have been affected by external global trends but have also suffered under internal aspects of privatisation, economic decline and political uncertainty.
Viewed from a global perspective, it can be observed that, given the global economic slowdown, FDI is shrinking. Essentially this indicates that FDI is playing a diminished role in helping to overcome the world economic downturn.

The consequences of this, according to UNCTAD, are that developing countries will have fewer resources for development leading to increased competition. This means that governments will have to determine specific development objectives that will help to secure FDI through investment targeting (World Investment Report, 2002: 45). This will promote individual development strategies and reflect comparative advantages.

2.7 SUMMARY

This chapter analysed international approaches to FDI based on the aspects of globalisation, the benefits, costs and risks associated with FDI, political considerations and the performance and potential of countries.

It is clear that global FDI is interwoven with political, economic and legal environments and that the trends experienced in international FDI are a direct result of international economics and business movements.

Developing nations are playing an increasing role in the attraction and retention of FDI given changes in global trade, deregulation and the removal of restrictions to FDI in previously protected countries. Both host countries and investing companies have a role to play in accessing and providing FDI.

In Chapter Three, the concept of Economic Processing Zones/IDZs will be discussed. Specific emphasis will be placed on the Southern Africa situation, its IDZ programme and the attraction of FDI.
CHAPTER THREE

INDUSTRIAL DEVELOPMENT ZONES AND
FOREIGN DIRECT INVESTMENT IN SOUTH AFRICA

3.1 INTRODUCTION

Chapter 2 looked at the concepts of international approaches to FDI in relation to globalisation, benefits, costs and risks and political aspects. In addition to this, the chapter also analysed the global determinants of FDI, the role of the host country and the role of the investing company and concluded by looking at trends in global FDI.

This chapter will deal with the issues of the global approach to Economic Processing Zones/Industrial Development Zones. It will analyse theory, location considerations, the impact on worldwide production, the characteristics of an IDZ, the incentives offered and the impact IDZs have had on developing nations.

Following this, investment in Southern Africa, with specific reference to FDI performance and potential will be studied leading to the aspect of how countries can improve investment in Southern Africa.

Finally, FDI in South Africa will be discussed followed by a brief overview of the East London and Coega IDZs and their offerings in terms of investment opportunities.

3.2 ECONOMIC PROCESSING ZONES/INDUSTRIAL DEVELOPMENT ZONES

According to the World Economic Processing Zones Association (WEPZA), economic processing zones (EPZ), or industrial development zones, have been the star performer in attracting investment and technology to developing countries during the past 50 years (2002: www.wepza.org).
Daniels and Radebaugh (2001: 647) point out that an EPZ can be a general purpose zone or a subzone. A general purpose zone is usually established near a port of entry, such as a shipping port, a border crossing or an airport, and usually consists of a distribution facility or an industrial park.

A subzone is usually physically separated from a general-purpose zone but is under the same administrative structure.

According to Daniels and Radebaugh (2001: 647), since 1982, the major growth in EPZs has been in subzones rather than general-purpose zones because companies have sought to defer duties on parts that are foreign-sourced until they need to be used in the production process.

For the purpose of this research it is assumed that and EPZ and IDZ are the same in terms of concept, implementation, financing and investment.

3.2.1 Theory of Economic Processing Zones/Industrial Development Zones

Bibby (2000: 17) states that an IDZ is commonly defined as territorial enclaves treated as being outside of the customs territory of the host state, where goods of foreign origin (imports) may be held without customs restrictions or payment of duties.

Daniels and Radebaugh (2001: 647) support this definition by stating that IDZs are areas in which domestic and imported merchandise can be stored, inspected and manufactured free from formal customs procedures until the goods leave the zone.

Establishing free trade zones to exploit the advantages of international trade is a recognized approach worldwide. Industrial Development Zones (IDZs) or Export Processing Zones (EPZs), as they are more commonly referred to are industrial parks which provide for free intrazone economic activities with a fence around them and customs officers at the gate. IDZs have proliferated rapidly among developing countries over the last decade. There are similar "Foreign Trade Zones" in the United States, "Free Ports and Zones" in Europe, a "Trade Development Zone" in Australia and "Special Economic Zones" in China.
IDZs are industrial parks based on free trade, where legal restrictions and long procedures do not apply. They are established and administered through appropriate legislation but fall outside the customs zone of the country, although they do fall under its control. Production is 100 percent for export but can be "exported" to the domestic market under the usual import conditions. IDZs create advantages of economy-of-scale in industrial inputs and services, thus enhancing entrepreneurial efficiency. They are managed as profit-making institutions by public and/or private enterprise under the framework of national legislation.

Hamada (1975: 225 – 226), as cited by Eldar (1992: 52) gave a comprehensive definition of these zones in the early 1970s, when the Kaohsiung and Masan Export Processing Zones of Taiwan and South Korea, respectively, had been functioning only a few years.

The definition states:
“... a country provides a portion of its well-located land for foreign investments in certain industries, and in return ... it can enjoy benefits of various forms, such as an increase in the employment of labor, an increase in exports leading to improvement in the balance of payments and the absorption of advanced technology ... Without sacrificing the interests of protected industries ... a country ... provides various conveniences and facilities to foreign firms: ... duties on imported equipment, materials and intermediate goods are exempted: commodity taxes on production in the zone are exempted: goods from other parts of the country ... are considered as exports ... :administrative procedures for the registration of firms ... are simplified: less restrictions are imposed on foreign exchange transactions ..."

The success of an IDZ requires a suitable location, an export-oriented industrial base, and the attraction of FDI to finance industrialization and bring in technology and access to foreign markets. The IDZ is an efficient industrial park which provides all essential facilities to serve investors and enhance their competitiveness in international markets by creating a "controlled investors' paradise."

The evidence is overwhelming that export-led industrialization outperforms import-substitution. IDZs are an efficient tool for embarking on a strategy of emphasizing exports during the preliminary stages of industrialization and economic liberalization.
According to DeRosa and Roningen (2002: 1), in the absence of significant market imperfections or policy distortions such as production subsidies favoring one industry over another, free trade is widely regarded as the first-best policy for both less developed and more developed countries. However, economic theory has focused mainly on the implications of IDZs which eliminate tariffs and other trade restrictions for small groups of exporters situated within "fenced" enclaves and supported by outward-oriented FDI. DeRosa and Roningen conclude that economic theory finds little support for establishment of IDZs. At best, IDZs are found to have no effect on the host country, and at worst (when outward FDI is involved) they can decrease the economic welfare of the host country.

The record of developing country experiences with IDZs since the 1970s may offer a more realistic assessment. Theoretical models may not capture real world conditions and circumstances faced by developing countries, such as underemployment of labour in the host country and the importance of imported inputs to IDZ firms. However, in spite of the leading role that FDI has come to play in the new global economy, providing a catalyst for technology and innovation, developing higher labour and management skills, and encouraging policy reforms in emerging market countries, the evidence of a similar role played by IDZs in developing countries is rather weak. DeRosa and Roningen (2002: 2) argue that there is little evidence of significant spillover effects emanating from IDZs to the domestic economy or even substantial employment gains. Moreover, evidence suggests that IDZs can be costly to public finances, in terms of resources necessary for provision of not only modern utilities and other infrastructure services but also management and administration.

World Bank studies emphasize that IDZs are useful for reducing the anti-export bias of import substitution policies in highly protected developing countries. But most successful emerging market countries have adopted more efficient strategies for reducing this bias and promoting export performance, including unilateral trade liberalization.

In theory manufacturing IDZs, such as those to be established in East London and Coega, might be counted upon to expand exports of products that are produced in the various regions of the Eastern Cape Province.
It is expected that this will have a substantial impact not only on export performance but also on employment and the general economy, giving the province an immediate comparative advantage over other areas in South Africa.

3.2.2 EPZs/IDZs and Operational Locational Considerations
Daniels, Radebaugh and Sullivan (2002: 262) argue that operational considerations are vital in terms of deciding whether or not to invest in an IDZ. Amongst these considerations are the availability of resources in relation to the company’s needs, overcoming bureaucratic issues, the problem of corruption and kickbacks, competitive risk, governmental incentives and linkages to other companies.

Wall and Rees (2001: 32 – 37) believe that operational location considerations are based on supply and demand factors as well as political factors.

a) Supply Factors – a number of supply factors may encourage a firm to resort to FDI. These supply factors include production costs, distribution costs, availability of natural resources and access to key technology.

b) Demand Factors – Market-orientated multinationals are particularly interested in demand factors which influence their location considerations. These factors include marketing advantages, preservation of brand names and trademarks and customer mobility.

c) Political Factors – MNEs adopt a FDI strategy to avoid trade barriers and to take advantage of economic development incentives offered by host country governments.

3.2.3 IDZs and Worldwide Production
In Japan, IDZs have been established for the benefit of foreign companies exporting products to that company. Japanese zones serve as warehousing and repackaging facilities at which companies can display consumer goods for demonstration to Japanese buyers.

In the United States, IDZs have been primarily used as a means of providing greater flexibility as to when and how customs duties are paid. However, their use in the export
business has been expanding. According to Daniels and Radebaugh (2001: 648) the exports for which IDZs are used fall into one of the following categories:

- Foreign goods trans-shippered through the host country to a third country;
- Foreign goods processed in IDZs and then trans-shippered abroad;
- Foreign goods processed or assembled in IDZs with some domestic materials and parts and then re-exported;
- Goods produced wholly of foreign content in IDZs and then exported; and
- Domestic goods moved into an IDZ to achieve export status prior to their actual exportation.

### 3.2.4 Characteristics of an IDZ Programme

Jauch, Keet and Pretorius (1996: 1) suggest that countries that adopt IDZ programmes are characterised by:

- High rates of unemployment in urban areas;
- High proportions of the population engaged in agricultural work with a dependence on primary exports;
- Import-substitution strategies focused on domestic markets;
- Low levels of foreign investment;
- Declining incomes from unprocessed primary commodity exports and dwindling foreign exchange reserves; and
- Low levels of technological development and general economic stagnation.

IDZs are regarded as free zones enhanced with modern technology in the form of factories and economic services linked by intermodal transport systems. Puerto Rico, Taiwan, Singapore, Ireland, Mexico, Dubai and Korea have all used the IDZ concept to help grow their economies and boost development. This supports the argument by Jauch et al (1996: 1).

By attracting global production to enhance value-adding processes within IDZs, developing countries are accessing global markets, global financing and growing domestic economies.
Jauch et al (1996: 1) believe that this shows a move away from import substitution towards export-orientated economic development.

Bibby (2000: 18) reaffirms this view by stating that IDZs target international trade and internationally mobile investments linked to:

- Trans-shipment and storage; and
- Manufacturing and assembly of products based on low costs.

By allowing organisations to defer duties, pay fewer duties or avoid certain duties completely, IDZs encourage firms to locate to that country.

3.2.5 IDZ Incentives

Asiedu (2002), as quoted in Jenkins and Thomas (2002: 7) identifies the following variables that determine FDI in Sub Saharan Africa as opposed to other developing countries:

- Return on investment in the host country;
- Infrastructure development;
- Openness of the host country;
- Political risk;
- Financial depth;
- Size of government;
- Overall economic stability; and
- Attractiveness of host country’s market.
Supporting this are the factors that firms are believed to consider when deciding to invest in a particular country. Ngowi (2001) as cited in Jenkins and Thomas (2002: 8) highlights nine such factors:

- A stable and predictable political environment;
- Favourable macro-economic indicators including good performance on economic growth, stable inflation rates and low budget deficits;
- The quality of infrastructure, roads, communication networks, transport networks and electrical power;
- The availability and quality of natural resources;
- The size, openness and competitiveness of the domestic market;
- Well functioning and transparent financial markets;
- Qualified human capital, low cost, unskilled labour may be a determinant depending on the nature of the prospective FDI;
- Low transactions and business costs, including trade and labour regulations, rules of entry and exit into markets, favourable tax structures; and
- An efficient and dependable legal system.

Jauch et al (1996: 5) state that investors are attracted to IDZs by a range of incentives. These incentives include:

- Tax “holidays” or tax exemptions;
- Developed infrastructure;
- Subsidies on service provisions such as water and electricity;
- Import and export duty exemptions;
- Unrestricted profit repatriation;
- The availability of cheap labour;
- “Flexibility” in working conditions and workers rights; and
- Restrictions on trade union activities.
Besides the variables, factors and incentives, there are a number of key factors that play a role in the selection of a site for FDI. The 1998 Booz Allen and Hamilton Multinational Survey of the relative importance of site selection parameters, illustrated in figure 3, shows the relationship between various factors when MNEs consider FDI.

Figure 5 shows that infrastructure, factor costs, economic base and labour market are the four most important criteria that MNEs analyse when considering FDI. Further consideration is given to corporate environment, image, ease of set-up and quality of life.

This means that IDZs with a good infrastructure in terms of transportation and utilities, competitive land and labour costs, access to attractive markets and an availability of quality skills and labour could be a deciding factor when MNEs consider FDI.
3.2.6 IDZs and Developing Nations

By adopting a domestic economic programme that utilises the concept of IDZs, developing countries are boosting their economies by offering risk-reduction services to advanced corporations thereby inviting them to invest in poorer countries. Production sharing among global factories through FDI in IDZs allows host country worker, technicians, engineers and managers to gain knowledge, experience and understanding. According to Bolin (2002: 2), IDZs improve infrastructure, global skills, competitive position and prepare developing countries to enter the global market.

Bolin is of the opinion that IDZs prove to be a competitive successful source of products and services for the global market only if they are carefully designed, can provide quality
personnel, have the political backing of the host government, operate in a corruption-free business climate, have a competitive set of incentives to meet competition and take all the risks necessary to attract early investors.

In direct relation to the IDZ developments at Coega and East London, the South African Government has identified and prioritised a number of capital projects which will make FDI more attractive. These projects include power generation, transmission and distribution, telecommunications, water and waste management, transport, construction, oil and gas infrastructure and agro-processing. Coupled with the IDZ developments, these capital projects enhance South Africa as an FDI destination (SA Yearbook, 2002: 144).

The designation of an IDZ in South Africa must meet the following criteria (Government Gazette, 2000: 5):

- Facilitate the creation of an industrial complex having strategic economic advantage;
- Provide the location for the establishment of strategic investments;
- Enable the exploitation of resource-intensive industries;
- Take advantage of existing industrial capacity, promote integration with local industry and increase value-added production;
- Create employment and other economic and social benefits for the region in which it is located; and
- Be consistent with the applicable national policies and law.

Godongwana (2003: www.dispatch.co.za) states that during 2003, one of the main thrusts of the Eastern Cape provincial budget will be to support the “dynamism” evident in the manufacturing sector and exploit the province’s coastal advantage through the provision of infrastructure and by attracting FDI. This shows that the provincial government is aware that a developed infrastructure is a prerequisite for FDI.

Although the issue of flexibility in working conditions and workers’ rights and the restrictions on trade union activities could amount to potential human rights abuses, countries who are experienced in managing IDZ programmes are moving towards managed labour practices which allow a certain amount of freedom within IDZs.
3.3 INVESTMENT IN SOUTHERN AFRICA

Hill (2003: 209) believes that the greater the capital investment in an economy, the more favourable its future growth prospects are likely to be. Viewed this way, FDI can be seen as an important source of capital investment and a determinant of the future growth rate of an economy.

Hill (2003: 208) reveals that Africa received the smallest amount of inward investment in 2000 – around $8 billion. The inability of the continent to attract greater investment is as a result of political unrest, armed conflict and frequent changes in economic policy in the region. Figure 6 shows that four of the top ten African countries to receive FDI between 2000 and 2001 were Southern African countries.

Figure 6: Africa - FDI inflows, top 10 countries, 2000 and 2001

Source: UNCTAD, 2002: 49
Linked to this, Mbekeani (1999: 5 – 14) believes that there are a number of obstacles to FDI present in Southern Africa.

- Tax system – tax systems in Southern Africa are complex and increase the burden of full compliance.
- Red Tape and Bureaucratic Corruption – a large number of approvals are required to proceed with FDI in Southern African countries. The process requires extensive documentation, fees, regulatory and administrative requirements and registration procedures.
- Capital Market Infrastructure – lack of modernisation in capital market infrastructure tends to be a deterrent for investors wanting to invest in Southern Africa. There is a perception of a lack of confidence in local financial institutions to have the capacity to manage risks associated with large capital inflows. Foreign investors are of the opinion that transaction through financial institutions in Southern Africa is inefficient.
- Physical Infrastructure – primary infrastructure is based on operational needs of prospective investors and includes aspects of communication, transport, electricity, and existing commercial operations. Years of isolation, civil war and political unrest have resulted in Southern Africa being seen as an underdeveloped region in terms of physical infrastructure.
- Skilled labour – a motivation for FDI is to lower production costs through the utilisation of low-cost factors of production in the host country. However, it is accepted that more companies are shifting their sophisticated production lines to emerging markets where the cost and availability of skilled labour is becoming more important than the cost of labour in general. While the cost of general labour in Southern Africa is low, the availability, quality and attitude of skilled labour are poor.
- Political and Macro-economic Policy Stability - inflation rates and the nominal interest rates are important factors when companies look to Southern Africa for investment. The fact that Southern Africa has an unstable macro-economic environment makes it difficult for investors to make medium to long-term plans. This is worsened by an unstable political environment such as those experienced in Swaziland and Zimbabwe.
- Image and Reputation – international politics dictates that once a region is formed (for example, Southern Africa), the characteristics and past performance of all countries in
that region are associated with each other. As a result, all countries in Southern Africa enjoy a “blanket” reputation and image of being war-torn, corrupt and unstable.

### 3.3.1 FDI Performance and FDI Potential of Southern African Countries

Table 1: 2002 UNCTAD Southern African FDI Performance and Potential Index

<table>
<thead>
<tr>
<th>Country</th>
<th>FDI Performance Rank</th>
<th>FDI Performance Rank</th>
<th>FDI Potential Rank</th>
<th>FDI Potential Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>129</td>
<td>3</td>
<td>105</td>
<td>126</td>
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<tr>
<td>Botswana</td>
<td>29</td>
<td>109</td>
<td>41</td>
<td>45</td>
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<td>Kenya</td>
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<td>Mozambique</td>
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<td>23</td>
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<td>118</td>
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<tr>
<td>Namibia</td>
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<td>63</td>
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<td>Nigeria</td>
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<tr>
<td>Zimbabwe</td>
<td>136</td>
<td>73</td>
<td>104</td>
<td>133</td>
</tr>
</tbody>
</table>

Source: UNCTAD World Investment Report, 2002. Index covers 140 developed and developing countries

From an analysis of the 2002 UNCTAD FDI Performance and Potential Index, the following can be highlighted:

- Zambia was ranked as 9 out of 140 countries in terms of FDI performance between 1988 and 1990. The second highest ranking for Southern Africa was Botswana at 29 for the same period. This indicates that Zambia experienced an influx of FDI between 1988 and 1990.
- In contrast, between 1998 and 2000, Angola saw a tremendous influx of FDI and was ranked 3rd out of 140 countries. Mozambique was ranked 23rd. The influx of FDI can be attributed to aspects such as diamond mining in Angola and investment in Mozambique following the civil war.
- In terms of FDI potential, Botswana was ranked as 41st for the period 1988 – 1990, while South Africa was second for the same period with a rank of 67. Botswana’s
success during this period can be attributed to successful privatization programmes, stable economic policy and strong political leadership.

- For the period 1998 – 2000, Botswana was seen as having the most potential in the Southern African region to draw international FDI (45th), followed by Namibia (68th), South Africa (77th) and Nigeria (113th). Once again, Botswana has experienced growth and development through economic policies and has remained the most stable country on the sub-continent.

Although some countries in Southern Africa have performed well in respect of attracting global FDI, this analysis of performance and potential shows that sub-Saharan Africa has lost its relative attractiveness as a destination for global FDI. There are a number of reasons that contribute to this including the situation in Zimbabwe, the continued conflict in the Congo, a perceived unstable political environment on the sub-continent and the possible insecurity of investments.

The United Nations Conference on Trade and Development (UNCTAD, 2002: 31) suggest that Namibia is regarded as a front-runner in terms of FDI given that between 1998 and 2000, the country had a high FDI performance and a high FDI potential. Botswana was regarded as performing below potential given that it had a high FDI potential but a low FDI performance. This was as a result of political, social and competitive factors.

Angola, Malawi, Mozambique and Zambia are regarded as having performed above potential during this period because they had low FDI potential but had high FDI performance. These economies comprise mainly countries without strong structural capabilities that have done well in attracting FDI.

In contrast, Congo, Kenya, Madagascar, Nigeria, South Africa, Tanzania and Zimbabwe are regarded as under-performers, given their low FDI potential and low FDI performance between 1998 and 2000. UNCTAD (2002: 32) are of the opinion that this is due to economic reasons or where there has been a significant decline in FDI inflows.

The World Economic Forum claims that there are a number of specific criteria needed to encourage FDI in Southern Africa. These include political stability, appropriate macro-
economic policies, returns on investment, large integrated growing markets, sound infrastructure and healthy and skilled populations (2002: www.weforum.org).

At present the World Economic Forum notes that the Southern Africa region, as a whole, attracts less than two percent of all global FDI flows.

3.3.2 Improvement of Investment in Southern Africa
FitzGerald (2002: www.weforum.org) argues that Southern African governments need to engage in a number of processes in order to attract FDI. These include:

- The simplification of processes for investment to enter the region;
- The broadening and acceleration of privatization;
- Amendments to make labour law more flexible;
- The simplification of tax structures with low headline rates and no limits on dividend payments;
- A focus on crime reduction;
- A comprehensive plan to deal with HIV/AIDS;
- Programmes for skills development and retention as well as greater ease of importing skills;
- A stronger public, practical commitment to the SADC to show that this is truly a market of 200 million people; and
- Higher growth aspirations with the aim of lifting regional GDP growth to 7 – 8 percent.

Ward (2002: www.weforum.org) adds that, beyond sound macro-economic policies, sound micro-economic policies need to be pursued. These include:

- Clear policies on competition;
- Ensuring that regulatory institutions are in place and appropriately skilled;
- The simplification of bidding processes;
- The maintenance of critical masses for privatized companies; and
- Clear public tendering processes.
3.4 FDI IN SOUTH AFRICA

According to Mbeki (2002: www.inttg.com), South Africa has a sophisticated business environment that offers foreign investors a powerful strategic export and manufacturing platform for achieving global competitive advantage, cost reductions and new market access.

To reaffirm the principle of partnership and shared responsibility between Africa and the international community in the industrial development of the continent, South Africa has recognised the fact that industrial development is the key element to sustainable economic growth. Having the most advanced economy on the African continent (2000: 237 & SA Yearbook, 2001: www.gov.za), the country seeks to increase access to first-world markets, implement successful macro-economic policies and become a leader and competitive producer of high-value goods amongst emerging markets.

Table 2: Africa Accumulated FDI Flows from Major Developed Countries (1981 – 2000)

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<td>99</td>
<td>12</td>
<td>145</td>
<td>-148</td>
</tr>
<tr>
<td>Portugal</td>
<td>0</td>
<td>0</td>
<td>96</td>
<td>1560</td>
</tr>
<tr>
<td>Spain</td>
<td>0</td>
<td>0</td>
<td>50</td>
<td>476</td>
</tr>
<tr>
<td>Sweden</td>
<td>177</td>
<td>48</td>
<td>4</td>
<td>197</td>
</tr>
<tr>
<td>Switzerland</td>
<td>-6</td>
<td>73</td>
<td>452</td>
<td>69</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>882</td>
<td>2193</td>
<td>2376</td>
<td>3269</td>
</tr>
<tr>
<td>United States</td>
<td>1866</td>
<td>404</td>
<td>278</td>
<td>9249</td>
</tr>
</tbody>
</table>

Source: UNCTAD, based on OECD, unpublished data
The approach of the South African Government to FDI is aimed at encouraging economic growth, especially in employment-intensive industries. Table 2 shows the flow of FDI from developed countries into Africa. It is these countries that the South African government is targeting for FDI.

In September 2000, the Government announced the first of a set of new investment incentives. These were aimed at attracting domestic investment as well as FDI. Previous incentives focused on the manufacturing sector, while new incentives concentrate on sectors such as tourism, business services information, communication technology, high-value agriculture, agro-processing, recycling, biotechnology industries, aquaculture and cultural industries (SA Yearbook, 2001: www.gov.za).

In a study conducted by Gelb (2002: 8 - 12), it was found that a significant proportion of FDI in South Africa was in the form of acquisitions – 31 percent. It was also found that greenfield investment was more prominent in the smaller firm categories where 73 percent of the greenfield projects had less than 100 workers in 2000 and 50 percent has a capital stock value of less than $1 million at inception. What is encouraging is that 89 percent of foreign direct investors were satisfied with their investment in South Africa since 1990.

Further studies by Jenkins and Thomas (2002: 15) and Hesse (1999: 2) support this view.

Bagus (1999: 4 & 16) is of the opinion that the slow influx of FDI into South Africa is as a result of the absence of a clearly co-ordinated strategy with clearly set targets in the public and private sectors. In order to address this he suggests adopting a framework based on sector growth identification, target marketing, promotion of key factors and aftercare.

South Africa is a strategic location to regional and world markets. On a regional level it provides access to countries of the Southern African Customs Union (SACU) and the Southern African Development Community (SADC). On an international level, South Africa serves as a trans-shipment point between the emerging markets of Central and South America, the developed markets of North America, Europe and the Far East and newly industrialised nations of South and East Asia.
Aside from its strategic location, South Africa also has the physical infrastructure to support FDI and development. Rail, road and transportation services, advanced postal and telecommunications facilities, a well-developed electricity network and a water storage and distribution system make South Africa one of the most advanced industrial countries on the African continent.

According to Smith (2002: 4), the two current incentives of importance to proposed IDZs relate to tax breaks on plant and machinery and the writing off of buildings and improvements which reduces taxable income. Further incentives include foreign relocation packages, incentive grants for qualifying assets, export marketing assistance schemes and reduced customs duty on the import of certain raw materials.

Smith (2002: 5) goes further to state that investment incentives include tax holidays, small and medium manufacturing development programmes and technology development programmes.

The International Trade Group (2002: [www.inttg.com](http://www.inttg.com)) believe that South Africa is attractive as an FDI destination for the following reasons:

- A well-diversified economy;
- The most advanced, broadly based, productive economy on the African continent;
- A well-developed modern infrastructure;
- A stock exchange that ranks among the top 10 – 15 in the world;
- South Africa is the gateway to the Southern African region;
- Foreign investors are permitted 100% ownership of business in South Africa;
- Above-average access to national and international markets;
- Competitive cost structure in terms of labour and the cost of living;
- Stable government committed to political harmony and fiscal responsibility; and
- Attractive weather and geography.

In order to benefit from globalisation and the liberalisation of trade, the promotion of economic progress is vital. This can be achieved through the inflow of FDI into South
Africa which, according to Gelb (2002: 1) has been identified as “the” key to improving growth performance of the economy. One specific tool aimed at generating this inflow is the establishment of IDZs.

### 3.5 THE EAST LONDON IDZ

The East London IDZ is part of the National Government initiative to encourage economic and industrial growth, both in the Eastern Cape and in the country as a whole. It is the first operational IDZ in South Africa.

#### 3.5.1 Location and Size

East London is a strategically located city on many major world trade routes. Based on this it is anticipated that future trade flows will result in increased volumes of container flows through the Port of East London.

The East London IDZ is situated on the city’s West Bank, adjacent to the existing port and airport. This makes it a prime position with over 1 500 ha available for new industry that will be developed and serviced in phases.

#### 3.5.2 Critical Success Factors of the East London IDZ

According to Zimmerman (2002: 3), the critical success factors of the East London IDZ are:

- World-class infrastructure;
- Human resource skills;
- World-class logistics;
- Strategic investment;
- Responsible environmental management; and
- Market awareness.

#### 3.5.3 Anchor Industry

Although the East London IDZ does not require an anchor tenant to be viable, it is facilitating the process of positioning East London as the motor industry hub port for South
Africa and Africa. East London already has a vehicle handling wharf that can handle 2 500 vehicles a day – this can be expanded if the need arises (2003: www.mg.co.za). Other extension could include a new container terminal or an extension of the Port. In addition to this, a study is currently underway on the upgrading of the rail link between East London and Gauteng. In October 2002, the Minister of Public Enterprises announced that a portion of the Transnet budget would be directed to the upgrading of the rail link between the Eastern Cape and Gauteng. These developments could enhance the East London IDZ considerably in terms of FDI (2003: www.elidz.co.za).

### 3.5.4 Projects
The East London Development Zone Corporation (ELDZC) has identified 42 projects for the IDZ of which 12 pre-feasibility studies have been completed. These projects include motor component manufacturing, optical fibre manufacturing, metal press stamping mill, aluminium and magnesium high pressure molding, ceramics, wood products and textiles (2003: www.elidz.co.za).

### 3.5.5 Incentives Offered by the ELIDZ
Local government incentive packages for the IDZ centre on discounted service costs and reduced rates.

East London IDZ planned incentives (Strategic Management Plan for the ELIDZ, 2002: 20 – 21) include:

- A dedicated customs office to facilitate and deal with customs, duty, import and VAT related issues;
- A critical infrastructure programme with funding incentives for major infrastructural development within the IDZ;
- Strategic investment incentives by way of company tax exemption for organisations investing over R100 million;
- A small and medium enterprise development programme establishment grant aimed at smaller investors. This grant will be tax free and organisations will have access to various courses offered by the Department of Labour; and
- A skills support programme to ensure transfer of knowledge.
3.5.6 Secured Investment
The East London IDZ has already secured R400 million in investments for phase one of the development. This phase consists of a 20 ha area, constructed and serviced, where international investors will be setting up a brewery and a condom factory (Daily Dispatch, Oct 2002: 1). According to Holbrook (Sept 2002: www.dispatch.co.za), the big advantage of the IDZ is that it is located close to the harbour and airport. Logistics and time are key to where people will place their investment, and the IDZ is perfectly suited for this.

3.5.7 Approach to FDI
The East London IDZ approach to FDI is based on the following:
• Marketing and promotional initiatives;
• Investment guidelines and information;
• Focal industry investigations performed and information packs compiled;
• An effective organisational management structure;
• Securing financial and/or technical partners for the development of the IDZ;
• Establishment of key performance indicators;
• Implementation actions, personnel, timing and costs; and
• A programme to control projects through scheduling, tracking activities, monitoring progress, and cost and human resource control (Zimmerman, 2002: 13).

3.6 THE COEGA INDUSTRIAL DEVELOPMENT ZONE

According to the Coega Development Corporation (2003: www.coega.com) the aim of the Coega IDZ development is to position South Africa as a platform for global exports by attracting foreign and local investment in manufacturing industries.

It is a purpose-built industrial estate linked to an international airport and has been designated for export-driven industries. In addition to this, Coega will also have a deepwater port.
Research has shown that South Africa will need additional port capacity in the near future. With this in mind, research into the expansion of existing ports in South Africa has shown that this is not as cost-effective as the establishment of a deepwater port at Coega.

### 3.6.1 Location and Size
The Coega IDZ is located within the Nelson Mandela Metropolitan Municipality. It is a multi-million rand industrial development covering 12 000 ha, including a new deepwater port.

### 3.6.2 Critical Success Factors of the Coega IDZ
The Coega IDZ will be able to offer the following to investors:

- A world-class deepwater port;
- Industrial parks suitable for heavy, medium and light industries;
- Economic clusters centred on backward and forward integration;
- Purpose-built industrial infrastructure;
- A customs-secure area;
- Access to skilled and semi-skilled labour; and
- Facilitation of training to meet investor needs.

In addition to this, the logistics of a fast rail link between Gauteng and Coega are being discussed with Spoornet and the National Ports Authority. This will provide additional incentives to overseas investors to invest in Coega.

### 3.6.3 Anchor Industry
At present the Coega Development Corporation (CDC), the business arm of the Coega IDZ, are in advanced negotiations with a French company, Pechiney, for the development of a R20 billion aluminium smelter. This investment will form the greenfield anchor industry in the Coega IDZ.

The group has already signed a R6 billion joint venture contract for general construction and management of the smelter (Daily Dispatch, Apr 2003: 3).
3.6.4 Projects
Following on the Pechiney aluminium smelter development, a number of “spin-off” projects have arisen. According to Price, as cited in Botha (2003: 3) these include a joint venture with specialist constructions firms Technip-Coflexip of France and Bateman of South Africa. In addition to this Pechiney are looking at establishing an equity partnership with Eskom and the Industrial Development Corporation.

The CDC has screened 100 inquiries during the past 18 months. Between 12 and 14 feasibility studies have been done relating to possible investment projects.

In addition to this, the CDC will be inviting projects aimed at enhancing the clustering of industry within the Coega IDZ. These include a training and academic cluster, a metal industry cluster, a metallurgical cluster, an electronic and technical cluster and a port cluster.

3.6.5 Incentives Offered by the Coega IDZ
Coega has been designed in such a way that, once completed, it will cluster industries in order to achieve synergy, secure competitive advantage and maximize return on investment (2003: www.coega.com).

Transportation linkages will include rail and road networks and logistics infrastructure. Long-term plans include an international airport to handle high-value cargo.

3.6.6 Approach to FDI
The Coega IDZ highlights the location advantages as the key aspect in attracting FDI. This is based on South Africa’s competitive advantage as a low-cost source of raw materials and power, the country’s well developed financial and IT systems and the high living standards.

3.7 SUMMARY
IDZs have been the key to economic development and empowerment of many developing nations during the past 50 years. They provide advantages in terms of international trade while also boosting local economic activity. However, the decision of foreign investors to
provide FDI is based on a number of factors ranging from location advantages to tax and infrastructure incentives.

Developing nations, especially those in Africa, are realising the potential of IDZs and the contribution such zones can make to continued economic growth in the global trade arena. In addition to this, Southern Africa has in the past been able to draw considerable FDI given aspects such as low-cost production, cheap labour and easy access to regional and international markets.

Based on this South Africa has embarked on a strategic plan to develop 12 IDZs within the near future. The first two South African IDZs are designated in East London and Coega. Both hold significant economic advantages for South Africa as a whole and the Eastern Cape in particular as far as FDI is concerned.

Chapter 4 will deal with the study, methods and analysis of data of the research that has been conducted. This chapter will look at research design, the empirical study, the questionnaire used in the research, the distribution, the sample and the research response. Following this a complete analysis will be presented on the findings of the demographic data, factors impacting on FDI in the East London and Coega IDZs and the rating of characteristics applicable to the Eastern Cape Industrial Development Zone Initiative.
CHAPTER FOUR

THE STUDY, METHODS AND ANALYSIS OF DATA

4.1 INTRODUCTION

Chapters 2 and 3 have dealt with the theory relating to international approaches to FDI, global determinants of FDI, global FDI, economic processing zones and industrial development zones, investment in Southern Africa, FDI in South Africa, the East London IDZ and the Coega IDZ.

The aim of the theoretical study was to address issues relating to the identification of industrial and non-industrial characteristics that dictate FDI by multi-national enterprises. In addition to this, these chapters went further to look at international and national industrial and non-industrial factors that are present to promote FDI into identified IDZs.

This has provided a background against which an empirical study can be conducted in order to develop a strategic management model for FDI into IDZs. This study is based on information identified during the theoretical study and contains a combination of the general elements applicable to FDI as well as the specifics relating to the IDZ programmes in East London and Coega.

This chapter will look at the approach taken for the empirical study, it will look at the methods used and will analyse the data that have been collected.

4.2 RESEARCH DESIGN

The design of the research has been dictated by the nature of the problems that have been posed in Chapter 1.

The main problem being researched is:

“What strategic management model can be used by IDZs to attract FDI with specific emphasis on East London and Coega?”
In order to address this problem, a number of sub-problems needed to be answered. These sub-problems are:

a) What industrial and non-industrial characteristics and factors (specifically political, economic, socio-cultural, technological, environmental and legal – PESTEL analysis) dictate FDI by multi-national enterprises (MNEs)?

b) What are the national, regional and local industrial and non-industrial factors that are present in South Africa that promote FDI?

c) What characteristics and factors are present at the Coega and East London IDZs that can be harnessed to draw FDI?

d) How do professional and knowledgeable people see the IDZ programme attracting FDI? (This problem will be answered by way of a questionnaire)

The design of the research undertaken has been both qualitative and quantitative in approach.

Based on the qualitative approach the research has sought to interpret the aspects of FDI and IDZ that have a specific bearing on the East London and Coega IDZs. Leedy and Ormrod (2001: 148) state that when choosing the qualitative approach, interpretation allows the researcher to gain insights about the nature of phenomenon, develop new concepts or theoretical perspectives and/or discover the problems that exist.

Leedy and Ormrod (2001: 191) state that descriptive quantitative research involves identifying the characteristics of a phenomenon. The quantitative part of the study has focused on cross-sectional study in terms of developmental design. Sampling was done on the basis of organisations that have a direct or indirect interest in FDI and IDZs and general questions were posed based on the findings of the theoretical study.

4.3 THE EMPIRICAL STUDY

The empirical study was conducted by means of a questionnaire survey distributed to 24 participants via e-mail. The results of the survey were then statistically analysed.
4.4 THE QUESTIONNAIRE

This questionnaire (Annexure A) was developed from information gathered in Chapters 2 and 3 of this study and targeted three main sections.

- Section A dealt with demographic data needed for background information;
- Section B dealt with perceived factors that directly impact on greenfield FDI into the East London and Coega IDZs; and
- Section C dealt with the rating of characteristics that could make the Eastern Cape IDZs attractive for FDI.

When compiling the questionnaire the following principles, as cited in Leedy and Ormrod (2001: 202) and Wagner (2001: 17), were adhered to:

- The questionnaire was kept short;
- Simple, clear and unambiguous language was used;
- Unwarranted assumptions implicit in the questions were avoided;
- Constant checks for consistency were performed;
- Clear instructions were provided; and
- Each question was related to addressing the research problem at hand.

The types of questions used were closed in nature. Section A (demographic data) was arranged in terms of a checkbox for quick and easy response. Section B (factors) posed a number of statements which respondents had to check on the basis of a rating scale. The rating scale used in this section was based on a five-tier scale: strongly agree, agree, uncertain, disagree and strongly disagree. Section C (characteristics) was arranged by setting out nine characteristics of the East London and Coega IDZs and requesting respondents to indicate, by way of a one to ten scale, for each characteristic, how they rated it.
4.5 DISTRIBUTION OF QUESTIONNAIRE

The distribution of the questionnaire was conducted by e-mail. The reason for selecting this distribution strategy was the fact that it is inexpensive, quick and reliable. In addition to this the responses could be easily tabulated and analysed while hardcopies could be kept for later reference.

4.6 SELECTION OF SAMPLE

The selection of the sample for the survey was based on the identification of organisations that had direct or indirect involvement or interest in the Eastern Cape IDZ programme. These organisations ranged from government departments and manufacturing concerns to development corporations and local authorities.

On the 8 May 2003, the questionnaire, together with a covering letter (Annexure B) was e-mailed to 24 potential respondents. The covering letter set out the aim of the research, the deadline date for the submission of responses, an e-mail and postal address for the submission of responses and contact details should there be any questions.

The deadline for the submission of responses was 30 May 2003. However, an additional e-mail reminder was sent to respondents on 22 May and a further reminder on 4 June 2003 in order to obtain a response.

4.7 RESEARCH RESPONSE

The survey was e-mailed to the 24 respondents on 8 May 2003. By the first evaluation date of the 20 May 2003, seven of the 24 questionnaires had been returned, equating to a response rate of 29 percent. Following the e-mail reminder sent to respondents on 22 May 2003, the response by the deadline date of 30 May 2003 was 14 of the 24 questionnaires, making the response rate 58.33 percent.
Table 3 summarises the data collection process.

Table 3: Summary of data collection

<table>
<thead>
<tr>
<th>Deadline date</th>
<th>Initial e-mailing</th>
<th>Responses received</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 May 2003</td>
<td>24</td>
<td>7</td>
<td>29.17</td>
</tr>
<tr>
<td>30 May 2003</td>
<td>24</td>
<td>14</td>
<td>58.33</td>
</tr>
</tbody>
</table>

Of the 24 respondents, 12 completed the questionnaire. Two organisations felt that as a result of their not having a direct interest in the IDZ programme it was not within their policy to comment on research of this type.

Wagner (2001: 16) states that postal surveys have a very low response rate and estimates it at between five and 15 percent. It is assumed that the findings of a postal survey would be similar to that of an e-mail survey given the similarities between the two. Taking this into account the response of 58.33 percent obtained from the e-mail survey can be regarded as acceptable.

4.8 RESULTS OF DEMOGRAPHIC DATA

Section A of the questionnaire required that respondents complete an initial section based on location and type of organisation. This was followed by a sub-section dealing with organisations involved in manufacturing or commerce. The aim of this sub-section was to determine the number of years the organisation had been operational in South Africa, the type of operation the organisation represented, the operational growth in the past 10 years, if this growth was as a result of FDI, the planned growth in the next 10 years and if this growth would be as a result of FDI.

The results of section A are summarized in Tables 4 to 11.
4.8.1 Location of Surveyed Organisations

Table 4: Respondents by location of organisation

<table>
<thead>
<tr>
<th>Location</th>
<th>Number of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buffalo City</td>
<td>7</td>
<td>58.33</td>
</tr>
<tr>
<td>Nelson Mandela Metropole</td>
<td>3</td>
<td>25</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>16.67</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>12</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Results of analysis of location of organisations

Table 3 shows that the majority of companies that responded to the questionnaire (58.33 percent) are based in Buffalo City. The remaining respondents are dispersed between Nelson Mandela Metropole (25 percent) and larger metropolitan centres (16.67 percent).

4.8.2 Description of Surveyed Organisations

Table 5: Respondents by description of organisation

<table>
<thead>
<tr>
<th>Description of Organisation</th>
<th>Number of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>4</td>
<td>33.33</td>
</tr>
<tr>
<td>Commerce</td>
<td>2</td>
<td>16.67</td>
</tr>
<tr>
<td>Government/Legislature (local or provincial)</td>
<td>2</td>
<td>16.67</td>
</tr>
<tr>
<td>Development Corporation</td>
<td>1</td>
<td>8.33</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
<td>25</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>12</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Analysis of description of organisation

Table 5 shows that the majority of respondents were from the manufacturing industry (33.33 percent). This was followed by organisations from other areas of operation (25 percent), organisations involved in commerce (16.67 percent), government/legislative organisations (16.67 percent) and development corporations (8.33 percent).

Sub-section 1 of section A of the questionnaire posed specific questions to organisations involved in manufacturing or commerce. Of the 11 respondents, seven were involved in manufacturing or commerce. The following six tables/figures analyse the responses in this sub-section.
4.8.3 Years in Operation

Table 6: Analysis of years in operation

<table>
<thead>
<tr>
<th>Number of Years Operational</th>
<th>Number of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 5</td>
<td>1</td>
<td>14.29</td>
</tr>
<tr>
<td>5 – 10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>10 – 15</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>15 +</td>
<td>6</td>
<td>85.71</td>
</tr>
<tr>
<td>TOTAL</td>
<td>7</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Results of analysis of respondents by number of years operational in South Africa

From the analysis of results of respondents in terms of the number of years that the organisation has been operational in South Africa, it can be seen from Table 6 that 85.71 percent of these organisations have been operational in South Africa for more than 15 years. Only 14.29 percent of the organisations surveyed indicated that they had been operational in South Africa for a period between zero and five years. This is a significant result as it indicates that the majority of manufacturing/commerce companies surveyed are well established in South Africa. It is therefore assumed that they understand the culture and conditions in which they operate and have insight into aspects relating to the IDZ programme based on their history in the country in the apartheid and post-apartheid era. It is also assumed that their knowledge of FDI is also based on their experiences in the apartheid and post-apartheid era.

4.8.4 Description of Manufacturing/Commerce Organisation

Table 7: Respondents by description of manufacturing/commerce organisation

<table>
<thead>
<tr>
<th>Description of Organisation</th>
<th>Number of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint-venture</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Wholly-owned subsidiary</td>
<td>4</td>
<td>57.14</td>
</tr>
<tr>
<td>Turnkey project</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Licenced Company</td>
<td>2</td>
<td>28.57</td>
</tr>
<tr>
<td>International Division</td>
<td>1</td>
<td>14.29</td>
</tr>
<tr>
<td>TOTAL</td>
<td>7</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Results of analysis of respondents by type of organisation
An analysis of the description of the manufacturing/commerce organisation shows that 57.14 percent are wholly-owned subsidiaries, 28.57 percent are licenced companies and 14.29 percent are international divisions. The research has no respondents in the categories joint-venture and turnkey project. What is important in this data is that all the respondents, by way of their structure, are affiliated, in some way, to a larger national or international organisation. Based on this the assumption can be made that as a result of their affiliation, respondents are aware of the focus points for FDI decisions.

4.8.5 Operational Growth in the Past 10 years

Table 8: Respondents in relation to operational growth in the past 10 years

<table>
<thead>
<tr>
<th>Operational Growth in the past 10 years</th>
<th>Number of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>7</td>
<td>100</td>
</tr>
<tr>
<td>No</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Unknown</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>7</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Results of analysis of respondents by operational growth in the past 10 years

The analysis of the respondents by way of operational growth during the past 10 years shows that all respondents (100 percent) have experienced some type of operational growth. Following on this, respondents were asked to indicate if this operational growth was as a result of FDI.

4.8.6 Operational Growth as a Result of FDI

Table 9: Respondents to growth as a result of FDI

<table>
<thead>
<tr>
<th>Operational Growth as a result of FDI</th>
<th>Number of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>4</td>
<td>57.14</td>
</tr>
<tr>
<td>No</td>
<td>3</td>
<td>42.86</td>
</tr>
<tr>
<td>Unknown</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>7</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Results of analysis of respondents to growth as a result of FDI
The analysis of the survey shows that 57.14 percent of the manufacturing/commerce organisations, that have experienced operational growth in the past 10 years, have experienced this growth as a result of FDI. By contrast, 42.86 percent of the manufacturing/commerce organisations stated that their operational growth was not as a result of FDI.

### 4.8.7 Major Growth within the next 10 years

Table 10: Respondents indicating major growth within the next 10 years

<table>
<thead>
<tr>
<th>Major Growth within the next 10 years</th>
<th>Number of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>7</td>
<td>100</td>
</tr>
<tr>
<td>No</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Unknown</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>7</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Results of analysis of respondents indicating major growth in the next 10 years

An analysis of planned growth within the next 10 years amongst the respondents shows that all respondents (100 percent) have plans for major growth. Although major growth was not defined in the questionnaire, it can be assumed, from the fact that 85.71 percent of respondents had been operational for more than 15 years, that their definition of major growth would include aspects of capital expenditure, enlargement of operations, increased number of staff, investment in land and buildings and technological transfer.

### 4.8.8 Future Growth Including FDI

Table 11: Respondents indicating future growth which includes FDI

<table>
<thead>
<tr>
<th>Future Growth including FDI</th>
<th>Number of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>3</td>
<td>42.86</td>
</tr>
<tr>
<td>No</td>
<td>2</td>
<td>28.57</td>
</tr>
<tr>
<td>Unknown</td>
<td>2</td>
<td>28.57</td>
</tr>
<tr>
<td>TOTAL</td>
<td>7</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Results of analysis of respondents indicating future growth that will include FDI
From the analysis it is clear that three (42.86 percent) of the seven organisations surveyed expect their operational growth in the next 10 years to include FDI. Two (28.57 percent) of the organisations do not expect FDI to be part of their operational growth, while a further two (28.57 percent) organisations have indicated their uncertainty.

4.9 FACTORS IMPACTING ON FDI IN THE EAST LONDON AND COEGA IDZs

Section B of the questionnaire dealt with possible factors that could directly or indirectly affect FDI into the East London and Coega IDZs. These factors relate to overall governmental policy, economic factors, infrastructural development, competition, incentives, positive and negative socio-economic factors.

The aim of this section of the questionnaire is to determine how these various factors are perceived by commerce and industry in terms of their contribution to the success or failure of the IDZ programme.

In Section B respondents were asked to indicate on a scale of one to five (1 being “strongly agree”, 2 being “agree”, three being “uncertain”, four being “disagree” and five being “strongly disagree”) how they felt about statements made in relation to the East London and Coega IDZs. The statements were subdivided into three sub-sections – general statements, negative impact and positive impact. The results were analysed and the following findings were made.
4.9.1. Policy Framework, Business Facilitation and Economic Determinants

Statement 2.1: South Africa has the policy framework, the business facilitation and the economic determinants to draw Foreign Direct Investment (FDI).

Figure 7: Respondents to statement 2.1

Source: Results of analysis of statement 2.1

The majority of respondents (91.67 percent) either agreed or strongly agreed that South Africa has the policy framework, the business facilitation and the economic determinants to draw FDI. Only one respondent (8.33 percent) disagreed with this statement.

Beamish et al (1997: 30), Jenkins and Thomas (2002: iv) and Hill (1999: 10) agrees that in order to attract FDI, countries need to have a solid policy framework for investment, business facilitation to assist foreign investors and economic determinants that are attractive to potential investors. This forms the basis for FDI decisions and is one of the first factors that is considered by potential international investors. It provides a benchmark against which potential investors compare investment sites.

Strategic decisions around FDI are based on a number of factors – policy framework, business facilitation and economic determinants being important factors in the overall consideration of possible FDI into host countries.
4.9.2 FDI in Infrastructural Development and Growth in East London and Coega

Statement 2.2: Foreign Direct Investment will play a major role in the infrastructural development and growth of the East London and Coega IDZs.

Figure 8: Respondents to statement 2.2

Source: Results of analysis of statement 2.2

All respondents either agreed or strongly agreed that FDI will play a major role in the infrastructural development and growth of the East London and Coega IDZs. This is significant given that fact that the Coega IDZ is a greenfield investment area while the East London IDZ has limited infrastructure and will need to invest in infrastructure both now and in the future.

In terms of this finding local commerce and industry believe that FDI will account for the majority of infrastructural development and growth within the Eastern Cape IDZ programme. Although national and provincial government initiatives – including provision of transport infrastructure and electricity and water supply at preferable rates - are in place to address initial infrastructure needs, the remainder will be developed from FDI. This is in line with aspects of Porter’s determinants of national competitive advantage, as cited by Hill (2003: 159).
4.9.3 East London and Coega as Prime Investment Destinations

Statement 2.3: South Africa, and in particular East London and Coega, are prime investment destinations for foreign investors given aspects of global trade, the move towards lower production costs and low investment risk factors.

Figure 9: Respondents to statement 2.3

<table>
<thead>
<tr>
<th>Statement</th>
<th>Number of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>1</td>
</tr>
<tr>
<td>Agree</td>
<td>7</td>
</tr>
<tr>
<td>Uncertain</td>
<td>1</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Results of analysis of statement 2.3

An analysis of statement 2.3 shows that the majority of the respondents (81.82 percent) either agreed or strongly agreed that South Africa, and in particular East London and Coega are prime investment destinations for foreign investors given aspects of global trade, the move towards lower production costs and the low investment risk factors. One respondent (8.33 percent) was uncertain about this statement while two respondents (16.67 percent) disagreed with it.

According to the FDI Performance Index of the United Nations Conference on Trade and Development, South Africa is placed 113th out of 140 countries. According to this index South Africa’s Inward FDI Potential Index is 77th (2002: 3). Given that the Eastern Cape IDZ programme is aimed at attracting FDI and developing a demand-driven infrastructure to promote economic growth, the IDZs could provide the necessary boost in terms of investment into the province if regarded as prime investment destinations.
4.9.4 Competition

Statement 2.4: East London and Coega IDZs face minimal competition in terms of countries to the north of South Africa.

Figure 10: Respondents to statement 2.4

![Bar chart showing responses to statement 2.4](chart.png)

Source: Results of analysis of statement 2.4

With regard to the issue of competition, the majority of respondents (50 percent) either disagreed or strongly disagreed with the statement that the East London and Coega IDZs face minimal competition in terms of FDI from countries to the north of South Africa. Three respondents (25 percent) were uncertain about this statement while, three respondents (25 percent) either agreed or strongly agreed with the statement.

Although FDI flows have increased globally since the early 1990s, little of this has been channelled to Africa (OECD, 2002: 27). According to UNCTAD (2002: 25) China is set to overtake the United States to become the largest FDI host country. Countries like China, Brazil, Mexico and Argentina have realised the importance of FDI for economic growth and because of this have geared their investment promotion towards securing greater global FDI flows. South Africa therefore faces competition in its attempts to draw global FDI into the newly created IDZs.
4.9.5 Incentives

Statement 2.5: East London and Coega IDZs offer similar, if not better incentives (service costs, infrastructure, labour costs, raw materials, etc) to foreign investors than do other countries competing for FDI.

Figure 11: Respondents to statement 2.5

Source: Results of analysis of statement 2.5

The issue of incentives shows that the majority of respondents (41.67 percent) disagreed or strongly disagreed with the statement that the East London and Coega IDZs offer similar, if not better incentives to foreign investors than do other developing countries competing for FDI. Five respondents (41.67 percent) were uncertain about this statement, while two respondents (16.67 percent) agreed that the two IDZs offered similar, if not better incentives.

According to Daniels and Radebaugh (2001: 647) and DeRosa da Roningen (2001: 1) incentives have a role to play in FDI decisions. The greater the incentives the lower the production costs and the greater the profit that can be realised on world markets. However, this is a strategically important factor that is considered when assessing possible FDI locations and possible global investments given the impact on the profitability of the investment and the potential earnings for the company involved.
4.9.6 East London and Coega IDZs as Export Centres

Statement 2.6: East London and Coega IDZs can be regarded as prime export centres given their location on international shipping routes.

Figure 12: Respondents to statement 2.6

Source: Results of analysis of statement 2.6

The results amongst respondents to the statement that East London and Coega IDZs can be regarded as prime export centres given their location on international shipping routes shows that the majority of respondents (83.33 percent) either strongly agreed or agreed. Only two respondents (16.67 percent) disagreed that these two IDZs are prime export centres.

South Africa is situated on various international shipping routes. According to the East London Development Zone Corporation (2002: 2), strategically the Eastern Cape IDZs are able to service markets in the East, the West, Australasian countries, Africa and Europe. From a strategic location advantage perspective, foreign investors could consider this an important aspect in their investment decisions.

In sub-section two of this section of the questionnaire, respondents were asked to indicate, from five factors, which would have a negative impact on FDI into the East London and Coega IDZs.
4.9.7 Current Lack of Efficient Transport Infrastructure (rail links/dedicated airports)

The majority of respondents (50 percent) strongly agreed that the current lack of transport infrastructure (rail links and dedicated airports) will have a negative impact on FDI into the Coega and East London IDZs. A further four respondents (33.33 percent) agreed with the statement, indicating that the majority of respondents (83.33 percent) believe that the lack of transport infrastructure will negatively impact FDI. Only one respondent (8.33 percent) disagreed with this statement and another was uncertain.

Hill (2003: 211 – 218), Jenkins and Thomas (2002: 7) and Jauch et al (1996: 5) are of the opinion that transport infrastructure is an important component of potential investment areas. The ability of manufacturers to trans-ship products globally at competitive rates increases the profit margin. Transport infrastructure can be linked to overall infrastructure; however, when assessing global FDI decisions, potential investors assess transport infrastructure as one of the most important factors of the overall infrastructure offering. According to Zimmerman (2002: 15) transportation is a vital component of overall infrastructure.

Source: Results of analysis of statement 2.7.1
4.9.8 Strength and Involvement of Labour Unions

Figure 14: Respondents to statement 2.7.2

Source: Results of analysis of statement 2.7.2

Responses to the issue of the strength and involvement of labour unions and the possible negative impact on FDI into IDZs were balanced. Six respondents (50 percent) disagreed that the strength and involvement of labour unions would negatively impact on FDI into IDZs. However, four respondents (33.33 percent) agreed with this statement, while one respondent (8.33 percent) strongly agreed, meaning that 41.67 percent of respondents were either in agreement or strong agreement that the issue of labour unions would negatively impact FDI. One respondent (8.33 percent) indicated uncertainty about this issue.

South Africa has, in the past, had problems with the strength and involvement of labour unions. However, this is an acceptable risk associated with doing business in a foreign country. South Africa’s record has harmed the image of the country as an investment destination but this has changed and international investors are beginning to see that South Africa has a relatively stable labour union movement as opposed to other countries (South Africa Yearbook, 2000/01: 262). Jauch et al (1996: 5) suggest that in order to attract investors into IDZs, restrictions need to be placed on trade union activities to ensure stability of labour for international investors.
4.9.9 Unrest in Zimbabwe

Figure 15: Respondents to statement 2.7.3

Source: Results of analysis of statement 2.7.3

The majority of respondents (58.33 percent) agreed that the unrest in Zimbabwe will have a negative impact on the flow of FDI into the East London and Coega IDZs. Two respondents (16.67 percent) were uncertain, one (8.33 percent) strongly disagreed with this statement and two (16.67 percent) disagreed that the unrest in Zimbabwe will play a role in attracting FDI.

Mbekeani (1999: 16) stresses that political and macro-economic stability are important factors for international investors. Linked to this is the factor of image and reputation where, in terms of international politics, the characteristics and past performance of all countries in a region are associated with each other. Unfortunately the situation in Zimbabwe with its “land-grab” policy and its run-away inflation is harming the image and reputation of neighbouring countries like Botswana, Zambia and South Africa. This could have a direct affect on attracting FDI.
4.9.10 Crime

Figure 16: Respondents to statement 2.7.4

Source: Results of analysis of statement 2.7.4

The majority of respondents (50 percent) either agreed or strongly agreed that the issue of crime will have a negative impact on FDI into the East London and Coega IDZs. Five respondents (41.67 percent) disagreed with this statement, while one respondent (8.33 percent) remained uncertain if crime will have an impact at all.

Ngowi (2001) as cited by Jenkins and Thomas (2002: 8) highlights the need for an efficient and dependable legal system in sub-Saharan countries that are aiming to attract FDI. The 1998 Booz Allen and Hamilton Multinational Survey of the relative importance of site selection parameters (Zimmerman, 2002: 15) places Quality of Life as being relatively low on the factors considered when making FDI decisions. However, levels of crime, crime statistics and the types of crime committed are factors that cannot be ignored and need to be addressed pro-actively. FitzGerald (2002: www.weforum.org) has identified, amongst other things, the need for a focus on crime reduction in the Southern African region as a whole. This aspect is also highlighted by the International Trade Group as being a factor deterring investors in considering Southern Africa as an investment destination (2002: www.inttg.com).
4.9.11 Corruption

Figure 17: Respondents to statement 2.7.5

Source: Results of analysis of statement 2.7.5

The majority of respondents (66.67 percent) believed that corruption will have a negative impact on FDI into the East London and Coega IDZs. Four respondents (33.33 percent) strongly agreed with this statement while four respondents (33.33 percent) agreed. Three respondents (25 percent) disagreed that corruption would have a negative impact on FDI while one respondent (8.33 percent) strongly disagreed with this statement.

Mbekeani (1999: 10) believes that a large number of approvals are required to proceed with FDI in Southern Africa. The process requires extensive documentation, fees, regulatory and administrative requirements and registration procedures – all open to possible corruption. FitzGerald (2002: www.weforum.org) agrees and states that there needs to be a simplification of the processes for investment and taxing so as to avoid possible problems with bribery and corruption. Hope and Chikulo (2000: 23 - 25) believe that corruption increases the cost of doing business and slows down investment by increasing risk and reducing the incentive to invest.

In sub-section three of this section of the questionnaire, respondents were asked to indicate, from six factors, which would have a positive impact on FDI into the East London and Coega IDZs.
4.9.12 Location

Figure 18: Respondents to statement 2.8.1

Source: Results of analysis of statement 2.8.1

The majority of respondents (58.33 percent) strongly agreed that the location of the East London and Coega IDZs will have a positive impact on attracting FDI. The remaining respondents (41.67 percent) agreed with this statement.

Hill (2003: 18) suggests that one of the motivations for FDI is based on the need to disperse production activities to optimal locations and to build direct presence in foreign markets. He goes further to state that FDI is in direct proportion to benefits, costs and risks associated with doing business in a host country.

South Africa is a prime location for FDI given the following factors:
- Stable micro and macro-economic policies;
- Stable political environment;
- Geographic location in relation to world markets;
- Global demand conditions;
- Factor costs relative to competition from other countries;
- Technological and communication infrastructure; and
- Internal industries in support of FDI
4.9.13 Quality of Life

Figure 19: Respondents to statement 2.8.2

Source: Results of analysis of statement 2.8.2

Three respondents (25 percent) strongly agreed that the quality of life experienced in the East London and Port Elizabeth area would be positive for FDI. Eight respondents (66.67 percent) agreed with this statement. One respondent (8.33 percent) was uncertain if this factor will impact on FDI decisions.

The International Trade Group believe that South Africa offers a quality of life based on cost of living, weather and geography, diversified economy and modern infrastructure (2002: www.inttg.com). Both East London and Port Elizabeth are based in temperate climate areas, the cost of living is significantly cheaper than other metropolitan areas in South Africa and there is access to day-to-day facilities such as healthcare, education, telecommunications and housing. This supports the finding that the quality of life offered by the Eastern Cape IDZ programme can compete with other investment areas throughout the world.
On the issue of cost of labour, the majority of respondents (41.67 percent) agreed that the cost of labour in the Eastern Cape will contribute positively to possible FDI decisions by international firms. Two respondents (16.67 percent) strongly agreed with this statement. However the remaining respondents were divided on this issue. Three respondents (25 percent) were uncertain, while a further two respondents (16.67 percent) disagreed with the fact that the cost of labour will have a positive impact.

Daniels and Radebaugh (2001: 650), Jauch et al (1996: 5), Zimmerman (2002: 15) and Mbekeani (1999: 5 – 14) confirm that a motivation for FDI is to lower production costs through the utilisation of low-cost factors of production in a host country. The cost of labour is one such factor. The availability of cheap labour and the fact that it is an important site selection characteristic are variables that investors will take into consideration when making FDI decisions – depending on the nature of the prospective FDI.
4.9.15 Tax Incentives

Figure 21: Respondents to statement 2.8.4

Source: Results of analysis of statement 2.8.4

The majority of respondents (58.33 percent) either strongly agreed or agreed that tax incentives offered by the East London and Coega IDZs will have a positive impact on attracting FDI. Four respondents (33.33 percent) disagreed with this statement while one respondent (8.33 percent) was uncertain about the effects of tax incentives.

Bibby (2000:17), Hamada (1975: 225 – 226) as cited by Eldar (1992: 52), Jauch et al (1996: 5) and Smith (2002: 4) agree that tax incentives must be competitive and must be aimed at attracting global investors. This is based on global research where World Bank studies emphasise the need for tax incentives which in turn boosts the return on investment. Favourable tax structures, tax “holidays” or exemptions and flexible taxing systems in IDZs are a key to securing long-term FDI. As competition for FDI increases so too will government tax incentives. Investors “shop around” for the best deal, and development zone corporations, local, provincial and national government must bear this in mind.
4.9.16 South African Economy

Figure 22: Respondents to statement 2.8.5

Source: Results of analysis of statement 2.8.5

All respondents either agreed (75 percent) or strongly agreed (25 percent) that the South African economy as a whole will have a positive impact on FDI into the East London and Coega IDZs.

South Africa has realised that industrial development is the key element to sustainable economic growth (SA Yearbook, 2001: [www.gov.za](http://www.gov.za)). The International Trade Group (2002: [www.inttg.com](http://www.inttg.com)) agree that South Africa has a well-diversified economy that can be seen as the most advanced, broadly based and productive on the African continent. As a result of global economic expansion in the past six months, the rand has strengthened against the US dollar, interest rates have been cut and the economy has grown. According to the Reserve Bank of South Africa (2002: 6), the economy is currently on a faster growth path than in the past and the economic and financial conditions within the country are improving year on year. This highlights the finding that respondents agree that the South African economy, as a whole, can have a direct impact on FDI into the East London and Coega IDZs.
4.9.17 Infrastructure of the completed East London and Coega IDZs

Figure 23: Respondents to statement 2.8.6

Source: Results of analysis of statement 2.8.6

With regard to infrastructure of the completed East London and Coega IDZs, the majority of respondents either agreed (41.67 percent) or strongly agreed (41.67) that this will have a positive impact on attracting FDI. One respondent (8.33 percent) disagreed with this statement while one respondent remained uncertain about the implications for FDI.

Both the East London and Coega IDZs have identified the need for a world-class infrastructure in order to attract FDI. One of the criteria for the designation of the IDZ site is the facilitation and creation of industrial complexes that have strategic economic advantage (Government Gazette, 2000: 5).

Asiedu (2002) and Ngowi (2001) as quoted in Jenkins and Thomas (2002: 7 – 8) agree that quality infrastructure in terms of roads, communications networks, transport networks and electrical power are essential to attract FDI. According to the 1998 Booz Allen and Hamilton Multinational Survey of the relative importance of site selection parameters as quoted by Zimmerman (2002: 15), infrastructure is the single most important characteristic that investors consider before making FDI decisions.
4.10 RATING OF CHARACTERISTICS APPLICABLE TO THE EASTERN CAPE INDUSTRIAL DEVELOPMENT ZONE INITIATIVE

Section C of the questionnaire dealt with characteristics that have been identified by international investors as having a direct influence on decisions to engage in FDI. These characteristics include infrastructure, factor costs, economic base, labour market, corporate environment, image, ease of set-up and quality of life.

The aim of this section of the questionnaire is to determine how organisations view these various characteristics and how these could contribute to the success or failure of the Eastern Cape IDZ programme.

In Section C respondents were asked to indicate on an incremental scale of one to ten (1 being non-existent and 10 being excellent) how they perceived the characteristics listed at that particular moment in time. It must be stated that this rating was subjective in nature and could have been influenced by a number of factors. However, it is assumed that these influences will not impact on the results of this study.

In addition to rating the eight characteristics respondents were given the opportunity to specify any other characteristics that they thought would impact on the Eastern Cape IDZ initiative.

For the purpose of this study a rating of five is viewed as being average, a rating of between six and ten is positive, while a rating of between one and four is viewed as being negative.

The results were analysed and the following findings were made.
4.10.1 Infrastructure

Figure 24: Respondents to the characteristic of infrastructure (transportation, utilities, etc)

Source: Results of the analysis of respondents to the characteristic of infrastructure.

From the analysis of the results of the respondents to the characteristic of infrastructure, the majority of respondents (50 percent) perceived the infrastructure in the Eastern Cape IDZ programme to be rated between a three and a four, 41.67 percent rated infrastructure as either a six, seven or a ten, while 8.33 percent rated it as a five (average).

This means that the majority of respondents believe that the infrastructure of the Eastern Cape IDZ programme is below an acceptable standard in terms of aspects relating to transportation, utilities and related factors. This could have a negative impact on the attraction of FDI if such FDI decisions are based on existing infrastructure.

However, once the necessary infrastructure is in place it is expected that further research will show a shift in perceptions towards a positive outlook. This finding is supported by the theoretical research that has shown that infrastructure is an important aspect of site selection parameters when investors consider FDI, as well as the finding that respondents agree that FDI will play a major role in the infrastructural development of the East London and Coega IDZs in the long term. The negative sentiment could be attributed to the finding that respondents perceive a current lack of efficient transport infrastructure.
4.10.2 Factor Costs (land, utilities, labour)

Figure 25: Respondents to the characteristic of factor costs (land, utilities, labour)

Source: Results of the analysis of respondents to the characteristic of factor costs.

With regard to the characteristic of factor costs within the East London and Coega IDZs, the majority of respondents (75 percent) rated this aspect between a six and a nine. The remaining respondents (25 percent) rated this characteristic as either two, four or five.

The finding in this case is that both the private and the public sector believe that factor costs such as land, utilities and labour in the Eastern Cape can be seen as an advantage to the Eastern Cape IDZ programme. The ratings show that factor costs could be used as leverage or as a competitive advantage in attracting FDI into the IDZ developments. According to the Booz Allen and Hamilton Multinational Survey of the relative importance of site selection parameters for FDI, factor costs are second only to infrastructure.

This further supports findings that respondents believe that East London and Coega can be seen as prime investment destinations for foreign investors given aspects of global trade, the move towards lower production costs and low investment risk factors.
4.10.3 Economic Base (local/regional market attractiveness)

Figure 26: Respondents to the characteristic of economic base (local/regional market attractiveness)

Source: Results of the analysis of respondents to the characteristic of economic base.

The majority of respondents surveyed (58.33 percent) rated economic base between a six and a nine while three respondents (25 percent) rated this characteristic as average and two respondents (16.67 percent) rated it as a four.

This indicates that the majority of respondents (just over 50 percent) believe that the Eastern Cape has a sound economic base and attractive local and regional markets and that this is a positive aspect for the Eastern Cape IDZ programme. Unemployment, wage and salary levels and the poor image of the Eastern Cape in terms of government delivery could be responsible for 25 percent of respondents rating economic base as average or below average.

This finding corresponds with respondents’ views on policy framework, business facilitation, economic determinants, competition, incentives and the overall South African economy.
4.10.4 Labour Market (quality, availability, skills)

Figure 27: Respondents to the characteristic of labour market (quality, availability, skills)

Source: Results of the analysis of respondents to the characteristic of labour market.

The findings of the analysis into the characteristic of labour market in the Eastern Cape shows that the majority of respondents (58.33 percent) believe that the quality, availability and skills will meet the demand of the IDZ programme. Two respondents (16.67 percent) rated this characteristic as average, two respondents (16.67 percent) rated it as a four and one respondent (8.33 percent) rated it as a two.

This finding shows that commerce and industry believe that the labour market is stable, that it can meet the demands imposed by the IDZ programme and that foreign investors will be able to source appropriate labour at all levels.

Further to this, it supports the view of respondents that the strength and involvement of labour unions could have a negative impact on FDI and the fact that labour costs in the Eastern Cape are seen to be a positive aspect of the Eastern Cape IDZ programme.
4.10.5 Corporate Environment (taxes, customs, incentives)

Figure 28: Respondents to the characteristic of corporate environment (taxes, customs, incentives)

Source: Results of the analysis of respondents to the characteristic of corporate environment.

The characteristic of corporate environment has received split findings. Five respondents (41.67 percent) rated this characteristic between a six and an eight, three respondents (25 percent) rated it as a five (average) and four respondents (33.33 percent) rated it between a three and a four. This shows that there is uncertainty as to whether the corporate environment in the Eastern Cape is conducive to FDI. This could be as a result of a number of factors including perceived government non-performance, cost-of-business, competition, infrastructure, location and transport costs.

Respondents showed concern about the aspects of unrest in Zimbabwe, crime and corruption and were of the view that these would have a negative impact on FDI into the Eastern Cape IDZ programme. These three aspects are believed to create a negative perception for potential international investors which directly affects the corporate environment.
4.10.6 Image (reputation of the Eastern Cape)

Figure 29: Respondents to the characteristic of image (reputation of the Eastern Cape)

The majority of respondents (50 percent) rated the characteristic of image of the Eastern Cape as a four. One respondent (8.33 percent) rated it as a one, one respondent (8.33 percent) rated it as a five, three respondents (25 percent) rated it as a seven and one (8.33 percent) rated it as an eight.

From this analysis it is clear that the majority of respondents believe that the image and reputation of the Eastern Cape, as seen by both local and foreign investors, is not conducive to FDI. This can possibly be attributed to a number of factors including:

- Provincial economic situation;
- Perceived lack of delivery by provincial government;
- Perceived corruption within the private and public sector;
- Crime;
- Infrastructure; and
- Labour union involvement, especially in the motor industry.
4.10.7 Ease of Set-up (investor assistance, government “red tape”)

Figure 30: Respondents to the characteristic of ease of set-up (investor assistance, government “red-tape”)

![Graph showing respondent ratings]

Source: Results of the analysis of respondents to the characteristic of ease of set-up.

Results for the analysis of the characteristic of ease of set-up indicate a relative split between respondents who believe that ease of set-up can be viewed as a positive aspect of the Eastern Cape IDZ programme and those who believe that this holds negative connotations. However, the majority of respondents (58.33 percent) have rated this characteristic between a six and an eight while the remaining five respondents (41.67 percent) have rated it between a two and a four.

Both the East London Development Zone Corporation and the Coega Development Corporation have been designed to assist foreign investors. In addition to this they are pro-actively marketing the Eastern Cape IDZ programme locally and abroad. The Department of Trade and Industry has also developed guidelines, procedures and processes to help guide foreign investors in all aspects of investment, not only in the IDZs (2003: www.dti.gov.za).
4.10.8 Quality of Life (housing, facilities, entertainment, safety)

Figure 31: Respondents to the characteristic of quality of life (housing, facilities, entertainment, safety)

Source: Results of the analysis of respondents to the characteristic of quality of life.

An analysis of the characteristic of quality of life reveals that the majority of respondents (83.33 percent) rate this between a six and a nine. The remaining two respondents (16.67 percent) rated this characteristic as a five.

This finding indicates that respondents believe that quality of life is a possible competitive advantage that can be exploited in attempts by the Eastern Cape IDZ programme to draw FDI to the East London and Coega IDZs. This is supported by the finding that the majority of respondents agreed that the quality of life experienced in East London and Port Elizabeth would be a positive influence when marketing the Eastern Cape IDZ programme to potential foreign investors.

4.10.9 Other

Five respondents highlighted factors other than those in the questionnaire that they believed could have a positive or a negative impact on the Eastern Cape IDZ programme.

The first respondent believed that because the East London IDZ would be the first operational IDZ in the country, this posed an opportunity to the East London Development
Zone Corporation to exploit this and in so doing be the first IDZ in South Africa to draw on potential FDI.

The second respondent identified a potential problem of investment incentives that were not linked, or linked in a limited way, to bureaucratic processes. In this regard the respondent felt that South Africa had a long way to go in order to be competitive in the international market to attract FDI because of competition posed by other countries offering better investment incentives. In addition to this the respondent believed that the national electricity supplier, Eskom, was unable to ensure a stable electricity supply and that this remained a problem for high-tech manufacturers.

The third respondent believed that environmental issues posed a problem and should be looked at more closely.

The fourth respondent believed that the general stability of the country, at both a local and national level, was a positive aspect that could be used to promote the Eastern Cape IDZ programme.

The fifth respondent stated that there was a lack of faith on the part of local and national business in the implementation skills available to ensure the success of the IDZ programme. This respondent also questioned the commitment of government to the IDZ programme in terms of providing incentives to potential local and international investors.

4.11 SUMMARY

Chapter 4 has analysed the results gathered during the empirical study. These results have concentrated on the demographic data that was collected, the factors that directly impact on greenfield FDI into the East London and Coega IDZs and characteristics that play a role in the Eastern Cape Industrial Development Zone Initiative.

In Chapter 5 these findings will be integrated into the theoretical study and a strategic management model will be developed for greenfield FDI into IDZs based on the information gathered.
CHAPTER 5

FINDINGS

5.1 INTRODUCTION

Chapter 2 of the study has looked at international approaches to foreign direct investment. It can be said that globalisation, benefits, costs and risks, political views and the intended performance and potential of FDI investments all have a role to play in FDI decisions.

Based on this there are a number of roles played by both the host country and the investing company in relation to FDI.

Chapter 3 of the study has analysed the aspect of industrial development zones and the impact this is having and will have on FDI into South Africa. Many countries around the world have used the IDZ concept to promote investment and boost the internal economy through the establishment of free trade zones and the exploitation of international trade mainly through export-led industrialisation.

A number of factors contribute to the success of IDZs. These include supply, demand and political factors. As a result there is a measurable overlap between FDI and IDZ development.

Traditionally IDZs offer a number of incentives to investors that cannot be found elsewhere. These include infrastructure, subsidies, tax exemptions, profit repatriation, cheap labour and flexibility. Of these a large number are critical success factors for the East London and Coega IDZs if they are to compete for global FDI flows.

Chapter 4 of the study analysed the research conducted into the aspect of FDI into the Eastern Cape IDZ programme. This research concentrated on factors that directly impact on greenfield FDI in East London and Coega. In addition to this, a number of characteristics integral to the IDZ programme were also measured in order to draw comparisons between the theoretical approach and the actual situation as it currently stands.
This chapter aims at integrating the theoretical findings with the empirical findings of the study. By drawing on this data, a strategic model will be compiled to assist IDZs in determining their strengths and weaknesses in terms of FDI and give an indication of what factors to concentrate on when seeking FDI in the global arena.

5.2 FOREIGN DIRECT INVESTMENT

The drivers of global FDI include:

- The growing trend towards globalisation in terms of markets and production;
- The benefits, costs and risks associated with investment in one area of the globe as opposed to another;
- Political, economic and legal systems that regulate global trade and the flow of FDI; and
- The performance and potential of FDI based on aspects of regulatory regimes, macro-economic policies, efficient and low-cost business environments, growth potential and infrastructure.

Investment decisions form part of business strategies and these strategies are driven by international, regional and sub-regional markets and production. Although FDI is becoming increasingly important to the global economy, changes in trade barriers, political and economic environments, bilateral investment treaties and economic deregulation are dictating where FDI is going.

Investment decisions are also influenced by competition, and competition for global FDI flows is growing. The empirical study shows that respondents believe that the East London and Coega IDZs will face competition from countries to the north of South Africa. Countries like Angola, Zambia, Kenya, Botswana and Namibia have shown significant increases in FDI flows between 1999 and 2002 – accordingly they are outperforming South Africa in the attraction of international FDI (UNCTAD World Investment Report: 2002).
Worldwide trends are pointing to host countries that can create and sustain world-class facilities and infrastructure which give companies a competitive advantage or, in some instances, first-mover advantage.

Respondents to the empirical study agree that South Africa, and in particular East London and Coega, are prime investment destinations for foreign investors given the aspects of global trade, the move towards lower production costs and low investment risk factors. This finding would support the facts regarding the drivers of global FDI, investment decisions and the current international trends towards sustainability and competitive advantage. However, competition from sub-Saharan countries for global FDI flows poses a potential threat to the South African IDZ programme as a whole and the Eastern Cape IDZ programme in particular.

In addition to this, developing countries in Europe, South America, Australasia and the Far East are also competing for FDI in order to boost economic growth and become global competitors in terms of exports and manufacturing. In order to maintain the prime investment destination advantage the East London and Coega IDZs will have to ensure that they are globally competitive in terms of the various factors that influence FDI decisions.

5.3 THE SOUTH AFRICAN IDZ PROGRAMME AND FDI

There is no doubt that South Africa can create an environment conducive to FDI and, in fact, has already done so. This is evident in the infrastructure currently being built in the East London and Coega IDZs and the commitment from local, provincial and national government. However, from the empirical study, questions can be posed surrounding issues of investment incentives, competition, the strength and involvement of labour unions, the unrest in Zimbabwe, crime and corruption. These factors impact on investment decisions.

As stated, the East London and Coega IDZs will have to be globally competitive in terms of factors that influence FDI decisions.
5.3.1 Policy Framework
In addition to an environment conducive to FDI, South Africa does have a policy framework in place for the attraction of FDI. This is shown in the following (2003: www.dti.gov.za):

- An environment that has shown economic growth and political and social stability during the past five years;
- Clear legislation regarding the entry and operation of foreign companies;
- Policies on the functioning and structure of markets;
- South Africa subscribes to international agreements on FDI;
- A privatisation policy is in place and a number of state-run entities have become successful private companies;
- A number of trade policies directed towards FDI; and
- A tax policy.


The majority of respondents to the empirical study agree with the fact that a strong policy framework is necessary and believe that South Africa does have the policy framework to facilitate and attract FDI. This is an important finding, as international investors look carefully at the policy framework of a country before analysing any further factors that could dictate FDI decisions.

5.3.2 Business Facilitation
In terms of business facilitation both the East London and the Coega IDZs are actively involved in investment promotion. This includes image-building both nationally and internationally, investment-generating activities and investment-facilitation services. The East London Development Zone Corporation (ELDZC) and Coega Development Corporation (CDC), which are the development and investment facilitators of the respective IDZs, see themselves as one-stop shops for international investors, providing the necessary
services and guidance to international investors wanting to engage in FDI (2003: www.elidz.co.za and www.coega.co.za).

Associated with business facilitation is the issue of administrative efficiency and after-investment services.

Respondents to the empirical study agree that South Africa, and the development corporations tasked with developing, marketing and selling the Eastern Cape IDZs, have the necessary business infrastructure, skills and experience to ensure that the business facilitation factor that plays a part in drawing greenfield FDI into IDZs is addressed.

The conclusion that can be drawn from this finding is that local commerce and industry are prepared to support the IDZ initiative in terms of business facilitation.

5.3.3 The South African IDZ Programme and Economic Determinants of FDI

The three main economic determinants of FDI into the South African IDZ programme can be seen in the context of market-seeking FDI, resource/asset-seeking FDI and efficiency-seeking FDI. According to the UNCTAD World Investment Report, this is a global phenomenon (2002: 36).

**Market-seeking FDI**

Market-seeking FDI looks at aspects of market size that can be served, the market growth potential of markets being served, access to regional and global markets, country-specific consumer preferences and the structure of the markets being served.

The East London and Coega IDZs are situated on major shipping routes that can serve global markets in both the east and the west. In addition to this, South Africa is seen as the access point to African markets, and companies can use South Africa as a springboard for production to supply world markets.

According to Hill (2003: 210) the growing markets of traditionally third-world countries are providing growth opportunities for global manufacturing organisations. The conclusion can be drawn that given the size of these markets, the potential for growth, the potential for
structural growth and the needs of the consumers, global organisations will be looking towards investment in countries that can easily service these markets at relatively low cost. Developing countries have a distinct cost advantage over developed countries in this regard.

This view is supported by the findings in the empirical study where respondents agree that South Africa has the necessary economic determinants, that it has a strong and growing economy, that East London and Coega can be regarded as prime investment destinations, that they are prime export centres given their location on international shipping routes and that the completed infrastructure of the Eastern Cape IDZ programme coupled with the relatively cheap cost of labour will encourage global manufacturing organisations to consider investing through FDI.

**Resource/asset-seeking FDI**

Global business looking at resource/asset-seeking FDI concentrates on aspects of raw material availability and cost, labour availability (both low-cost unskilled and skilled), technology and innovation and physical infrastructure in terms of ports, roads, air cargo transport, power and telecommunications.

The East London and Coega IDZs will be in a position to meet the majority of these requirements should the FDI be resource/asset-based.

Raw materials for manufacturing and production in South Africa are readily available, of a good quality and relatively cheap compared to other regions in the world. Labour availability is high but there are concerns about the availability of skilled labour. This is being addressed with local tertiary institutions and the needs of investors will be met through partnerships between the business and education sectors in the IDZs themselves.

As far as the cost of labour is concerned, respondents to the empirical study agree that the cost of labour in the Eastern Cape will contribute positively to possible FDI decisions by international firms.
With regard to technology and innovation, South Africa is known for producing innovative and technologically advanced products. The country does have a strong scientific and research foundation and it is anticipated that this will be exploited with the development of the two IDZs in the Eastern Cape.

As far as infrastructure is concerned, both the East London and Coega IDZs are greenfield investment areas. Although East London does have a foundation infrastructure in the form of an existing port and buildings, these need to be upgraded and refurbished to allow for the manufacture and production of goods in the IDZ. DaimlerChrysler have already constructed an export vehicle terminal and upgraded facilities and equipment to the amount of R1,4 billion. Further construction will soon get underway to facilitate production within the East London IDZ (2003: www.daimlerchrysler.co.za).

Coega is a greenfield infrastructure zone where the area is being developed specifically to accommodate IDZ activities. Prior to this no infrastructure existed in this area.

Both the East London and the Coega IDZs have realised the need for infrastructure and as a result have planned developments to meet international standards in terms of physical infrastructure. This is aimed at world-class production facilities.

The situation of the East London IDZ was planned around the East London harbour area. Additional power is being laid on to allow for manufacturing and road links are being built to allow for easy access to the local airport. In addition to this housing developments are being constructed close to the IDZ to accommodate the labour requirements that will be needed. Talks are also currently underway to upgrade the rail-link between Gauteng and East London to facilitate the export of cars to foreign markets through the East London IDZ.

As far as Coega is concerned, developments include a deep-water port as well as a dedicated airport for air cargo. In terms of infrastructure Coega will be self-contained, with the necessary road and rail links to transport raw materials and any other material that may be needed by manufacturers. Eskom will also be involved in providing the necessary
electricity requirements to various IDZ developments, including the proposed aluminium smelter.

The empirical study shows that there is a current lack of efficient transport infrastructure in terms of rail links and dedicated airports within the East London and Coega IDZs. Respondents agree that this will have a negative impact on possible FDI flows.

However, respondents also point out that once the initial infrastructure of the East London and Coega IDZs is completed, this will have a positive impact on FDI flows to the region.

**Efficiency-seeking FDI**

Investors looking to make FDI decisions based on efficiency-seeking criteria look at the cost of resources and assets in the host country in relation to productivity and labour resources. Input costs such as transport, communication and intermediate products are also taken into consideration as these could impact on efficiency.

The reason why foreign investors could choose the East London or the Coega IDZ as investment options would be based on the fact that the Eastern Cape in particular, and South Africa as a whole, could offer them greater returns on investment based on the cost of resources and assets in relation to productivity and labour.

Other input costs such as transport, communication and intermediate products are competitively priced with those in similar third-world emerging economies.

Respondents to the empirical study believe that the East London and Coega IDZs do not offer similar or better incentives to foreign investors in terms of service costs, infrastructure, labour costs and raw material. These factors all have an economic impact on the efficiency-seeking decision as they affect costs and costing.

Further to this are the aspects of labour union involvement and the issue of disruption to manufacturing through labour action. The finding in the empirical study is that respondents believe that the strength and involvement of labour unions will not play a major role in affecting FDI decisions. However, the issues of crime and corruption are believed to have
a negative impact on such decisions as these factors could have implications for efficiency in the medium to long term.

5.4 FDI SITE SELECTION CHARACTERISTICS IN THE SA CONTEXT

According to Zimmerman (2002: 15), international investors rate the following as being the most important factors when considering FDI in a particular area:

- Firstly, infrastructure with an emphasis on transportation;
- Secondly, factor costs with emphasis on land and labour costs;
- Thirdly, the economic base of the host country with reference to the stability and growth prospects of the economy in a particular area and in the country as a whole;
- Fourthly, the labour market in the area of operation with reference to the quality and availability of the workforce to be employed, and
- Fifthly, the corporate environment of the host country where taxes, customs and incentives are aimed at drawing FDI.

Less important factors include the reputation and image of the host country as a place of business, the ease of set-up with regard to investor assistance and the bureaucratic system and the quality of life in terms of housing, safety and the like.

Mbekeani (1999: 5 – 14) agrees that these factors are important to FDI but he believes that four of the top five factors identified by Zimmerman need to be addressed directly to boost FDI flows into Southern Africa.

Mbekeani believes that the capital market and physical infrastructure in Southern Africa is not conducive to FDI needs. Lack of modernisation in capital market infrastructure and the basis of primary infrastructure on operational needs have led investors to believe that investment will result in inefficient production and manufacturing in Southern Africa as a region.

Coupled with this is his belief that tax systems are complex and increase the burden of full compliance, that the unstable macro-economic environment makes it difficult for investors
to take medium to long-term outlooks and that the availability, quality and attitude of skilled labour is poor, although, in general, the cost is low.

In this regard, the East London and Coega IDZs are able to address three of the top five FDI site selection characteristics.

5.4.1 Infrastructure and Site Selection
In terms of infrastructure the East London and Coega IDZs will have an internationally recognised infrastructure providing investors with ready access to transportation, communication, technology and ongoing innovation.

Respondents to the empirical study agree that FDI will play a major role in the infrastructural development and growth of the East London and Coega IDZs. However, the South African Government, in partnerships with private commerce and industry, have also shown commitment to the IDZ programme by providing capital to address initial infrastructural needs within the IDZs.

The conclusion that can be drawn is that this initial infrastructure development will be supplemented with FDI, as is the case with the plans for the Pechiney Aluminum Smelter in the Coega IDZ. This example shows that the initial infrastructure in terms of transportation and communication will be provided, but that specialised infrastructure for production will be acquired through FDI. According to respondents this would be the key to the success of the Eastern Cape IDZ programme.

5.4.2 Factor Costs and Site Selection
Coupled with the aspect of infrastructure is that of factor costs. Potential investors into the Eastern Cape IDZ programme will be able to access land and labour at globally competitive prices. Both the East London Development Zone Corporation and the Coega Development Corporation have planned for the provision of long-term partnerships to ensure that investors have a steady supply of skilled workers at all levels.
5.4.3 Policy Framework, Economic Base and Site Selection

The South African Government has a policy framework in place for FDI into IDZs. Although this may not include a number of tax incentives offered by competing third-world developing countries, it still provides a measure for investors to gauge political and macro-economic stability and make decisions based on medium to long-term forecasts.

Respondents to the empirical study believe that the policy framework, the business facilitation and the economic determinants are all conducive to FDI attraction by the Eastern Cape IDZ programme.

In terms of the economic base of South Africa and the corporate environment, these conditions are set by national government. What is important is that the South African economy has shown steady growth over the past number of years. According to Werksmans (2003: www.werksmans.co.za), the economy grew by 3.4 percent in 2000, 2.2 percent in 2001 with expectations of 2.3 percent for 2002 and 3.1 percent for 2003 respectively. Werksmans also highlights the fact that the consumer price index is showing a declining trend, national debt is dropping and the international credit rating is good.

This shows potential investors that South Africa has a strong macro-economic environment that is stable and growing.

With regard to corporate environment, Werksmans shows that the business confidence index has increased between 2000 and 2003, that corporate activity is on the increase, that there is a distinct move towards entrepreneurial activity and that taxes, customs and investment incentives are geared towards FDI.

Respondents to the empirical study agree that the South African economy as a whole will have a positive impact on FDI into the East London and Coega IDZs given its growth and potential.
5.5 THE STRATEGIC MANAGEMENT MODEL

The Department of Trade and Industry (Aug 2003: www.dti.gov.za) believe that international companies will benefit by relocating to a South African IDZ in that it will improve competitiveness in both local and foreign markets. They further state that companies will benefit from operating in an internationally recognised ‘best practice’ environment that offers:

- Eligibility, entitlement and access to government incentives, such as the Critical Infrastructure Fund (CIP), Export Marketing and Investment Assistance (EMIA), Strategic Investment Programme (SIP) and other supply-side schemes;
- Infrastructure that provides quick and easy access to international markets;
- A one-stop centre that facilitates and expedites regulatory documentation and other procedures and requirements;
- Human resource development through accelerated skills development programmes; and
- An industrial relations environment based on co-operation, joint decision-making and rapid conflict resolution.

However, when considering FDI, international companies evaluate a number of factors that could impact on the decision. Following the theoretical and empirical study, a model can be compiled using the findings. This model can be used to gauge potential investors based on two main influences of FDI into IDZs – external and internal influences.

5.5.1 External Influences

External influences refer to the main reason why foreign investors are looking towards FDI. The three main decision criteria revolve around market-seeking, resource/asset-seeking and efficiency-seeking FDI.

In relation to these, the development corporation responsible for seeking FDI into IDZs has no influence over the decision taken by the foreign investor, but they can market the IDZ based on a strategic comprehension of the potential investors orientation towards FDI. The development corporation is able to analyse the possible investment decision and determine
the degree to which the foreign investor may look at the three decision criteria in accordance with their needs. This will indicate strategic fit between the potential investor and the IDZ based on certain criteria and relevant factors that dictate FDI.

5.5.2 Internal Influences
Internal influences are those over which the development corporation has a degree of control and which it can measure against international trends. These include infrastructure, factor costs, labour market, ease of set-up and corporate environment (to a degree). These aspects can be planned, developed and marketed to potential investors based on the degree of fit between the external influences and the internal offerings of the investment area.

5.5.3 Socio-political and Macro-economic Influences
Other internal characteristics that have an impact on FDI decisions are dictated by socio-political and macro-economic factors within the host country. However, it is assumed that any government that is serious about attracting FDI will put measures in place to ensure that these characteristics are attractive to foreign investors.

Although the development corporations may not have a direct say in the tax incentives that are set at regional, provincial and national level given that this is a government function, they can advise and suggest tax incentives, based on global trends and international competition for FDI, at each of these levels to help boost investment.

In South Africa the government has become involved in most aspects of the IDZ programme by addressing and promoting the internal characteristics that investors look at when deciding on FDI.

The South African Government has:

- Provided capital for the initial infrastructure development of the East London and Coega IDZs;
- Initiated negotiations with Eskom and Spoornet for additional infrastructure in terms of electricity supply and rail links to enhance existing infrastructure;
• Implemented a skills development programme (although this is not strictly aimed at the IDZ programme, the commitment is there from the government to increase the quality, skills and availability of labour in South Africa); and
• Promoted the image of South Africa as an investment destination through various initiatives of the Department of Trade and Industry (DTI) including economic and business information, facilitation of investment, information on target sectors and facilitation of access to government investment incentives.

These socio-political and macro-economic influences must also be taken into account and there needs to be close co-operation and co-ordination between the government and the development corporation at all levels – local, provincial and national.

Respondents to the empirical study agree that competition from neighbouring countries, based on investment incentives relating to socio-political and macro-economic factors, poses a threat to possible FDI. They go further to agree that the incentives currently on offer are below what is being offered in neighbouring countries but that, should the development corporations and the government be able to offer competitive tax incentives, this could draw FDI.

5.6 DEVELOPMENT OF STRATEGIC MANAGEMENT MODEL

From international experience and the research conducted in this study it can be concluded that FDI into the Eastern Cape IDZs can be determined by external and internal factors.

External factors are derived from the type of FDI being considered by the potential investor.

These are based on economic determinants towards FDI and consist of:
• Market-seeking FDI;
• Resource/asset-seeking FDI; and
• Efficiency-seeking FDI initiatives.
Each of these, in turn, has their own characteristics based on the needs of the investor.

Internal factors are derived from what the host country has to offer in terms of the eight key elements necessary for the attraction of FDI. These internal factors include:

- Infrastructure;
- Factor Costs;
- Economic Base;
- Labour Market;
- Corporate Environment;
- Image;
- Ease of Set-up; and
- Quality of Life.

The relationship between the external and internal factors governing the flow of FDI into the Eastern Cape IDZs is shown in figure 32.

Fig 32: The relationship between external and internal factors and FDI

Source: Integration of theory and findings
The relationship between the external and internal factors that dictate FDI describes the behaviour of the elements in this system.

Based on this, a two-step strategic management model can be designed using the external and internal FDI factors as indicators of the success of attracting FDI into IDZs. This creates a framework on the basis of which to evaluate the prospects of success of drawing FDI into IDZs based on the strategic fit between the potential investor and the IDZ.

5.6.1 External FDI factor analysis
Investors have a general idea of what type of investment they are willing to make. This is based on economic determinants related to three key areas, namely market orientation, resource/asset orientation and/or efficiency orientation. This orientation in turn is determined by the size and type of operation the investor is involved in, the international strategy the investor has or is adopting – global, transnational or international strategy - and the type of investment the investor is willing to make – exporting, turnkey project, licensing, franchising, joint venture or wholly owned subsidiary (Hill, 2003: 422 & 489).

IDZ operators need to assess the importance of these three orientations on a high/low scale as shown in figure 33.

Fig 33: Assessment of investor orientation.

Source: Integration of theory and findings
What is important is that the potential investor will be looking at the three orientations based on the global operation, markets to be served, resources and assets to be used and level of efficiency needed before considering locations for FDI.

Once the orientation has been determined, potential investors will start to look for locations that have the strategic fit to the needs of the operation and its short, medium and long-term goals.

When the development corporation has assessed the potential investor on the external factors and plotted the orientation on a high/low basis, it can determine if the IDZ will meet the expectations of the potential investor given the internal factors and how these relate to the needs in terms of orientation. The development corporation must analyse the degree of strategic fit by identifying opportunities in the business environment and adapting resources, aligning competencies and marketing themselves in order to achieve the correct positioning in terms of FDI strategy.

5.6.2 Internal FDI Factor Analysis

Figure 34 shows the current alignment of the Eastern Cape IDZs based on the findings of the empirical study.

Fig 34: Eastern Cape IDZ ratings in terms of internal factors

Source: Research findings
From this it is evident that the Eastern Cape IDZs, as a whole, are rated highly with regard to the following internal factors:

- Quality of Life (8);
- Ease of Set-up (8);
- Factor Costs (7);
- Economic Base (7); and
- Labour Market (7).

However, the following internal factors are rated relatively low in comparison:

- Infrastructure (4);
- Image (4); and
- Corporate Environment (5).

Development corporations are now able to analyse the orientation of the potential investor based on the external factors of market-seeking, resource/asset-seeking and efficiency-seeking FDI and superimpose this on the spider diagram that represents the internal factors present in the IDZ. This will give an indication of the current strategic fit and provide an overview of intended strategic fit.

5.7 SUMMARY

Chapter 5 has been an integration of the theoretical and empirical study. It has shown that there are a number of global drivers that dictate FDI and that these need to be considered when trying to attract FDI into IDZs.

Respondents to the empirical study believe that the Eastern Cape IDZ programme will be a success given aspects of policy framework, business facilitation and economic determinants. However, concern is raised regarding factors such as current infrastructure, crime, corruption and the situation in Zimbabwe. Respondents believe that these could have a negative impact on the FDI/IDZ link.
IDZ operators can use an analysis of external and internal factors to determine the degree of strategic fit between potential investors and the IDZ area looking for FDI. These factors are based on investor orientation and the eight internal characteristics investors believe to be important to FDI decisions.

Chapter 6 will conclude the study with recommendations.
CHAPTER SIX

CONCLUSION AND RECOMMENDATIONS

6.1 INTRODUCTION

Chapter 5 of the study has combined the findings of the empirical study with those of the theoretical study. From this integration a strategic management model has been developed to assist development corporations managing IDZs to evaluate and analyse potential greenfield FDI.

Amongst the factors that were found to impact on FDI into IDZs were the global drivers of FDI, the need for a policy framework and business facilitation. Coupled with this are the aspects of economic determinants that foreign investors take into consideration when making short, medium and long-term FDI decisions.

The theoretical study is supported by the findings of the empirical study in relation to site selection characteristics. This has shown that FDI into IDZs is going to be dictated by external and internal factors relating to the type of FDI orientation adopted by the foreign investor and the internal characteristics of the IDZ and what it can offer potential investors.

This chapter will conclude the study by assessing the findings in relation to international practice and making recommendations based on the findings.

6.2 FOREIGN DIRECT INVESTMENT

South Africa is playing an integral part in the economic development of sub-Saharan Africa. Globalisation means that international organisations are seeking new investment opportunities aimed at taking advantage of global markets, competitive costing and dispersed production activities.
Factors influencing FDI include the benefits associated with FDI, the costs involved, the risks and the global, regional and local political environment. These factors, in conjunction with Porter’s determinants of competitive advantage, set the parameters under which FDI takes place.

In addition to this, investors also look at business policies and investment frameworks, macro-economic policies, the overall business environment, growth prospects, labour availability, infrastructure, supplier clusters and tax and investment incentives.

However, international investors are increasingly looking at ways of circumventing future trade barriers. Changes in political and economic environments in developing countries and the increased instability in economic growth in developed countries is forcing international companies to seriously consider FDI, which is becoming an attractive option.

Host countries have a role to play in developing an internal framework to attract global FDI. This includes creating world-class facilities and infrastructure for potential investors.

In addition to this, host countries need to ensure economic, political and social stability, access to efficiently functioning and structured markets, trade policies that are coherent with FDI objectives, investment promotion and after-investment service that are in line with the economic determinants of FDI.

6.3 INDUSTRIAL DEVELOPMENT ZONES AND FOREIGN DIRECT INVESTMENT

IDZs have helped developing countries around the world, such as China and Brazil, successfully attract investment and technology. By deferring duties and avoiding import and export taxes, companies are able to provide competitively priced products to global markets.

The World Economic Processing Zones Association (WEPZA) recognises that IDZs have been a successful strategic choice for developing nations wanting to boost economic growth and enhance their positions as global production sites.
IDZs’ emphasis is on export-led industrialisation. Investment by way of FDI into IDZs is also dictated by a number of factors. These include supply, demand and political factors. By attracting FDI into IDZs, these free zones can increase global production and enhance value-adding processes within the host country, allowing for access to global markets, global financing and a growing domestic economy.

In most cases IDZs offer a range of incentives to attract FDI. These incentives include initial infrastructure development, access to competitively priced resources, tax incentives, investment incentives, subsidies on services provided, unrestricted profit repatriation and import and export duty exemptions.

6.4 FDI IN SOUTHERN AFRICA

Of concern in relation to the IDZ programme in South Africa is the inability of the African continent, as a whole, to attract a significant amount of the global FDI flows. This can be directly attributed to political unrest, armed conflict and frequent changes in economic policy.

It is a reality that what happens in one African country is often projected onto other African countries, thereby creating the perception that if one country is experiencing political unrest, it is almost certain that the other countries in the region will experience political unrest.

An example of this is the current situation in Zimbabwe. The lack of decisive action by any of the neighbouring countries has left the impression in the minds of international investors that the region, as a whole, is unstable and could follow the same trend as that being experienced by Zimbabwe.

Coupled with this are the aspects of complex tax systems, corruption, crime, integration of capital markets with the global economy, physical infrastructure, skilled labour and international image. These also present significant challenges for the attraction of FDI into the Southern African region.
6.4.1 Recommendation

South Africa has managed to overcome many of these obstacles, but the problem of perceptions still exists. Reputation management and image-building by way of intensive international marketing efforts are needed in order to change the perception and the notion that South Africa can be compared to other developing nations in sub-Saharan Africa and Africa as a whole.

Even though countries such as Zambia, Angola and Botswana have managed to successfully attract FDI in the past 10 years, this has been minimal in contrast to global FDI flows. Southern Africa attracts less than two percent of global FDI – the majority coming from countries such as the United States, France, the United Kingdom, Germany, Italy and Japan.

The greatest challenge facing the IDZ operators and development corporations is not one of physical infrastructure, incentives or competitive advantage – it is one of perceptions and notions that the African continent is a risky investment.

The development zone corporations, investment organisations, national and provincial government need to co-ordinate efforts to enhance the image of South Africa as a prime investment destination.

6.5 INVESTMENT INTO THE EASTERN CAPE IDZs

The Eastern Cape IDZ programme has a number of factors that make it attractive to foreign investors. These factors include:

- A well-diversified economy in South Africa as a whole;
- A stable macro-economic and political environment;
- Location on international shipping routes;
- Well-developed modern infrastructure – including telecommunications and transport;
- Availability of labour – both skilled and unskilled;
- 100% ownership of business;
• Competitive cost structure and factor costs;
• Local service incentives; and
• Quality of life.

However, according to Loxton, experts believe that the easing of labour and tax laws could assist in attracting FDI into the IDZs (2003: 5). Loxton believes that the government has been cautious about being too generous about the incentives offered because of possible misuse.

Millions of rand have been spent on developing infrastructure in the Eastern Cape IDZ programme to make these IDZs attractive to FDI, laws dealing with customs and excise and manufacturing development have been reassessed and the development zone corporations are creating an enabling business environment to facilitate investment. However, although incentives are more defined and focused, bureaucratic channels still exist where decision-making is slow, labour laws are restrictive and tax breaks are not generous enough. This, to an extent, affects the competitive advantage the Eastern Cape IDZs have over other international IDZ operations.

Both the East London and Coega IDZs are strategically located. The global positioning of the two IDZs is ideal to service markets in both the East and the West.

Critical success factors for both IDZs include world-class infrastructure, supply chains, environmental management, labour availability and competitive advantages in line with international strategy, competition, demand and supply conditions, factor endowments and supporting industries.

According to theory, anchor tenants make the viability of an IDZ more attractive to investors. The East London IDZ does not require an anchor tenant to be viable given its vision of being the motor industry hub of South Africa. Coega IDZ has negotiated with Pechiney for the development of a R20 billion aluminium smelter. This anchor tenant will provide the background for future development and investment.
Both East London and Coega IDZ have identified a number of projects that entail FDI. However, the majority of these are still in the negotiation stage.

Incentives on offer by the East London and Coega IDZs are similar. There do not seem to be any distinguishing features in terms of the incentives offered by each IDZ. The incentives are in line with international offerings by similar industrial parks, however questions remain about the competitive advantage offered in terms of tax incentives and exemptions. This seems to be a shortfall in the Eastern Cape IDZ programme. However, it must be mentioned that the responsibility for granting tax incentives and exemptions lies with national government, and the development zone corporations have no control over this factor.

6.5.1 East London IDZ

According to the East London Development Zone Corporation (ELDZC), the East London IDZ offers a planned environment consisting of high-quality core infrastructure, facilities and support services – all to international standards. Further strategic advantages include offering a competitive advantage in having access to skilled, productive and competitively paid labour (2002: 3).

Business incentives within the East London IDZ include the following:

- National government incentives – critical infrastructure fund, motor industry development programme, small and medium enterprise development programme, sector partnership fund, export marketing assistance fund and strategic investment fund;
- Taxes – no social services tax, accelerated depreciation, zero rate on VAT for supplies procured in South Africa in the duty-free area;
- Local incentives – discounted service costs and reduced rates;
- Duty free imports – exemption from custom duties and VAT/sales tax on all imports used for re-export, finished goods deemed imports into South Africa;
- Business environment – streamlined and simplified business registration and licensing, no foreign equity restrictions on investment into tourism, industries, retail or other
commercial services, no restrictions on repatriation of capital and profit, no foreign currency restrictions;

- Market access – access to American markets through the American Growth on Africa (AGOA) Agreement, direct link to Gauteng, access to the Southern African Development Community (SADC);

- Labour and immigration – simplified foreign work permits and visas; and

- Land – leasing of land for up to 20 years (renewable in certain instances), purchase of land for certain industries.

6.5.2 Coega IDZ

According to the Coega Development Corporation (CDC, 2003: www.coega.co.za) the Coega IDZ will provide world-class, purpose-built infrastructure to attract FDI. The CDC believes that without this infrastructure to support investment, South Africa will be unable to compete in the global markets.

Business incentives offered by the Coega IDZ are similar to those offered by the East London IDZ. The national incentives will remain the same but there are some differences in the local incentives on offer. These include:

- Construction of a deepwater port and container-handling facilities – the National Ports Authority will provide a R2,6 billion common marine infrastructure. According to a study by Stellenbosch-based Maritime Education Research and Information Technology (Pty) Ltd (Merit), the existing ports of Cape Town, Durban and Port Elizabeth will run out of container handling capacity by 2020 – even if billions of rand are spent on upgrading them during the next 19 years. The investment needed in the existing infrastructure would include the construction of a new port on the site of the existing Durban International Airport by 2012/13. The report finds that the Net Present Value and Benefit/Cost ratio of the investment in the container port and terminal at Coega signify that it is the best option for providing additional container handling capacity needed in South African ports until 2020, when further port development will be needed. This means that the port is necessary for the continued economic growth of
South Africa. Traffic generated out of the adjacent Coega Industrial Development Zone will make it more profitable (2003: www.coega.co.za).

- Cluster opportunities in terms of manufacturing and commercial services;
- Coega is equidistant to world markets and this provides location advantages to potential investors;
- The Coega IDZ will include inter-modal transportation linkages and cost-effective bulk services. Amongst these will be national road and rail linkages and a proposed airport. This will allow investors easy access to air-cargo transport for finished products;
- Industrial parks for heavy, medium and light industries;
- Internationally recognised training facilities; and
- Industrial infrastructure purpose-built to client requirements.

6.5.3 Recommendation
When competing with IDZ programmes in regional countries like Zambia, Angola, Botswana and Namibia as well as international countries like China and Malaysia, it must be borne in mind that international organisations attach a lot of weight to tax incentives and labour laws. These impact directly on the factor costs of an investment and underline the profit generation of an organisation.

To illustrate the importance associated with tax exemptions and incentives, Ramatex, a large textile consortium, had targeted East London in 2001 for a multi-billion-rand investment. However, as a result of better tax incentives offered by Namibia, the company decided to invest in that country. At that time, Ramatex also cited long processes of negotiations in terms of investment incentives that eroded management confidence in the proposed investment (2001: www.dispatch.co.za).

Maclean, as quoted by Botha (2001: www.dispatch.co.za), argues that South Africa’s incentives are no match for what international players are looking for. Although bulk service fundamentals are in place, the national tax incentives are not.

Although much has changed since the Ramatex deal, the development corporations need to actively engage with national government on an ongoing basis to ensure that tax
exemptions and incentives are in line with those offered by competing countries. The development zone corporations need to ensure that, as part of the package, tax incentives and exemptions are able to maximize and sustain the overall features of the IDZs. These must be competitively sustainable incentives that are in line with competing and neighbouring states.

6.6 STUDY FINDINGS

Findings of the study show that:

• Policy framework, business facilitation, economic determinants, infrastructure development (medium to long-term), location, quality of life, cost of labour, tax incentives, the South African economy and the infrastructure of the completed IDZs are all positive factors for FDI into the Eastern Cape IDZ programme; and

• Competition, lack of substantial incentives, current lack of efficient transport infrastructure, unrest in Zimbabwe, crime and corruption are all negative factors that could impact on FDI decisions into the Eastern Cape IDZ programme.

The study has also revealed that:

• Quality of life, factor costs, economic base and labour market are all strong factors in the current IDZ programme; but

• Infrastructure, corporate environment, the image of the Eastern Cape as an investment destination and ease of set-up need to be improved.

6.6.1 Recommendations

• The Eastern Cape IDZ programme as a whole, and the development zone corporations in particular, need to assess competition from investment sites in neighbouring states and international areas on an ongoing basis;

• This assessment needs to consider incentive offerings by competing free zones;

• Transport infrastructure needs to be addressed by way of rail and air links to facilitate supply chain management and market access;
• Although the issues of unrest in Zimbabwe, crime and corruption cannot be addressed by the development zone corporations, they need to be aware that these factors portray a negative image of South Africa as an investment destination and the development zone corporations need to deal with these issues openly and honestly when negotiating with potential investors;

• The Eastern Cape IDZ programme should actively promote both East London and Coega as potential FDI sites in the global arena, as is currently being done. However, the provincial government, in conjunction with local government and investment organisations should place the emphasis on building the image of the province and highlighting the success to date.

6.7 THE FDI MODEL

The FDI model for greenfield FDI into IDZs is based on the findings of the theoretical and empirical study. It incorporates findings related to global FDI, aspects of the South African IDZ programme and its goals, with specific reference to policy framework, business facilitation and economic determinants of FDI.

The model uses the three main orientations adopted by foreign investors, namely market-seeking, resource/asset-seeking and efficiency-seeking FDI and couples it with internal site selection characteristics such as infrastructure, factor costs, economic base, labour market and corporate environment.

The model is firstly used to assess the orientation of the potential investor (external influences on FDI) and then to assess the site selection characteristics (internal influences on FDI) – in this case the alignment of the potential FDI with internal factors present in the IDZ.

The model is generic and does not take into consideration the type of manufacturing being targeted by a particular IDZ. The model does provide a general guideline for development zone corporations in assessing the possible success of FDI marketing to foreign investors.
6.7.1 Recommendation
IDZs should make use of this two-step model to better target potential investors and assess the possibility of success, whereafter better targeted marketing profiles can be drawn up based on external and internal influences.

6.8 SUMMARY

In conclusion, this chapter has summarised the theoretical and empirical study into greenfield FDI into IDZs.

It has found that although the Eastern Cape IDZ programme is founded on solid macro and micro-economic principles, there are a number of shortcomings that need to be addressed before international organisations will commit to FDI.
REFERENCE LIST


www.inttg.com/conf2/pages/home1.html


August 2003. DaimlerChrysler South Africa has begun production for world markets. www.daimlerchrysler.co.za

January 2003. City has learnt lessons from dissappointments. www.dispatch.co.za


www.weforum.org/site/knowledgenavigator.nsf


QUESTIONNAIRE

Section A: Demographic Data

Please chose the correct block applicable to your organisation

1.1 Where is your organisation based?

1. Buffalo City
2. Nelson Mandela Metropole
3. Other

1.2 Which of the following best describes your organisation?

1. Manufacturing
2. Commerce
3. Government/Legislature (local or provincial)
4. Development Corporation
5. Other

Section A: Subsection 1

Only for those organisations involved in manufacturing/commerce.

1.3 How many years has your company been operational in South Africa?

1. 0 – 5 years
2. 5 – 10 years
3. 10 – 15 years
4. 15 + years

1.4 Which of the following best describes your organisation?

1. Joint-venture
2. Wholly-owned subsidiary
3. Turnkey project
4. Licenced Company
5. International Division

1.5 Has your company experienced any operational growth in the past 10 years?

1. Yes
2. No
3. Unknown
1.5.1 If yes, has this growth been as a result of Foreign Direct Investment?

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1.6 Is your company planning any major growth within the next 10 years?

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<th>Yes</th>
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1.6.1 If yes, will this growth include foreign direct investment?

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**Section B**

This study is aimed at analysing and reporting on the factors that directly impact on greenfields foreign direct investment into the East London and Coega Industrial Development Zones. The study is being conducted in the Eastern Cape, in particular, Buffalo City and the Nelson Mandela Metropole given that these are the two areas earmarked for IDZ developments.

This questionnaire has been compiled to test factors relating to greenfields FDI in the East London and Coega IDZs.

Please read the statements on the following page and complete the table by placing an “X” in the appropriate block using the following scale.

1 - Strongly Agree
2 - Agree
3 - Uncertain
4 - Disagree
5 - Strongly Disagree
### STATEMENT

| 2.1 South Africa has the policy framework, the business facilitation and the economic determinants to draw Foreign Direct Investment (FDI). | | | | | |
|---|---|---|---|---|
| 2.2 Foreign Direct Investment will play a major role in the infrastructural development and growth of the East London and Coega IDZs | | | | | |
| 2.3 South Africa, and in particular East London and Coega, are prime investment destinations for foreign investors given aspects of global trade, the move towards lower production costs, the low investment risk factors and | | | | | |
| 2.4 East London and Coega IDZs face minimal competition in terms of FDI from countries to the North of South Africa | | | | | |
| 2.5 East London and Coega IDZs offer similar, if not better incentives (service costs, infrastructure, labour costs, raw materials, etc) to foreign investors than do other countries competing for FDI | | | | | |
| 2.6 East London and Coega IDZs can be regarded as prime export centres given their location on international shipping routes | | | | | |
| 2.7 Which of the following factors will have a negative impact on FDI into the East London and Coega IDZs: | | | | | |
| 2.7.1 Current lack of efficient transport infrastructure (rail links/dedicated airports) | | | | | |
| 2.7.2 The strength and involvement of labour unions | | | | | |
| 2.7.3 The unrest in Zimbabwe | | | | | |
| 2.7.4 Crime | | | | | |
| 2.7.5 Corruption | | | | | |
| 2.8 Which of the following factors will have a positive impact on FDI into the East London and Coega IDZs: | | | | | |
| 2.8.1 Location | | | | | |
| 2.8.2 Quality of Life | | | | | |
| 2.8.3 Cost of Labour | | | | | |
| 2.8.4 Tax Incentives | | | | | |
| 2.8.5 South African Economy | | | | | |
| 2.8.6 Infrastructure of the completed EL and PE IDZs | | | | | |
**Section C**

How would you rate the following aspects of the Eastern Cape Industrial Development Zone Initiative on a scale of 1 – 10. 1 being non-existent and 10 being excellent.

<table>
<thead>
<tr>
<th>CHARACTERISTIC</th>
<th>RATING</th>
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<tbody>
<tr>
<td>3.1 Infrastructure (transportation, utilities, etc)</td>
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<td>3.2 Factor Costs (land, utilities, labour)</td>
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<tr>
<td>3.3 Economic Base (local/regional market attractiveness)</td>
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<td>3.4 Labour Market (quality, availability, skills)</td>
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<td>3.5 Corporate Environment (taxes, customs, incentives)</td>
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<td>3.6 Image (reputation of the Eastern Cape)</td>
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<td>3.7 Ease of Set up (investor assistance, government “red tape”)</td>
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<td>3.8 Quality of Life (housing, facilities, entertainment, safety)</td>
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<td>3.9 Other</td>
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If other, please specify: ______________________________________________________

Thank you for taking the time to complete this questionnaire. Your assistance is greatly appreciated.
Dear Sir/Madam/Name

SURVEY ON FOREIGN DIRECT INVESTMENT INTO EASTERN CAPE INDUSTRIAL DEVELOPMENT ZONES (IDZs)

Attached please find a questionnaire relating to the above study. Your assistance in completing this questionnaire by 30 May 2003 would be appreciated. It should take no longer than ten minutes of your time.

The questionnaire is related to the study of a strategic management model for greenfield foreign direct investment into industrial development zones.

Once completed the questionnaire can be returned by:

- e-mail: g.rich@siu.org.za
- Post: G Rich, 18 Second Avenue, Gonubie, 5257

If you wish to receive a copy of the summary of the findings on completion of this study, please indicate and I will ensure that it is forwarded to you.

Should you have any questions, please do not hesitate to contact me on 082 491 0139.

Your co-operation is appreciated.

Guy Rich
Final Year MBA Student
PE Technikon